2023 Annual Report

https://www.mvsmbank.com/

https://www.facebook.com/mvsmbankofficial

MVSM BANK
(a rural bank since 1953)

CONTENT

I. COMPLIANCE WITH THE SUBSECTION 190.5 - DISCLOSURE REQUIREMENTS IN THE ANNUAL REPORT

CONTENT

CONTENT

CONTENT

Corporate
Policy

a. Mission and Vision Statement of MVSM Bank

Mission

To give **excellent** and reliable financial services to as many customers in an atmosphere where clients feel "at home".

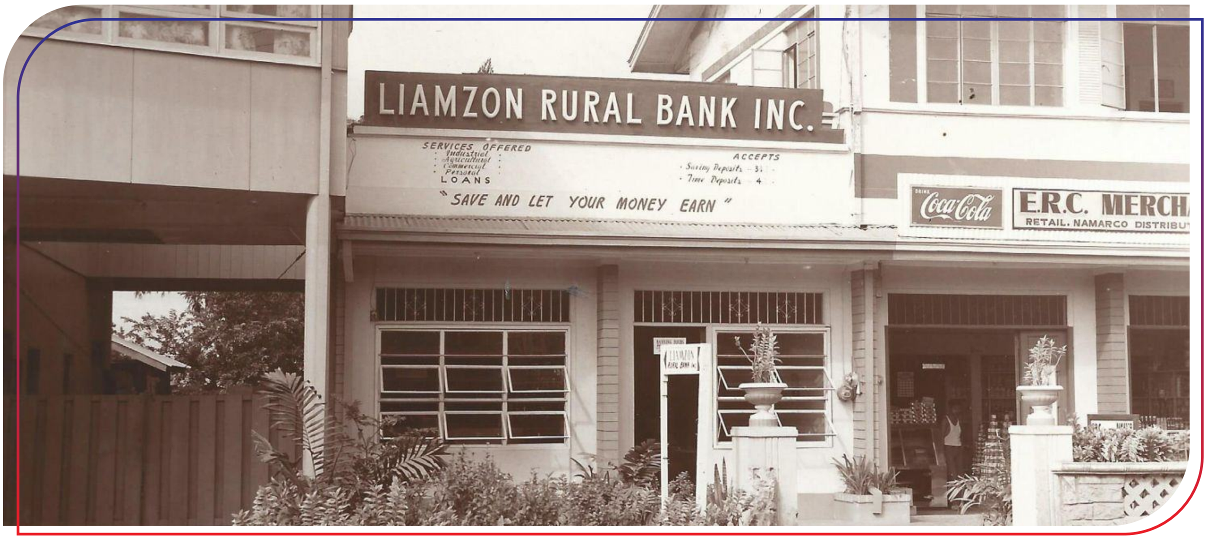
Vision

By 2030, to be in the top 20 rural banks of the Philippines in terms of Total Resources and with financial ratios superior to that of the industry, making it a trustworthy, but dynamic financial institution benefiting from enhanced customer experience and digital transformation.

Objectives:

1. Expand the client-base by the following:
   a) Open more Branch Lite Units
   b) Complete digitalization
   c) Digital advertising campaign
   d) Investing in Communities
2. Enhance Operations Risk Management
3. Adoption of Sustainability Financing

b. Introduction of the Bank's brand that differentiates it from other Banks



MVSM BANK was BORN

Established in 1953, MVSM BANK, fomerly Liamzon Rural Bank was the first bank in Marikina – the shoe capital of the Philippines. It was founded by Isidoro Liamzon Sr. and his wife, Milagros. Isidoro drew inspiration from the "Salamyaan" a uniquely Marikenyo term which describes a place where people would converge weekly to discuss news, play sports, or share a meal. Some would also bring their money weekly and some collects very similar to a "Paluwagan." Isidoro was one of the founders of one salamyaan the Sto.Nino Savings Association which still exists today.

The very first savings account belonging to the first Central Bank Governor, Miguel Cuaderno, Sr. was opened in Liamzon Rural Bank to symbolically launch the activity. Since then it has been the Bank's commitment to serve the unbanked and underserved for the past seven decades. In 1958, Liamzon Rural Bank was renamed Marikina Valley Rural Bank. The next major change happened fourty years later when Marikina Valley Rural Bank merged with another Liamzon-owned bank, the Rural Bank of San Mateo under the name MVSM BANK.

Both Banks are pioneers in their respective towns in Marikina and San Mateo and both have earned its reputation as being formidable, reliable and efficient community Banks that have withstood the test of time.

Over the years, MVSM Bank has received awards from various institutions. It has also stood the test of time with the booms and busts of the local and global economy. As well as natural calamities like Bagyong Ondoy in 2009. Yet it still continues to deliver its promise of reliable and secure banking providing its resilience. The Bank has had a long history of giving back to the community when Mr. Liamzon launched a scholarship program for the best and most deserving Marikenos. These scholars have made their marks in their chosen professions.

In the incoming SY 2024, the Bank will launched its scholarship program as part of its Social Responsibility in Marikina and Pililla Branch.

What truly makes MVSM special are its firm yet compassionate principles grounded on prudent banking practices and personal service. Every person that has been a part of the Bank's long history from the clients, to employees and allied business partners all have come together as one to heed the call of the government to help building the nation.

Not quite a digital bank yet, but a brick and mortar Bank where clients can expect personal services where clients feel at home. Slowly but surely, the Bank is venturing into the digital space. In 2021, the Bank benefited from the use of the i2i payment portal powered by UBX, a Union Bank subsidiary and we are also an active participant of the National Retail Payment System thru PESONET, allowing it to perform inter-bank transactions.

The transition team is handling the migration from MBWin by MB Phils. to a digital-based solution. Also engage in Zoom Video Conferencing and the activation of Google Workspace subscription, a collaboration platform is thru Kollab Guru Group Inc., the leading Google Cloud Premier Partner in Southeast Asia.

In spite of all these initiatives, the Bank will continue to provide the same personal service be it on site, or via cloud-based system.

c. Business model of the Bank

i. Deposit Generation

The Bank will continue to generate new clients through its one-stop center for various financial services. This includes deposit and loan products, money remittance, bills payment center etc.

Aside from this, the Bank has partnered with private and government institutions to expand its customer base by way offering more products thru cross-selling.

The Bank opened the 2ndBranch Lite Unit last 06 February 2023 in a high traffic location in Pasig City. In the pipeline is another branch-lite in Teresa, Rizal and set to open on/or before 3rd quarter of 2024.

ii. Loan Diversification

The Bank's target market is the BCD Class. The loan limits are geared towards MSME clients.

More confident with the Bank's credit scoring model and the availment of government credit guarantees, we have ventured into higher loan limits which helped arrest the decline in the Bank's lending portfolio because of COVID. Further to this, the use of information from alternative sources such Transunion will play a very vital role in the Bank's credit underwriting.

The Bank is now open to clean-loan lending with loans collateralized with tax declaration.

Financial Summary
Highlights

A two (2) Year comparative presentation of selected profitability, capital, performance, and balance sheet data/ratios (based on AFS 2023), as follows:

PARENT ENTITY(SOLO)

MINIMUM REQUIRED DATA	31-DEC-2023	31-DEC-22
SELECTED BALANCE SHEET DATA		
Total Asset	1,469,220,611	1,524,510,422
Liquid Asset	139,787,422	191,858,928
Gross Loans & Other Receivables	745,134,523	634,658,133
Deposit	1,178,956,518	1,264,785,938
Equity	228,469,785	210,900,516

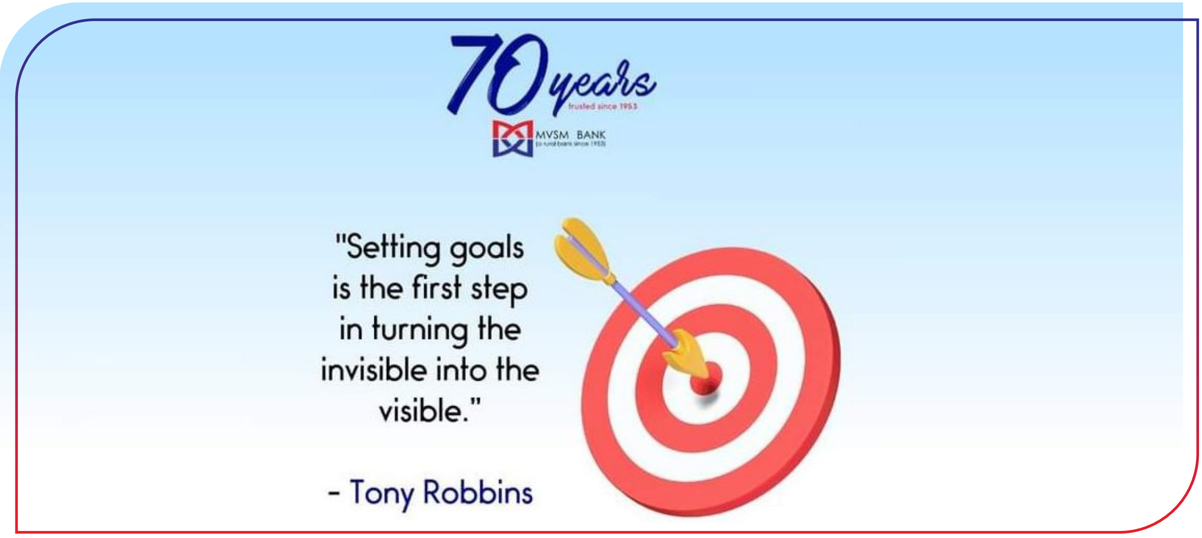
INCOME STATEMENT		
Net Interest Income	79,026,541	74,204,287
Non-Interest Income	24,042,625	18,147,204
Non-Interest Expense	73,416,507	65,157,541
Pre-provision profit	29,652,659	27,193,950
Income After tax	19,592,092	19,235,500

SELECTED RATIO		
Profitable		
Return of Equity	9.69%	9.38%
Return of Assets	1.37%	1.32%
Margins and Liquidity		
Net Interest Margin	7.33%	6.04%
Minimum Liquidity Ratio	34.17%	46.92%
Capital		
Total Tier 1Ratio	17.84%	12.19%
Capital Adequacy Ratio	20.24%	15.69%

OTHERS		
Cash Dividends Declared	8,167,770.00	12,251,655
Branches	9	9
Branch-Lite Unit (BLU)	2	1
Employee Head Count	82	81
Officers	30	30
Staff	52	51

Consolidated amounts of Parent and Subsidiaries

Financial Conditions & Results
of Operation



Review and Results of Operations

2023 is the year MVSM BANK turned a new leaf. As it turned 70 years old, it embarked on several milestones. These are:

06 February	Opening of the 2nd Branch-Lite Unit located in Caniogan, Pasig City
13 June	Transfer of Pililia Branch to the newly constructed building and the 1st ever Solar Powered Branch of MVSM
11 November	Full-migration with RBSoftech (RBS), a cloud based core banking system
29 November	Approval of the Asian Development Bank Matching Grant - Financial Inclusion for Transformation (FIT)

The major thrust of MVSM Bank is to promote financial inclusion. And the milestones are reflective of that vision. The expansion of the Bank's physical presence via the opening of Branch-Lite unit is a concrete testament to that objective.

Our Bank's Digital Transformation beginning with the migration to a cloud-based solution is another giant leap towards this end. Worth mentioning is the pivotal awarding of the Asian

Development Bank (ADB) grant to help the Bank in its digital journey. ADB believes in the power of financial inclusion. Its aim is to help rural banks and microfinance institutions by transforming their processes with modern technology to help bridge the gap between rural and urban banking. Their goal is anywhere and inclusive banking, available to traditionally unserved remote and rural areas.

One full year into the post-covid world, the world faced a new challenge, the economic impact of various world issues such as climate change, war in Ukraine and in Israel and Palestine. All of which have a direct impact on the local economy such as food "shortage", rising petroleum prices. These translated to a prevailing period of high inflation.

The rising costs put a pressure on the operating expenses of the Bank. Thus several cost-cutting measures were put in place in order to prevent erosion of the Bank's profitability position.

Interest rate increased resulting from the monetary tools that the government employed to combat inflation. As a result, competitor commercial banks known to give very low rates to depositors have managed to lure some interest-rate sensitive MVSM Bank clients to transfer their accounts to them. This resulted in a noticeable decline in the Bank's time deposit portfolio from P406.013M as of December 31, 2022 to P317.802M as of December 31, 2023.

The Bank's policy was not to increase TD rates across the board, but to just match interest rates offered by commercial banks to our clients who have expressed interest in transferring their placements. However, this was done only in the past months when we noticed a marked pull out of time deposit amongst the interest-rate shoppers.

With this, we were able to keep lending rates unchanged unlike our big brothers in the commercial banks. This, coupled with active marketing for loans, saw the increase in the Bank's loan portfolio by 19.59% or 116.265M from 593.342M as of 31 December 2022 to 709.607M as of 31 December 2023.

As of December 31, 2023 the PDR is 15.72% or 111.538M, we reached an all-time high, higher than pre pandemic level of 11.68% or P64.580M. Past Due ratio is above industry of 9.62% as of 30 September 2023, with a big portion of this classified as non performing but will be transferred as current in the next 2 months.

Our guarantee line with Philippine Guarantee Corporation is still active, although the line has not yet been maximized.

As of December 31, 2023, the Bank hit the target except for Deposits and ROPA Sales:

	Target for 12/31/23*	Actual Balance as of 12/31/23	Excess/ (Deficiency
Deposit	1,327,901,275	1,178,956,518	(148,944,756)
Loans	652,676,665	709,609,299	56,932,635
Net Income/(Loss)*	18,967,732	20,418,172	1,450,439
ROPA Sales**	15,000,000	4,233,063	(10,766,937)

*Based on the Midyear Revised Target for 2023
**Excluding Income from ROPA

To support further growth, several new plans were finalized and approved by the Board and are still in the pipeline:

1. Transfer of Rosario branch to a newer building across the present one this will give Rosario the extra boost with a fresh look and slightly lower rental expense;

2. The opening of a 3rd BLU located in Teresa, Rizal (tentative date of opening 3rd quarter of 2024); and

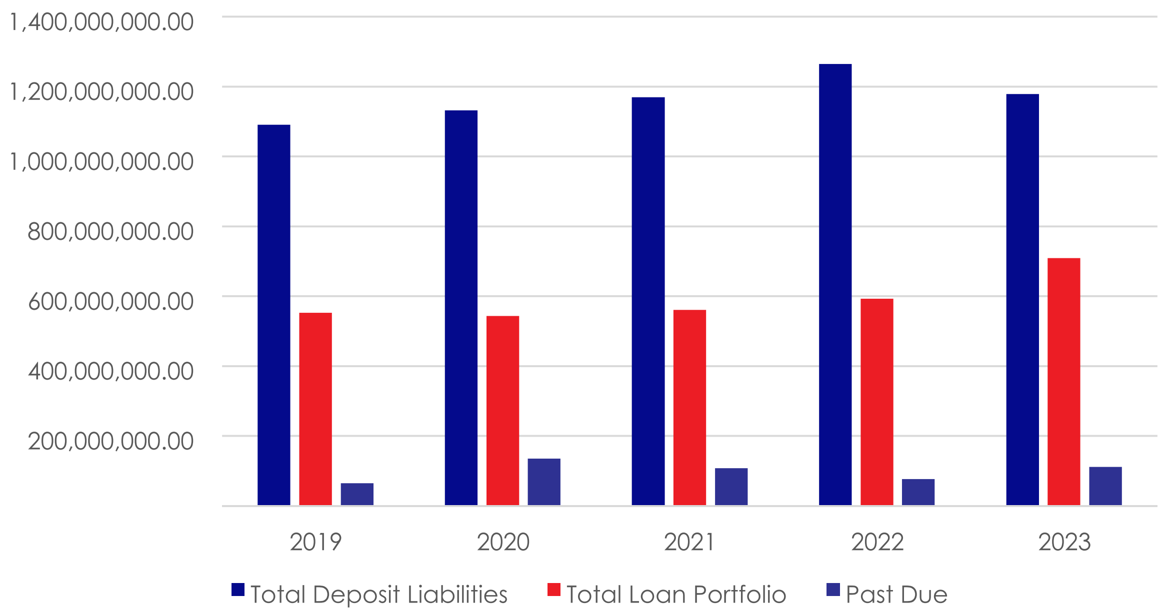
3. For Market Collection, a mobile collection system using the new RBS to be rolled out in Marikina. Resumption of market collections for Pasig and Binangonan Branches and possible collection in new markets within the 5-year Digital transformation time table.

In the aspect of marketing and new products, the Bank continues to use social media in order to promote its products and services. Improvements and updates have been done with the MVSM Bank website and Facebook page is boosted to increase target market reach. There have been several loan applications filled out through the MVSM Bank website already. The Bank will continue to explore marketing through social media in the coming years.

Bank Performance Comparison from 2019 up to 2023 are as follows:

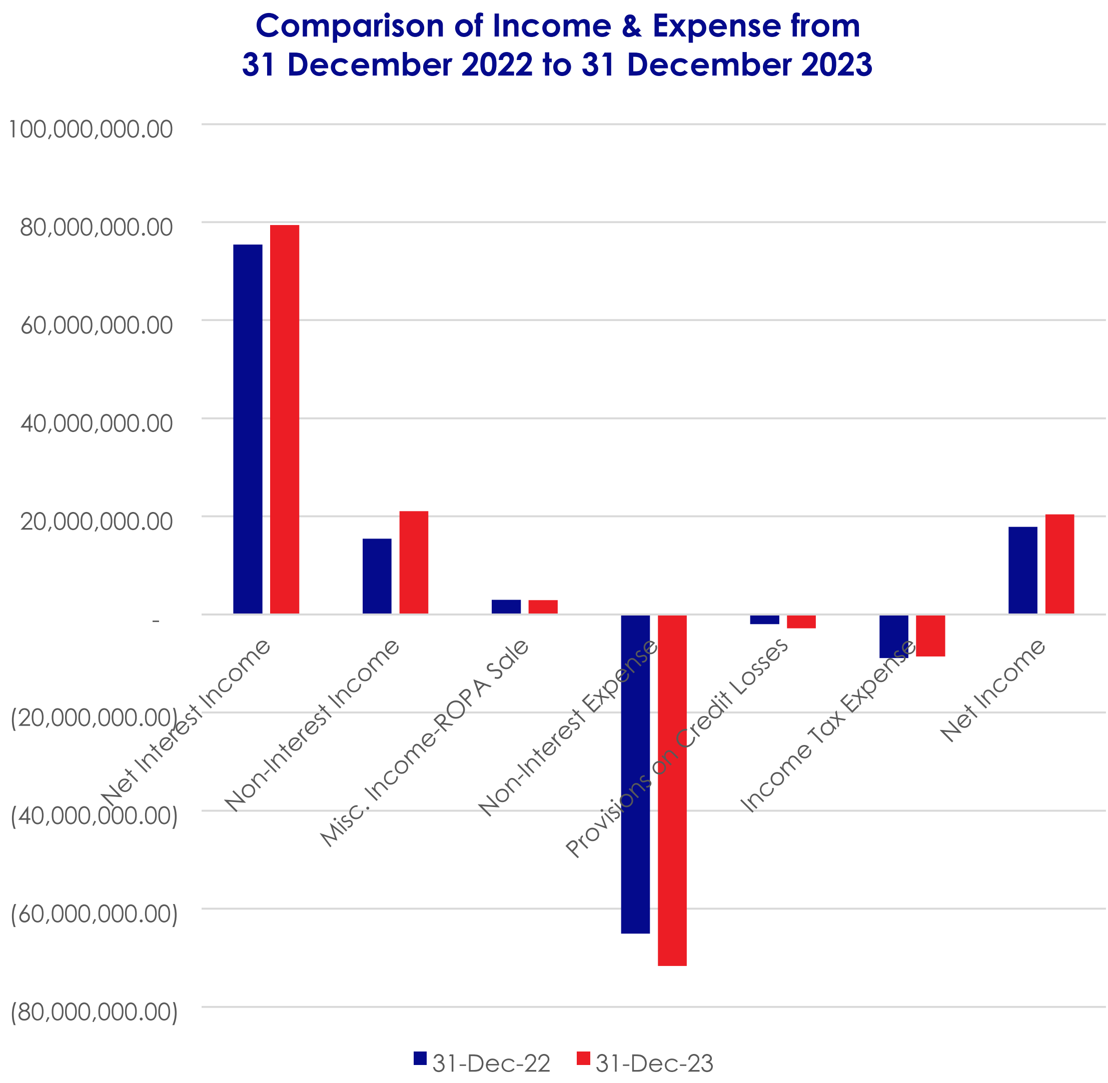
Year	Total Deposit Liabilities	Total Loan Portfolio	Past Due
2019	1,091,300,228.48	553,140,414.35	64,580,408.46
2020	1,132,495,173.39	543,487,872.98	135,166,644.22
2021	1,169,564,119.98	561,378,664.95	107,987,128.61
2022	1,264,667,880.79	593,342,422.39	76,622,861.38
2023	1,178,956,512.01	709,609,299.24	111,537,837.23

Bank Performance Comparison from December 31, 2019 up to December 31, 2023



Profitability, Comparison of Income & Expense from 31 December 2022 to 31 December 2023:

Account Description	31 December 2022	31 December 2023
Net Interest Income	75,409,329.38	79,441,910.70
Non-Interest Income	15,426,961	21,088,562
Misc. Income-ROPA Sale	2,966,243	2,936,372
Non-Interest Expense	-65,060,665	-71,664,663
Provisions on Credit Losses	-1,976,254	-2,852,081
Income Tax Expense	-8,868,728	-8,531,929
Net Income	17,896,887	20,418,172



Here are some key financial indicators for 2023 (based on the unaudited FS):

A. Capital Adequacy

CAR stood at 20.24% as of 31 December 2023. All throughout the pandemic, there was no threat of capital deterioration.

The Bank has been able to declare dividends for the last 3 years.

YEAR	CAPITAL ADEQUACY RATIO
2019	15.350%
2020	15.180%
2021	16.538%
2022	15.688%
2023	20.237%

B. Asset Quality

There is an increasing trend on the total loan portfolio and a decreasing PDR, NPL and NPA Ratios:

YEAR	TOTAL LOAN PORTFOLIO	PAST DUE	PDR	NON-PERFORMING LOANS, GROSS	NPL RATIO	NON-PERFORMING ASSETS	NPA RATIO
2019	553,140,414.35	64,580,408.46	11.68%	48,750,140.03	8.81%	239,480,322.41	18.00%
2020	543,487,872.98	135,166,644.22	24.87%	92,848,123.70	17.08%	280,806,048.39	20.66%
2021	561,378,664.95	107,987,128.61	19.24%	90,022,191.86	16.04%	271,522,122.76	19.33%
2022	593,342,422.39	76,622,861.38	12.91%	62,594,981.04	10.55%	250,993,187.40	16.59%
2023	709,606,990.72	111,537,837.23	15.72%	73,485,992.78	10.36%	261,705,041.03	17.87%

C. Deposit Liabilities

Deposit liabilities decreased by 5.46% or Php69.036M from 1.265B as of December 31, 2022 to 1.196B as of December 31, 2023 main reason was due to the offering of high interest rate on deposits of Commercial and Digital Banks.

The Increase and Decrease of the Demand and Savings deposit is brought by the effect on the Migration from the New Core Banking System, no ATA account.

New accounts were still opened and increasing while substantial withdrawals on SSD were made due to the higher interest rates offered by Pag-ibig, Commercial Banks, Digital Banks and other banks.

YEAR	TOTAL # OF ACCOUNTS	TOTAL DEPOSIT LIABILITIES
2019	22,977	1,091,300,228.48
2020	23,235	1,132,495,173.39
2021	23,258	1,169,564,119.98
2022	23,966	1,264,667,880.79
2023	24,581	1,178,956,518.44

D. Earnings Quality

YEAR	MVSM		INDUSTRY RATIO- RBS	
YEAR	RETURN ON ASSETS	RETURN ON EQUITY	RETURN ON ASSETS	RETURN ON EQUITY
2019	1.54%	11.22%	1.77%	9.01%
2020	0.90%	6.29%	1.03%	5.36%
2021	1.29%	9.41%	1.55%	8.36%
2022	1.23%	9.09%	3.52%	18.79%
2023	1.39%	9.69%	2.25%	12.15%

In terms of its organization, here are some updates for 2023:

A. Manpower complement is adequate. Turnover was minimal. Employee engagement activities were conducted, salary increase and bonuses were given in 2023. Wellness activities all throughout the year were conducted for the benefit of the staff. Training and development continue to be an important part of the Bank's strategy.

Christmas Party
2023

Christmas Party
2023

Annual Outing

2023

Fire Prevention
& Safety Seminar

B. The Compliance Program is in place and the Chief Compliance Officer together with her Compliance Staff continuously monitors Bank activities in order to ensure the Bank's adherence to its internal policies, government regulations etc.

C. The Internal Audit Department's Audit Plans and Programs have allocated 2 years for more audit time to auditable areas, maintain the audit risk at a manageable level and allocated more time to high-risk activities and accounts. The Outsourced Internal Audit requested an additional Auditor during the last Audit Committee meeting to complement the increasing number of units and was approved by the Board.

D. In June of 2024, we plan to close our yearlong celebration of MVSM Bank's 70th anniversary. Last June 18, 2023, we had a grand party in Marikina Hotel to launch our anniversary celebration together with our Bank Directors, employees, friends and clients. In the coming year, we plan to have the blessing of our newly renovated MVSM Bank – San Mateo Branch on June 18, 2024 to coincide with our anniversary celebration. We will continue to use our taglines – TRUSTED SINCE 1953 and AT HOME KA DITO.


70 years


MVSM BANK


MVSM70

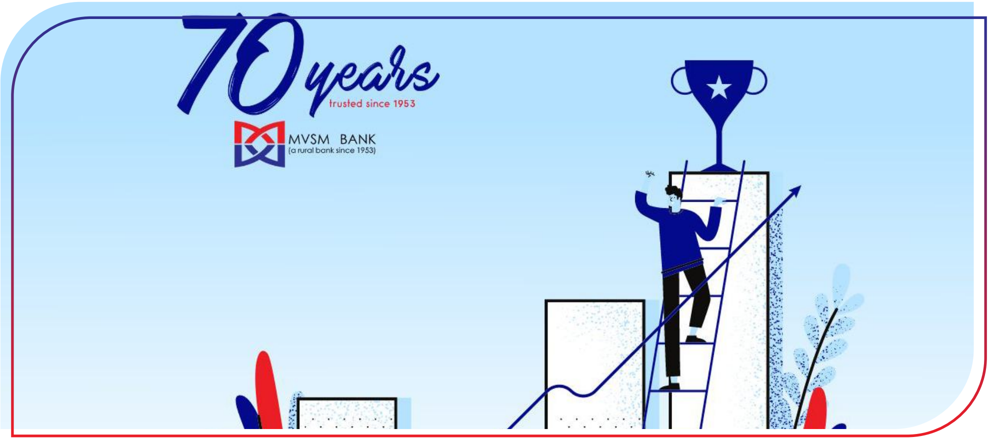

70 years


70 years


Employee Registration
Guests Registration

Risk Management Framework

Adopted



This section highlights the Bank's Board-approved Risk Management framework and should include at a minimum the following information:

RISK MANAGEMENT

- Identify and evaluate risk exposures
- Develop management strategies
- Implement the risk management plan as needed

RISK APPETITE & STRATEGY

- Deposit Generation
- Loan Diversifaction

BANK WIDE RISK GOVERNANCE STRUCTURE AND RISK MANAGEMENT PROCESS

- Organizational Structure

AML GOVERNANCE AND DULTURE

- Basic Principles and Policies to Combat Money Laundering

a. Overall risk management culture and philosophy

The Bank is considered a simple/non-complex bank, the Audit committee discusses Risk Management and Corporate Governance matters in their meetings, duties and responsibilities includes:

The Risk Management function is the responsibility of the Board of Directors thru the Audit Committee. It is responsible for overseeing the risk-taking activities of the Bank, as well as evaluating whether these remain consistent with the Bank's risk appetite and strategic direction. The risk management function shall be responsible for identifying, measuring, monitoring and reporting risk on an enterprise-wide basis as part of the second line of defense.

Role of Audit Committee in Risk Management

The Audit Committee shall advise the Board of Directors on the Bank's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the Bank. The Audit Committee shall:

1) Oversee the risk management framework. The Committee shall oversee the risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.

2) Oversee adherence to risk appetite. The Committee shall ensure that the current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.

3) Oversee the risk management function. It shall also ensure that the risk management function has adequate resources and effectively oversees the risk taking activities of the Bank.

4) Identify and evaluate risk exposures. The Committee shall assess the probability of each risk becoming real and shall estimate its possible effects and cost. Priority areas of concern are those risks that are most likely to occur and cost when they happen;

5) Develop management strategies. The Audit Committee shall develop a written plan defining the strategies for managing and controlling major risks. It shall identify practical strategies to reduce the chance of harm and failure to minimize the losses if the risk becomes real.

6) Implement the risk management plan as needed. The Committee shall evaluate the plan to ensure its continued relevant, comprehensiveness and effectiveness, it shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The Committee shall report regularly to the Board of Directors the Bank's overall risk exposures, actions taken to reduce the risks and recommend further action or plans as necessary.

The Board and Senior Management play an active role in risk oversight with the continuous trainings, regular meetings and updates.

Policies, procedures and limits on risk are regularly reviewed and enhanced accordingly.

Risk Management Practices and the Corresponding Risk Management Policy/ Principles Adopted by the Bank's Board for the Attainment of the said Mission and Goals:

1. Assist in developing the Risk Management Policy and Process [to meet regulatory requirements in Risk Management / to manage critical to the Bank's operations, particularly the Operational Risks / to manage risks critical to the Bank's operations including non-financial risks / to manage risks critical to the Bank, including Strategic Risks].

2. Assist the Board to develop an overall Risk Management strategy, including specific strategies for capital and liquidity management as well as for credit market, operation, compliance, reputational and other key risks of the Bank;

3. Provide analytical and administrative support to the operations of the executive -level risk committees and management in discharging their duties in relation to Risk Management;

4. Coordinate the development of a Business Continuity strategy and plans to ensure Business Continuity in the events of Business Interruption;

5. Keep up to date with development and changes in the legal / regulatory regime, external risk landscape, international standards and methodologies related to Risk Management; and

6. Supporting management to inculcate a Risk Culture throughout the organization.

b. Risk Appetite and Strategy

MVSM Bank's RISK APPETITE focuses on five Risk Management objectives namely:

1. Uphold Bank-wide highest ethical standards of conduct
2. Work towards the preservation of long-term financial resilience of the Bank
3. Prudent and conservative policies when investing public money
4. Ensure compliance with all legal and regulatory requirements
5. Maintain a robust internal control environment and ensure operational continuity specially in extra-ordinary times

MVSM Bank's STRATEGY, as follows:

The basic plan of the Bank is to continue with its conservative lending practices. It does not aim to compete head on with commercial banks. The Bank will continue its good relations with the community and its clients. There is a market for a "boutique" bank where clients feel at home and secure.

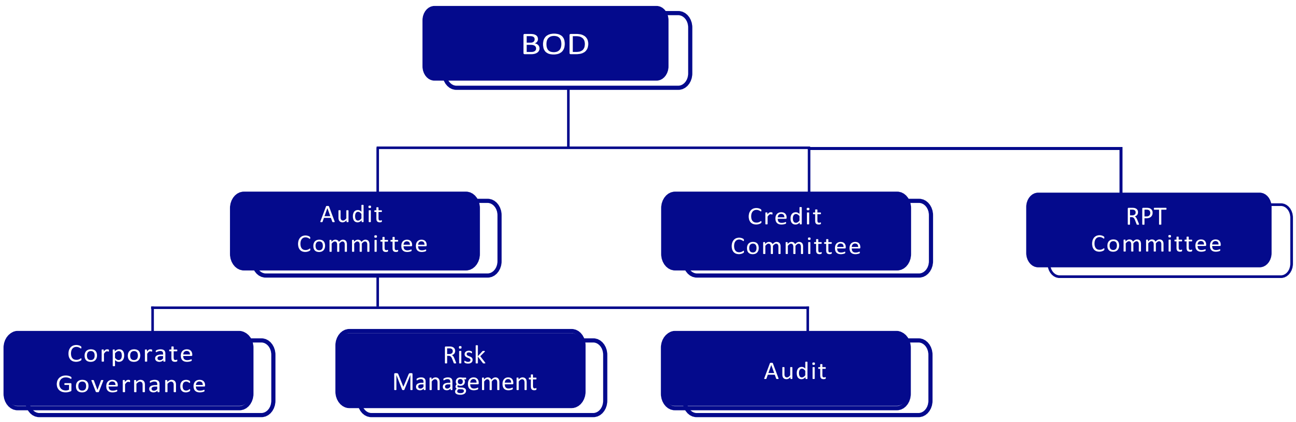
The expansion of the Bank's clientele will be via opening of Branch Lite units in high-traffic, strategically located areas and thru the use of Fintech products making use of the Bank's new core banking system.

In the future, the Bank may look into possible partnerships/mergers with bigger institutions. But in the meantime, the Bank will continue to operate as a small community-based Bank. The pricing policy will continue to be the same.

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

The Audit Committee meets at least once a month or as the need arises and minutes are reported to the Board. The Audit Committee meets with the external auditors, Management and Internal Auditors to discuss matters that the Committee or each of these groups believe should be discussed.

ORGANIZATIONAL STRUCTURE



Role and Responsibilities of the following:

A. Role of Audit Committee in Risk Management

The Audit Committee shall advise the Board of Directors on the Bank's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the Bank.

B. Internal Control/Audit and Compliance

The Internal Audit and Compliance in-charge of the overall control environment of the organization, the process of identifying, analyzing, managing risk, the adequacy of management information systems and adherence to control activities and promote effective and efficient operations, reliable financial and regulatory reporting and compliance with all relevant laws, rules and regulations and policies of the institution.

C. Role of Senior Management

The senior management is responsible for implementing the Board-approved risk strategy. It ensures that procedures and policies are applied consistently throughout the Bank and that all levels of staff are informed of their responsibilities with respect to risk management. Senior management is also in-charge of crafting policies, processes and procedures for managing risks according to the Board-approved risk management framework.

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

Basic Principles and Policies to Combat Money Laundering

In line with the declaration of policy, the Bank shall apply the following principles:

1. The Bank shall conduct business in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system;

2. The Bank shall know sufficiently its customers at all times and ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent

suspicious individuals or entities from opening or maintaining an account or transacting with the covered person by himself or otherwise;

3. The Bank shall adopt and effectively implement a sound AML and terrorist financing risk management system that identifies, assesses, monitors and controls risks associated with money laundering and terrorist financing;

4. The Bank shall comply fully with this part and existing laws aimed at combating money laundering and terrorist financing by making sure that officers and employees are aware of their respective responsibilities and carry them out in accordance with superior and principled culture of compliance; and

5. The Bank shall fully cooperate with Anti-Money Laundering Council (AMLC) for the effective implementation and enforcement of the AMLA.

Corporate Governance

a. Overall corporate governance structure and practices

MVSM Bank is committed to continuously improve its corporate governance practices in order to remain an ethically driven corporation and will concentrate on the rights of shareholders, the fair treatment of shareholders, the treatment of stakeholders, disclosure and transparency and the duties of Board members. It involves systems, policies and processes for assuring proper accountability, integrity and openness in the conduct of the organization's business.

1. The role of Audit Committee in Corporate governance are as follows:

a) Review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions appointment by the Board of Directors;

b) Ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines. It shall oversee the periodic performance evaluation of the Board and its Committees and Executive Management; and shall also conduct an annual self-evaluation of its performance. It shall also decide whether or not a director is able to and has been adequately carrying out his/her duties as director based on its own assessment or the assessment of external facilitators, bearing in mind the director's contribution competence, preparedness and performance candor, (e.g., attendance, and participation). Internal guidelines shall be adopted that address the competing time commitments that are faced when directors serve on multiple boards;

c) Recommendations to the Board regarding the continuing education of directors, assignment to Board committees, succession plan for the Board members and senior officers, and their remuneration commensurate with corporate and individual performance.

d) Decide the manner by which the Board's performance shall be evaluated and propose an objective performance criteria approved by the board. Such performance indicators shall address how the Board has enhanced long term shareholders' value.

2. Meetings

The Corporate Governance matters are regularly discussed in its Audit Committee meetings.

b. Selection process for the Board and Senior Management

The members of the Board of Directors shall possess minimum qualifications for directors in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations. In selecting independent directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry-out his duties and responsibilities.

The Board of Directors shall apply fit and proper standards on key personnel, integrity, technical expertise and experience in the Bank, either current or planned, shall be the key considerations in the selection process. And because 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 institution. The Board of Directors shall replace members of senior management, when necessary, and have in place an appropriate plan of succession.

c. Board's overall responsibility

General responsibility of the Board of Directors

The position of a Bank Director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the Bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The Board of Directors is primarily responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the Board of directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day-to-day affairs of the institution.

d. Description of the major role and contribution of the Chairman of the Board

The Chairman establishes the principles of good governance in the entire organization; undertakes every effort necessary to create awareness within the organization; provides guidelines that will direct Senior Management to attain best practices at every level of the organization; continuously monitor and evaluate Senior Management's performance in accordance with the Company's Mission and Vision.

e. Board Composition

Name of Directors	Type of Directorship	Principal Stockholder or Nominee	No. of Years Served as Directors	No. Shares	Name of Directors
Rufino SB. Javier	Chairman	Principal Stockholder	7 yrs. & 1 mo.	227,981	19.63%
Gene M. Sangalang	Vice-Chairman	Principal Stockholder	7 yrs. & 9 mos.	1,465	0.13%
Brigida Regina J. de Luna	Member	Principal Stockholder	11 yrs. & 5 mos.	227,979	19.63%
Noelle Riza D. Castillo	Member	Principal Stockholder	7 yrs. & 6 mos.	919	0.08%
Cecilia M. Misola	Member	Principal Stockholder	1 yr. & 6 mos.	1,465	0.13%
Edgardo M. Molina	Independent Director	Principal Stockholder	2 yrs. & 4 mos.	1,812	0.16%
Duane Von O. Sumo	Independent Director	Principal Stockholder	2 yrs. & 7 mos.	1,811	0.16%
Total Shares				463,432	39.91%
Total Outstanding Capital Stock					1,161,327

f. Board Qualification

Rufino SB. Javier

Age: 89
Position: Chairman
Nationality: Filipino

Qualification: Bachelor of Laws (LLB)

Gene M. Sangalang

Age: 57
Position: Chief Operations Office/Vice Chairman
Nationality: Filipino

Qualification: BS Accounting

Brigida Regina J. De Luna

Age: 52
Position: Member
Nationality: Filipino

Qualification: BS Business Economics

Cecila M. Misola

Age: 48
Position: Member
Nationality: Filipino

Qualification: AB English/Bachelor of Laws (LLB)

Edgardo M. Molina

Age: 67
Position: Independent Director
Nationality: Filipino

Qualification: BS Accounting

Noelle Riza D. Castillo

Age: 55
Position: Member
Nationality: Filipino

Qualification: BS Economics/Bachelor of Laws (LLB)

Von Duane O. Sumo

Age: 69
Position: Independent Director
Nationality: Filipino

Qualification: BSBA Marketing

Some of the Trainings attended by the Board of Directors:

n/a

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

(1) Audit Committee:

Edgardo M. Molina	Chair
Duane Von O. Sumo	Member
Noelle Riza D. Castillo	Member

Its primary purpose is to support the Board of Directors in fulfilling its responsibility to ensure that management attains organizational objectives while maintaining an effective system of internal control and risk management.

(2) Credit Committee:

Brigida Regina J. de Luna	Chair
Gene M. Sangalang	Member
Rufino SB Javier	Member

Its purpose is to oversee the credit and lending strategies and objectives of the Bank, including: (1) Oversee the credit risk management of the Bank, including reviewing internal credit policies and establishing portfolio limits; and (2) Review the quality and performance of the Bank's credit portfolio. The Committee shall also be responsible for any other matters delegated to it by the Board.

(3) Related Party Transaction (RPT) Committee:

Duane Von O. Sumo	Chair
Edgardo M. Molina	Member
Noelle Riza D. Castillo	Member

Its primary purpose is to support the Board of Directors in fulfilling its responsibility to ensure that all related parties are continuously identified, RPTs are monitored, and oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

h. Directors' attendance at Board and Committee meetings:

Name of Directors	Board Number of meetings		Audit Committee Number of Meeting		Credit Committee Number of Meeting		RPT Committee Number of Meeting	
	Attended	%	Attended	%	Attended	%	Attended	%
Rufino SB. Javier	15	100.00%			15	100.00%		
Gene M. Sangalang	15	100.00%			15	100.00%		
Brigida Regina J. de Luna	15	100.00%			15	100.00%		
Noelle Riza D. Castillo	12	80.00%	12	92.31%			4	100.00%
Edgardo M. Molina	7	46.67%	8	61.54%			1	25.00%
Duane Von O. Sumo	12	80.00%	13	100.00%			4	100.00%
Total Number of Meetings Held During the year	15		13		15		4	

i. Changes in the Board of Directors

n/a

j. List of executive officers/senior management

Name of Executive Officer/ Senior Mangement	Position	Qualification/ Experience in MVSM	Age	Nationality
Gene M. Sangalang	Chief Operations Officer	BSC Accounting	57	Filipino
Brigida Regina J. De Luna	President/CEO	BS Business Economics	52	Filipino
Maria Patricia J. Uy	Chief Customer Officer	BA European Languages	46	Filipino
Maria Milagros L. Javier	Chief Admin & Support Service Officer	BS Economics	45	Filipino
Estrella L. Villenas	Chief Compliance Officer	BBA Marketing	50	Filipino
Angelina Raida A. Salamat	Treasurer/Manager	BSC Banking and Finance	45	Filipino
Lorena S. Tolentino	Remedial Accts. Manager	BA Accountancy	60	Filipino
Jimmy N. Arellano	Credit Risk Officer	BS Computer Science	50	Filipino
Joel V. Abad	Senior Internal Auditor	BSBA Accounting	57	Filipino
Sarrah Jane S. Raymundo	Corporate Bookkeeper	BSBA Management	33	Filipino

k. Performance Assessment Program

The Performance Evaluation Assessment includes the following:

The BOD, Audcom, Unit Heads and the BMs must perform regularly the scheduled assessments in order to monitor the effectiveness of the all employees, Board and Board Committees:

a. Self-Assessment/Evaluation (see attached see attached Self Assessment/ Evaluation Forms)

1) The final performance ratings shall be computed using average method for the Board of Directors as a body.

2) The final performance ratings shall be computed using the number of questions with proportionate points or percentage /weights e.g., questions with YES and NO answers. Sum up the results of questions and then align the results with the Table of Ratings. The said computation of ratings is applicable for Self Assessment of Board of Directors; Self-Evaluation of Audit Committee and Self Evaluation of Credit Committee.

b.Performance Evaluation Report

indicate the competencies/qualitative criteria used in evaluating performance (see attached Performance Evaluation Report Form).

The HR shall identify define the rater of each employee per position. For employees with multiple ratings like CCO, CRO, SIA, etc. the final performance ratings shall be computed using average method.

c. Performance/Merit System

given 100 merit points within a calendar year every errors/findings/ misreporting/delayed submission will be deducted to their merit points. The total demerit points will be tallied and totaled and will also serve as a basis for the increase and bonus.

Strategic Plan for the year – annual basis based on the achievement of branch targets & developments.

Schedule of Assessment

Kind of Assessment	Frequency of Assessment
Self-Assessment/Evaluation – Board of Directors (BOD); BOD as a body; Audcom as a body; and Crecom as a body	Annually, before Annual Election of Board of Directors and Board Committee members (scheduled every 2nd Tuesday of March)
Performance Evaluation Report	For all Regular Employees- annually, every July after the reference cut-off month ending 30th of June (inclusive date from July 1 of the previous year up to June 30 of the current year); and For Newly Hired Employees – twice before regularization.
Performance/Merit System	Annually, usually done before Strategic Plan on/or before 1st week of December, awarding of the "BEST" employee in each category (BM, Cashier, Teller, Loan Processor, Bookkeeper, Messenger & Branch) will be done on the day of the Christmas Party.
Evaluation of the current Strat Plan	Semi-Annual, usually done after June and December

SEMINARS 2023




I. Orientation and Education Program

Training and Development

Training and development activities are conducted in order to improve performance of each employee. Various programs are made for all employees. **They include the following:**

- Training within the Bank (In-House)
- Training outside the Bank
- Orientation and Job Induction of new hires

Regular refresher courses will be conducted for the following: loans, tellering/cashiering, bookkeeping, AMLA, Security. Participants would depend on the seminar to be conducted. These in-house training will cover topics recommended by audit, operations and compliance.

Depending on the results of the Talent Review and in cases of promotion/change of job designation, employees may be nominated to attend available seminars.

Below are some seminars conducted by RBAP Foundation:

1) Delinquency and Fraud Management in Banks
2) Internal Credit Risk Rating System Workshop
3) Credit Analysis & Loan Packaging Seminar
4) Risk Management Basic Course

5) Cash Flow Statement—Understanding & Analyzing
6) Compliance Officer's Development Training
7) Signature Verification Bank Fraud and Forgery Detection
8) AMLA Seminar
9) Comprehensive Property Appraisal Seminar
10) Business Continuity Management Program

m. Retirement and Succession Policy

1. RETIREMENT

1.1. Compulsory Retirement shall be effected on the employees' birth month at the age of 65.

1.2. Optional Requirement Any employee with at least 20 years of service or upon reaching the age of 60 may retire at his option of the Bank and shall be entitled to retirement benefits.

1.3. Retirement Benefits Computation:

a. Any employee with Officership position (Manager, Cashier, Loan Manager, General Bookkeeper and Appraiser) and has rendered at least fifteen (15) years of service with the Bank will receive One Month's Pay for every year of service rendered upon retirement.

b. Any retiring employee with at least twenty (20) years of service shall be entitled to receive One Month's Pay for every year of service rendered.

2. SUCCESSION PLANNING GUIDELINES

Succession Planning Guidelines have been prepared for all regular employees of MVSM Bank, Inc. pertinent details of each employee have been made in order to come up with a guide that can help management. This will help management in preparing a career path for each individual.

In order to make a career plan for each employee, various factors have been considered. These factors include residence, age, educational background, civil status, tenure, trainings attended and the evaluation of each by his/her supervisor.

In the development plan, Management has determined the possible changes for growth / improvement for each employee. It also identifies the various needs such as trainings and future plans for each.

A Succession Planning Chart has also been prepared. Should there be any absences (planned or unplanned), resignations, retirements, etc., the chart will serve as a guide for all in order that banking operations run smoothly despite changes in staffing.

n. Remuneration & Compensation policy

1. Forms of Remuneration

The components of total remuneration are:

a. Fixed remuneration

The fixed remuneration is determined on the basis of the role and position of the individual employee, including professional experience, seniority, education, responsibility, job complexity, local market conditions, etc. Fixed salary is mainly payable in cash.

b. Variable remuneration

The majority of employees have a variable component to their remuneration in addition to their fixed remuneration. There is a proportionate ratio between fixed remuneration and variable remuneration. The relation between fixed and variable remuneration is of reasonable proportion. Employees should not have to rely on their variable remuneration. The variable portion is clearly connected to the work and performance of the individual, the performance of his/her department and the overall performance of the Bank. The goals are based on factors that support the Bank's long-term strategy. The variable component varies across the Bank's business areas and management levels.

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

The Board of Directors has determined a maximum percentage of performance-based remuneration relative to the fixed remuneration in order to ensure an appropriate balance between fixed and variable pay. This percentage varies according to the type of position held by the employee and the business unit in which the employee is employed and local requirements. The maximum limit on variable remuneration remains at 200 per cent of fixed salary.

c. Other Remuneration:

1. Healthcard/Health Coverage Insurance
2. Retirement Benefits (please refer to BIR approved Retirement Plan)
3. SSS/Philhealth and Pag-ibig Contribution
4. Financial Assistance

2. Compensation for Directors and Officers

a) Directors

The directors shall not receive any compensation, as such directors, except for reasonable per diems. Any compensation may be granted to directors by the vote of the stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting, in no case shall the total yearly remuneration of directors, serving as such directors exceed ten (10%) of the net income before tax of the Bank during the preceding year.

The non-executive Chairman shall be entitled to reimbursement of expenses for meetings, official visits and participation in various forums and other expenses and allowances for attending to his duties as Chairman on behalf of the Bank. The Chairman as assignee of the Bank Golf Club & other Country Club shares has the privilege to use the facility, venue to conduct meetings with potential clients, business partners, and committee meetings.

The Stockholders' Meeting decides the value of the fees for the Board of Directors.

The remuneration policy for Executive Directors is proposed to the Board of Directors by the Remuneration & Compensation Committee. The Board of Directors then approves any type of supplementary remuneration.

The President proposes policies for the Directors to the Remuneration & Compensation Committee, which expresses its opinion and presents the policies to the Board of Directors.

This process is supported, as far as the technical aspects are concerned, by the HR Head, who takes care of the implementation of these policies.

President Remuneration is composed of the fixed, variable and other remuneration based on the degree of achievement of the targets set in the previous year.

b) Senior Management

Remuneration & Compensation of the senior management and the most highly compensated management officers of the bank will be deliberated by the Compensation Committee. After the Compensation Committee has deliberated and reported, specific remunerations for Directors and Senior Management are deliberated at the Board of Directors meeting, and specific remunerations are discussed in the Board meeting, within the limits of remunerations approved at the Annual Stockholders Meeting, and with the amount of remunerations calculated based on rules and regulations established by the Bank.

Employees in risk control functions (i.e., internal audit, compliance, and risk management functions) shall be based on the achievement of their objectives and shall be independent of the business lines which they oversee.

c) Officers

The Committee deliberates and reports on matters pertaining to remuneration for Officers such as remuneration policy, plan, calculation methods, and specific remuneration content of individual Officers.

o. Policies and procedures on related party transactions(RPT)

i. Policies and procedures for managing related part transactions

POLICY:

Bank's directors, officers, stockholders and their related interest are not prohibited to borrow from their own Bank, provided that the terms of the loan are not less favorable to Bank than those offered to others and loans so granted to them shall as much as possible be fully covered by collaterals.

1. Definition of Related Parties

The Bank will review the submitted BIOGRAPHICAL DATA of all DOSRI which will be used as the basis for the Inventory of related parties. A review of this inventory will be done annually after the Annual Stockholder's meeting.

2. Coverage of RPT Policy

The coverage of related party transactions shall go beyond just credit risk but will include among others:

a. On-and-off balance sheet credit
b. Consulting, professional, agency and other service arrangements/ contracts
c. Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements)
d. Construction arrangements/contracts
e. Lease arrangements/contracts
f. Borrowings, commitments, guarantees fund transfers
g. Sale, purchase or supply of goods or materials and
h. Establishment of joint venture entities

PROCEDURES:

a. Transactions with DOSRI, regardless of amount shall be reviewed and endorsed to the RPT Committee and Board for approval. The approval shall be manifested in a resolution passed by the board of directors during a meeting properly minuted and made of record.

b. The Compliance Officer shall prepare a monthly report of all related party transactions approval.

The report shall contain the following information:

- Name of the director or officer concerned and his involvement as regards the credit accommodation, such as principal, endorser, spouse of borrower, etc.;

- Nature of the loan or other credit accommodation, purpose, amount, credit basis for such loan or other credit accommodation, security and appraisal thereof, maturity, interest rate, schedule of repayment and other terms of the loan or other credit accommodation;

- Names of the committee members/directors who participated in the deliberations of the meeting; and

- Names in print and signatures of the committee members/directors approving the resolution: Provided, that in instances where a committee member/directors who participated in the meeting and who approved such resolution failed to sign, the corporate secretary may issue a certification to this effect indicating the reason for the failure of the said director to sign the resolution.

c. If a related party transaction would be ongoing, the RPT Committee/Board of Directors shall periodically review and assess ongoing relationships with related parties to determine and ensure compliance with all the regulatory requirements.

d. No director may engage in any Board or Committee discussion or approval of any related party transaction. However, such director must provide to the Board or Committee all material information reasonably requested concerning the transaction.

ii. Conglomerate structure

n/a

iii. Details of material RPTs as defined under Sec. X136 of the MORB, including the nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments:

Material Related Party Transactions

For the Quarter Ended December 31, 2022

PARENT BANK/ OB &SUBSIDIARY/ AFFILIATES	RELATED COUNTERPARTY	RELATIONSHIP BETWEEN THE PARTIES	TRANSACTION DATE	TYPE OF TRANSACTION	ACCOUNT CONTRACT PRICE	TERMS	RATIONALE FOR ENTERING TRANSACTION
A.Bank/QB							
a. Subsidiaries and Affiliates							
b. DOSRI	RSJMLJ Corporation	Stockholders Director	01/01/2023	Lease Contract'	98,839.85	1 yr	Building Rental-Head Office
	RSJMLJ Corporation	Stockholders Director	01/01/2023	Lease Contract'	39,535.94	1 yr	Building Rental-Tanay
	Jali Corp.	Stockholders Director	01/01/2023	Lease Contract'	39,535.94	1 yr	Building Rental-Concepcion
	RSJMLJ Corporation	Stockholders Director	06/01/2023	Lease Contract'	125,510.93	1 yr	Building Rental-San Mateo
	RSJMLJ Corporation	Stockholders Director	09/15/2023	Lease Contract'	56,842.11	1 yr	Building Rental-BLU
	Atty. Cecilia M. Misola	Director	03/02/2023	Consulting/Retainer Agreement"	30,000.00 plus 25,000.00 allow	2 yrs	Legal Consultancy
	Atty. Cecilia M. Misola	Director		Legal Related Expenses	P3,500-Manila/5,000-Province	Per Appearance	
	Atty. Noelle Riza Castillo	Stockholders Director		Legal Related Expenses	P3,500-Manila/5,000-Province	Per Appearance	
	Nympha M. Buenaventura	Stockholder	09/15/2017	Borrowings	83,340.89	15 yrs	Loan Accommodation
	Nympha M. Buenaventura	Stockholder	10/12/2023	Borrowings	69,802.93	2 yrs	Loan Accommodation
	Nympha M. Buenaventura	Stockholder	12/22/2023	Borrowings	60,000.00	3 months	Loan Accommodation
	Jali Corp.	Stockholders Director	10/19/2020	Borrowings	676,011.41	1 yr	Loan Accommodation
	Jali Corp.	Stockholders Director	09/15/2021	Borrowings	297,921.06	5 yrs	Loan Accommodation
	Noelle Riza D. Castillo	Director	06/23/2023	Borrowings	50,755.55	1 yr	Loan Accommodation
	Duane Von Sumo	Independent Director	04/14/2023	Borrowings	68,638.21	2 yrs	Loan Accommodation
c. Others							
B. Subsidiary 1							
a. Subsidiaries and Affiliates							
b. DOSRI							

c. Others							
C. Subsidiary 2							
a. Subsidiaries and Affiliates							
b. DOSRI							
c. Others							
D. Affiliate 1							
a. Subsidiaries and Affiliates							
b. DOSRI							
c. Others							
E. Affiliate 2							
a. Subsidiaries and Affiliates							
b. DOSRI							
c. Others							

Please indicate in the last column (rationale for entering into the transaction) if the counterparty was a non-related party at the time when the transaction was entered into.

* inclusive of w/tax

** exclusive of w/tax

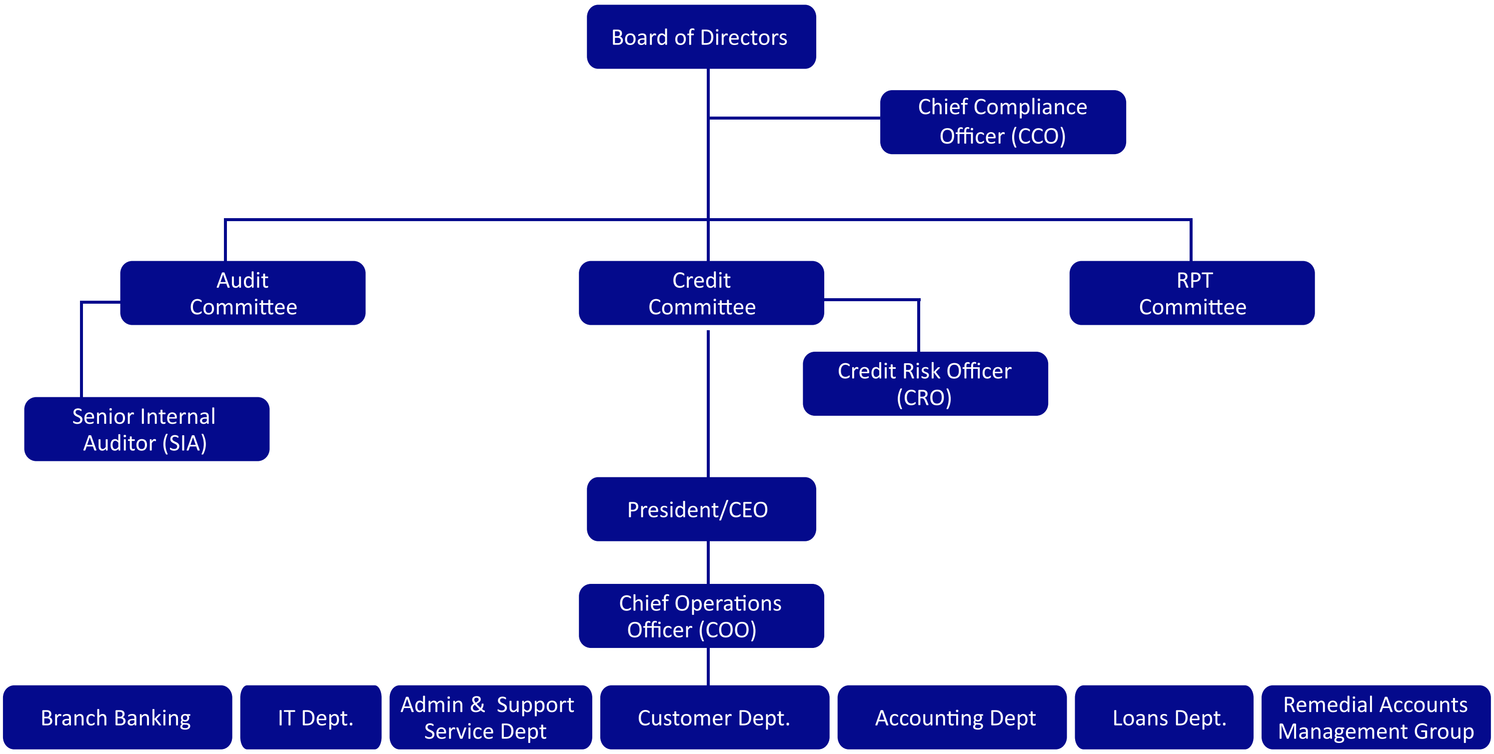
Certified Correct:

GENE M. SANGALANG
Chief Operations Officer

p. Self-Assessment Function

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

Plantilla of Organization as of 31 December 2023:



d) Internal Auditor – The internal auditor shall have full, free and unrestricted access to all company activities, records, property and personnel. He shall report directly to the Audit Committee. His duties and responsibilities shall include the following:

1) Performs continuous program of verification and conduct his examination in such a way as to ensure management of the general reliability and validity of all reports;
2) Recommends the establishment of appropriate internal controls;
3) Supervises and maintains the bank's system of internal control and ascertains that it is adequate and functioning properly;
4) Recommends appropriate measures to ensure that the established policies, procedures and controls are followed; e) Perform such other functions as may be assigned by the Board of Directors in

connection with examination, evaluation and appraisal of the bank's operations. The internal auditor has no authority or responsibility over the activities he audits, and his main purpose is to assist the members of the organization in the effective discharge of their responsibilities

e) Compliance Officer –the Chief Compliance Officer to identify problems as quickly & as efficiently as possible & to report the findings to the appropriate levels of Management. His duties and responsibilities shall include the following:

1) Responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations.

2) Oversees & implements the compliance system and monitors the performance of the Compliance Program and relates activities on a continuing basis, taking appropriate steps to improve its effectiveness;

3) Build-up a compilation of all banking laws and relevant rules and regulations issued by the Bangko Sentral ng Pilipinas (BSP) and other regulatory/supervisory bodies such as the Philippine Deposit Insurance Corporation (PDIC), the Social Security System (SSS), the Department of Labor and Employment (DOLE), Bureau of Internal Revenue (BIR), Home Development Mutual Fund (HDMF), Philippine Health Insurance (PHIC) Corporation and the Local Governments and to implement such laws;

4) Establishes & maintains a constructive working relationship with all the regulatory agencies for the prime purpose of seeking clarifications on specific provisions of laws, rules and regulations and/or discussing compliance findings with the regulatory authorities;

5) Maintain his membership in good standing with the Association of Compliance Officers for Rural Banks to expose himself to various compliance "best practices";

6) Maintain a clear and open communication process within the bank to educate and address compliance matters or conduct regular meeting and seminars/workshops among the officers/staff on the interpretation, implementation guidelines and risk implications of each law, rule or regulation in the operations of the bank;

7) Monitor & assess the compliance program & recommend to the Board of Directors any warranted revision or changes in the program; and

8) Seek the opinion of the Legal Counsel on questions of law & be guided accordingly by the opinion of the Legal Counsel.

9) In compliance with the R. A. No. 10173 also known as Data Privacy Act of 2012, the CCO was designated as the Data Protection Officer (DPO) of the bank to ensure compliance with applicable laws and regulations for the protection of data privacy and security.

He shall directly access the BOD in relation to compliance matters.

ii. Process adopted by the board to ensure effectiveness and adequacy of the internal control system

A. Obtaining an Understanding of the Entity's Internal Control Structure

1. Understanding the Control Environment
2. Understanding Control Procedures
3. Understanding the Accounting and Internal Control System
4. Documentation of Understanding
    a. Internal Control Questionnaire
    b. Use of Flowcharts

c. Narrative Description
d. Internal Control Checklist
e. Decision Tables

B. Assessing the preliminary Level of Control Risk

This is the process where the auditor evaluates the effectiveness of the bank's internal control policies and procedures in preventing or detecting material misstatements in the FS assertions.

	Assertion	Related Control Activities
A	Existence / Occurrence	Procedures that require documentation, approvals, authorization, verification and reconciliations Ex. Cash disbursement should be supported by complete documentation
B	Completeness	Procedures that ensure that all transactions that occur are recorded such as accounting for numerical sequence of documents Ex. Receipt of cash should be supported by official receipts in a numerical sequence
C	Rights and Obligations	Procedures that ensure that the entity has a right to assets or an obligation to pay arising from the transaction Ex. A sale to a customer should be supported by a sales invoice and acknowledged delivery receipt
D	Valuation and Measurement	Procedures that ensure that a proper price is charged and that mathematical accuracy are present in recording and in developing the accounting records and the financial statements Ex. A sale to employee traces the price used on an invoice to price list in the effect at the time of the sale.
E	Presentation and Disclosure	Procedures that indicate that a review has been made to ascertain that a transaction has been recorded in the proper account and that FS has been reviewed by a competent personnel. Ex. The accountant reviews the correctness of journal entries made by an accounting clerk.

C. Obtaining Evidential Matter to Support the Assessed Level of Control Risk

The auditor obtains evidential matter to enable him to determine the proper level of control risk by performing test of controls or compliance test on selected policies and procedures.

Compliance procedures are designed to obtain a reasonable assurance that those internal controls on which tests requiring inspection of documents supporting transaction to gain evidence that controls have operated properly. Inquiries about and observation of controls which leave no audit trail should be made.

1. Evaluating the results of the Evidential Matter

   Based on the result of the test control, the auditor should evaluate whether the internal controls are designed and operating contemplated in the preliminary assessment of control risk. The evaluation of deviations may result in the auditor concluding that the assessed level of control risk needs to be revised. Generally, the lower the assessed level of control risk, the greater the assurance the evidential matter must provide that the internal control structure policies and procedures relevant to an assertion are designed and operating effectively.

2. Determining the Necessary Level of Detection Risk

The auditor uses the assessed level of control risk (together with the assessed level of inherent risk) to determine the acceptable level of detection risk for financial statement assertions. Auditing procedures designed to detect such misstatement are referred to as substantive tests. The substantive test that the auditor performs consists of test of details of transactions and balances, and analytical procedures.

The primary reason for studying and evaluating Internal control is to provide a basis for relying upon the system and for determining the extent of year end substantive tests to be performed. There is an inverse relationship between the effectiveness of internal control and the extent of detailed audit procedures more effective systems require less detailed testing. identified Strengths and weaknesses during the evaluation of internal accounting control and test of compliance will affect the nature, timing, and extent of audit procedures

q. Dividend Policy

The Bank has adopted the following general policy on the declaration of dividends:

"Dividends shall be declared and paid out of the surplus profits of the Bank at such times and in such amounts as the Board of Directors may determine in accordance with the provisions of law and the regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC), subject to compliance with such financial regulatory requirements as may be applicable to the Bank."

Dividends allow shareholders to enjoy the fruits of a profitable business. A dividend is a payment to the shareholders of the Bank as a return on the shareholder's investment.

Declaration of dividends are approved by the Board of Directors of the Bank and does not need prior approval from the BSP but must be made in accordance to regulations set by the BSP.

The amount of total dividends declared last June 13, 2023 amounting to Php8,167,770.00.

r. Corporate Social Responsibility (CSR) Initiatives

As part of the CSR, MVSM Bank continuously accepts on-the-job Trainees (OJT) or internship from various neighboring schools for their immersion before going to the real world of work.

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 programs

Based on existing financial customer protection standard risks as identified and profiled by the Bank, identified risks were classified as follows:

The effects of lack of oversight supervision by BOD and is "rare" to happen since they are very serious in addressing customer protection issues by coming out with policies and procedures in developing the Customer Assistance Management System, thereby, impact of the risk to the Bank and the customer would below.

ROLES& RESPONSIBILITIES OF THE BOARD & SENIOR MANAGEMENT:

1) BOARD OF DIRECTORS

The Board shall be primarily responsible for approving and overseeing the implementation of the bank's CPRMS.

The Roles of the Board shall include the following:

a. Approve the CPRMS and Consumer Assistance Mechanism (CAM) that takes into consideration the Bank's business model, market, product lines, and relationships with third parties that may give rise to consumer protection risks;

b. Promote a culture of ethical behavior and adherence to the highest standards of fair and responsible dealing with consumers;

c. Ensure that adequate information and actions taken are reported on a regular basis in terms of measurement of consumer protection related risks, reports from the CAM, as well as other material consumer related developments that will impact the Bank;

d. Ensure the adequate provision of resources and effective implementation of personnel training and competency requirements;

e. Approve remuneration and compensation packages structured to encourage responsible business conduct, fair treatment and avoidance/mitigation of conflicts of interest; and

f. Review periodically the implementation and effectiveness of the CPRMS including how findings are reported and whether the audit mechanisms are in place to enable adequate oversight, and put in place a regular mechanism to review the relevance of the CPRMS in case of changes in the bank's business model and/or operating environment.

2) RESPONSIBILITIES OF THE SENIOR MANAGEMENT

The Senior Management shall be responsible for proper implementation of the Consumer protection policies and procedures duly approved by the Board. Also, its role shall focus on ensuring effective management of day-to-day consumer protection activities.

The Senior Management shall be responsible for the following:

a. Ensure that approved CPRMS and CAM policies and procedures are clearly documented, properly understood and appropriately implemented across all levels and business units.

b. Ensure an effective and management information system to regularly measure, aggregate, and analyze consumer related issues to determine the level of consumer protection risk. monitoring An appropriate and clear reporting and escalation mechanism should also be integrated in the risk governance framework.

c. Ensure that adequate systems and controls are in place to promptly identify issues that affect the consumer across all phases of the relationship with the consumer;

d. Ascertain that weaknesses in the consumer protection practices or consumer protection emerging risks are addressed and corrective actions are taken in a timely manner; and

e. Ensure observance of expectations and requirements prescribed under relevant regulations on compliance and internal audit.

ii. The consumer protection risk management system of the bank, the means by which a bank identify, measure, monitor, and control consumer protection risks inherent in its operations

The Bank shall monitor risks and the effectiveness of established controls through periodic measurement of Consumer Protection activities based on internally established standards and industry benchmarks to assess the effectiveness and efficiency of existing operations. The risk monitoring and assessment reports shall be submitted on time, accurate, and complete to the Management to provide assurance that established controls are functioning effectively, resources are operating properly and used efficiently and Consumer Protection operations are performing within established issues. Any deviation noted in the process should be evaluated and the management shall initiate remedial action to address underlying causes. The scope and frequency of these performance measurement activities will depend on the complexity of the Bank's risk profile and should cover, among others, the following concerns, mechanism, response and monitoring:

In this view, the Bank has established two (2) approaches in measuring the effects of failure to follow the required protection standards or principles, namely:

a. The Bank classifies its risk according to probability or the likelihood of occurrence of the risk:

1) RARE – the happening of the customer protection risk is not expected to come soon;

2) LIKELY – the happening of the customer protection risk is not expected at the moment;

3) CERTAINLY – the happening of customer protection risk is definite or imminent.

b. The Bank classifies the level of customer protection risks accordingly:

1) LOW – the impact of customer protection risk to the Bank is nil or minimal;

2) MEDIUM – the impact of customer protection risk to the Bank is moderate or within the tolerable level of the Bank.

3) HIGH – the impact of customer protection risk to the Bank is above what the Bank's tolerable limit and has adverse effects on the reputation.

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

The Bank goal is to provide consumer with the highest quality of service possible. Hereunder are the procedures that will be followed when the bank receives a complaint or query:

1) Complaints/queries are accepted by staff and endorsed to the branch managers;

2) Manager base on the query or complaint and acts on the matter immediately. If it cannot be resolved or answered immediately, the customer is asked to return at least two days after;

3) When complaint is not immediately resolved at branch level, the Audit Team (depending on complaint) conducts its own investigation about the complaint;

4) Report is prepared by Audit Team to Operations. The investigation and report preparation to take at least three days;

5) When complaint remains unresolved, the VP for Operation goes to the branch and final recommendation is made. Customers are not discouraged to inform BSP about their complaint.

6) Depending on the response of the BSP, the bank may again do its investigation or accept the matter to be closed.

7) Record/s of complaints resolved at branch level kept at the branch and communications coming from BSP are filed with the Compliance Unit.

t. Sustainability Framework

In 2023, MVSM Bank developed its Environment & Social Governance (ESG) best practices. The Board approved last 09 May 2023 and implementation of the Bank's Environmental and Social Risk Management

System (ESRMS) together with the Sustainable Finance Framework (SFF) and Transition Plan to support its sustainability commitments and set out how it intends to raise Sustainable Financing Instruments (SFIs). The Board ensured that policies and procedures/manuals are aligned to the Bank's SFF and ESRMS (Corporate Governance, Risk Management, Credit and Operations/Branches, Strategic Plan of the Bank, and other policies and manuals):

1) Sustainability goals:

a) Improve the bank's systems and responses to climate change risks;

b) Establish a foundation for future projects and improvements for the Bank's sustainability;

c) Educate and foster community spirit towards an informed understanding of climate change and its related risks; and

d) Identify and manage risks for the Bank and its clients with an informed understanding of climate change and other environment and social risks.

2) ESG Strategies

a) Environmental sustainability talks/webinars;

b) Review and alignment of bank policies and procedures to its Sustainability Financing Framework (SFF) and Environment and Social Risk Management System (ESRMS);

c) Conservation and recycling of Bank resources;

d) Partnership with the Marikina Shoe Industry;

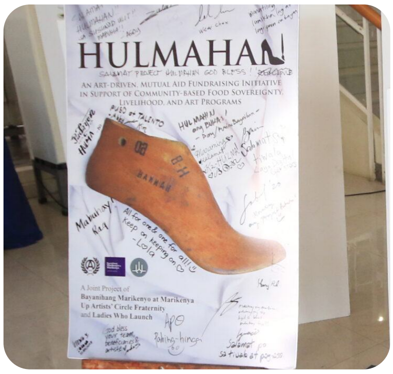
e) Partnership with Environmental Groups;

f) Lending and Investment Programs for Environmental and Social Projects or Businesses; and

g) Lending programs for people and businesses affected by natural calamities

3) ESG Initiatives

(a) Last June 18, 2023, MVSM Bank has partnered with PROJECT HULMAHAN. The goal of this project is to support the shoe industry of Marikina. And will continue to support this endeavor thru tie ups with Ms. Zena Bernardo (founder of Project Hulmahan); and



(b) As part of the Environment & Social Governance (ESG), Pililla Branch as the 1st ever Solar Powered Branch.

(c) Offered MSME Lending that can generate employment and financed an environmentally related projects like junk shops, etc.

Corporate Information

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

BOARD OF DIRECTORS

Rufino SB. Javier
Chairman

Gene M. Sangalang
Vice Chairman

Brigida Regina J. De Luna
Member

Atty. Noelle Riza D. Castillo
Member

Atty. Cecilia M. Misola
Member

Edgardo M. Molina
Independent Director

Von Duane O. Sumo
Independent Director

Estrella L. Villenas
Chief Compliance Officer

Audit Committee

Joel A. Abad
Senior Internal Audit

Credit Committee

Brigida Regina J. De Luna
Member

RPT Committee

Jimmy N. Arellano
Credit Risk Officer

Gene M. Sangalang
Vice Chairman

Angelina Raida A. Salamat
Treasury

Branch

Jackilyn Del Mundo
IT Coordinator

Maria Milagros L. Javier
Chief admin and support officer

Maria Patricia J. Uy
Chief Customer Officer

Sarah Jane V. Rios
Accounting and Finance

Louvelle D. Mamorno
Loan Manager

Lorena S. Tolentino
Remedial Account Manager

Head Office | Antipolo | Binangonan | Concepcion | Pasig | Pililla | Rosario | San Mateo | Tanay | Taytay

San Mateo Branch-Lite | Pasig Branch-Lite

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

AS OF DECEMBER 31, 2023

Name of Stockholder / Subscriber Address	Nationality	No. of Shares	Amount	Ratio
COMMON SHARES- VOTING SHARES				
JAVIER, RUFINO SB	Filipino	227,981.00	22,798,100.00	19.63%
DE LUNA, BRIGIDA REGINA J.	Filipino	227,979.00	22,797,900.00	19.63%
UY, MA. PATRICIA J.	Filipino	227,979.00	22,797,900.00	19.63%
JAVIER, MA. MILAGROS L.	Filipino	227,979.00	22,797,900.00	19.63%
DE LUNA, EMMANUEL DEOGRACIAS H.	Filipino	120,818.00	12,081,800.00	10.40%
UY, ARCHIE LAWRENCE K.	Filipino	120,818.00	12,081,800.00	10.40%

c. List and description of products and services offered

1. Deposit

a. Demand Deposit

A non-interest-bearing account wherein deposit transactions are made with a use of checkbooklet and withdrawal slips.

b. Regular Savings Deposit

An interest-bearing savings account wherein deposit transactions are made over the-counter with a use of passbook.

c. Mega/Time Deposit

An interest bearing deposit account wherein funds of a specific amount are given pre determined competitive rates for a fixed term.

2. Loans

a. Business Loans

for business expansion, additional capital business, start-up, etc.

b. Housing Loan

for home construction/ renovations, purchase of house & lot, etc.

c. Personal Consumption Loans

for travel expenses, tuition fees and other personal needs.

d. SSS Pensioner Loans

for personal needs of SSS Pensioners.

3. Money Remittance thru Western Union, i2i platform

4. Bills payment

Thru BAYAD CENTER Billers include the following merchants: Meralco, PLDT, Smart, Globe, PLDT, Skycable, Destiny Cable, Digitel, Manila Water, Maynilad, Manulife, Maxicare Healthcare Corporation, PAG-IBIG Fund, SSS, Grepalife, SunCelluar, Sunlife of Canada, World Vision Dev't. Foundation, etc.

5. SSS Payment Agent

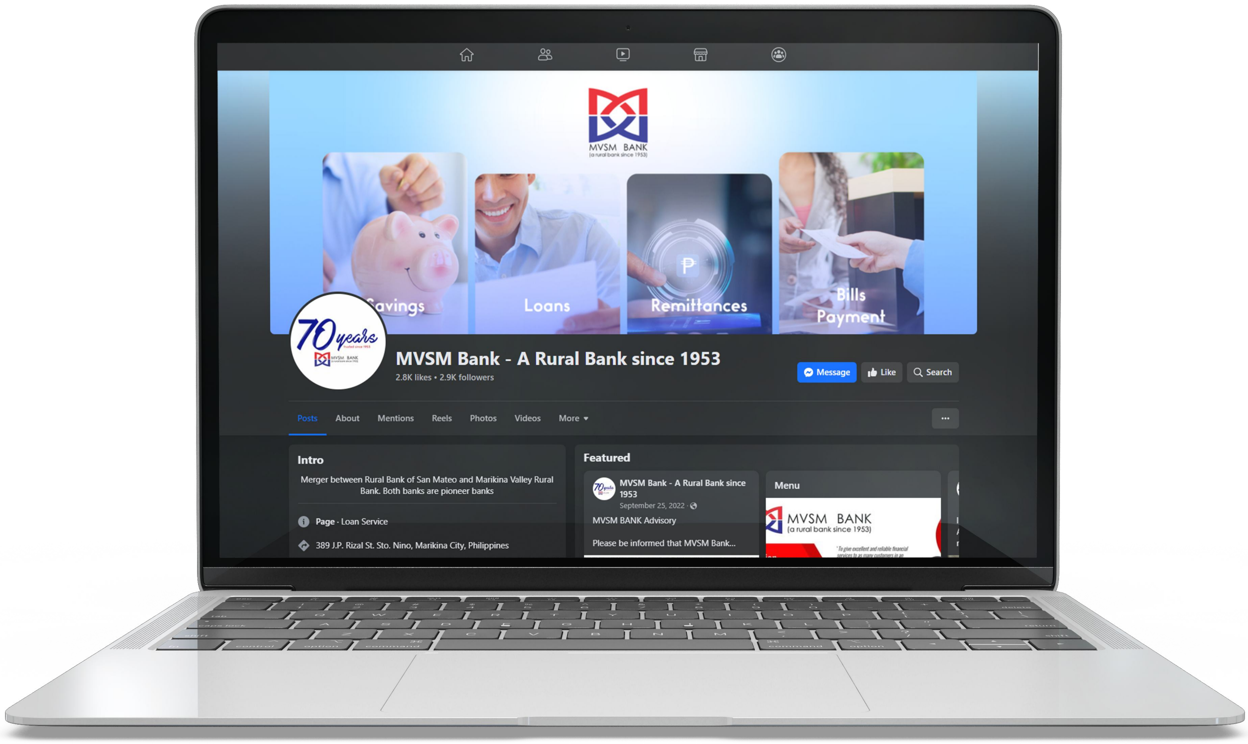
SOCIAL SECURITY SYSTEM

d. Bank website

www.mvsmbank.com

Facebook Account:

https://www.facebook.com/mvsmbankofficial



e. List of banking units

BRANCH	ADDRESS	CONTACT PERSON	DESIGNATION	TELEPHONE #	FAX #	E-MAIL
Head Office	389 JP Rizal St Sto Niño Marikina City	Angelina Raida A. Salamat	Manager	8681-0075 / 6984	7501-8526	duviesalamat@mvsmbank.com
Antipolo	Makaya Bldg. Circumferencial San Roque Antipolo City	Sylvia Legaspi	Branch Manager	8696-0897		sylvialegaspi@mvsmbank.com
Binangonan	Sta. Ursula St Binangonan Rizal	Michelle L. Cervo	Branch Manager	8652-2780		michellecervo@mvsmbank.com
Concepcion	713 Jp Rizal Cor. Farmers Ave. Concepcion I Marikina City	April M. Manuel	Branch Manager	8645-5143	7369-6544	aprilmanuel@mvsmbank.com
San Mateo-Branch-lite	#76 Gen. Luna St., Ampid 1, San Mateo, Rizal	Diane Mae C. Somido	Cashier	8713-3531		branchlitesanmateo@mvsmbank.com
Pasig Mkt	Market Ave. Ninoy Aquino Park Pasig Public Market Pasig City	Arnel S. Malicdem	Branch Manager	8642-7760	8642-7056	arnelmalicdem@mvsmbank.com
Pasig Branch-lite	Lot 8B 37 C. Raymundo Ave., Caniogan, Pasig City	Jean B. Mariano	Marketing Staff	8723-6884		pasigblu@mvsmbank.com
Pililia	Manila East Road Bagumbayan Pililia Rizal	Nancy R. Raquion	Branch Manager	8654-4441		nancyraquion@mvsmbank.com
Rosario	Ortigas Ave. Ext. Rosario Pasig City	Cynthia Gersalina	Branch Manager	8656-1174		cynthiagersalina@mvsmbank.com
San Mateo	97 Gen. Luna St. Guitnang Bayan San Mateo	Nympha M. Buenaventura	Branch Manager	8948-0675	8470-3528	chiquibuenaventura@mvsmbank.com
Tanay	Ft Katapusan St. Plaza Aldea Tanay Rizal	Flora C. Ferido	Branch Manager	8654-5312		flora.ferido@mvsmbank.com
Taytay	341 Rizal Ave. San Juan Taytay Rizal	Gener Intal	Branch Manager	8658-7139		Gener.intal@mvsmbank.com

HEAD OFFICE

MVSM BANK INC.
Head office & its branches

CLUSTER 1

ANTIPOLO BRANCH

BINANGONAN BRANCH

PILILLA BRANCH

TANAY BRANCH

TAYTAY BRANCH

CLUSTER 2

SAN MATEO BRANCH

CONCEPCION BRANCH

SAN MATEO BRANCH-LITE UNIT

PASIG BRANCH

PASIG BRANCH-LITE UNIT

ROSARIO BRANCH

Audited Financial Statements
(AFS) with Auditor's Opinion

The AFS for the calendar or fiscal year including the opinion of the external auditor of the bank should be presented in full in the Annual Report as attached.

a) Summary of financial performance of the business segment for the year; Contribution of business segment to the total revenue of the bank during the year; Significant developments during the year including major activities (see attached AFS 2023 by PKF R.S. Bernaldo & Associates)

b) Future plans/targets/objectives

1) Future Plans

For 2024, several activities are planned which include the website improvement, loan and deposit promos, improvement of bank appearance, and to continue promoting Bank products and services thru leafleting, infomercials, community sponsorships and other marketing collaterals.

Top on the list of plans for 2024 is to move to the Phase 2 of the digital roadmap and to upgrade the existing FB Page and website.

Continuous review of manuals and validation of the Bank's systems and policies will be done all throughout 2024.

Additional Employee Benefits is currently being reviewed (salary increase Employees, etc.)

Plan to open the third (3rd) branch lite units (BLUs) located in Teresa, Rizal. And possibly an application for a branch lite license in Teresa, Rizal. This is in keeping with the government's thrust of expanded Financial Inclusion.

Plans for 2024 are as follows:

a. Increase profit @ 25%;
b. Increase market share by 5% increase on deposits;
c. Increase ROPA disposal by 5% increase on revenue from sale;
d. Improve digital transformation;
e. Increase risk mitigation measures;
f. Update our website more regularly;
g. Prepare risk analysis of new products/processes;
h. Thorough compliance with BIR and BSP regulations and assessments; and
i. Maximize excess liquidity.

The financial performance for 2023 vis-à-vis the target is as follows:

	Deposit Liabilities	Loans*	Income
Actual Balance for 12/31/22	1,264,667,881	593,342,422	17,896,887
Target for 2023	63,233,394	59,334,242	18,967,732
Sub-total Target for 4th Qtr.-Nov	1,327,901,275	652,676,665	18,967,732
Actual Bal. as of December 31, 2023	1,178,956,518	709,609,299	20,418,172
Excess/(Deficiency)	-148,944,756	56,932,635	1,450,439

2) Target & Objectives for the next five (5) year

Particulars	2023	2024	2025	2026	2027	2028
Deposits	1,178,956,518.44	1,237,904,344.36	1,299,799,561.58	1,364,789,539.66	1,433,029,016.64	1,504,680,467.47
Loans	709,606,990.72	819,725,681.83	1,091,874,608.20	1,171,306,026.77	1,288,436,629.45	1,417,280,292.39
Income	20,418,171.83	25,323,937.68	29,032,085.70	32,786,902.11	36,533,976.64	40,702,597.05

II. COMPLIANCE WITH APPENDIX 63C OF THE MORBDISCLOSURES IN THE ANNUAL REPORTS AND PUBLISHED STATEMENT OF CONDITION

A. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

MVSM BANK(A RURAL BANK SINCE 1953) INC.
Name of Bank

COMPUTATION OF THE RISK-BASED CAPITAL ADEQUNCY RATIO COVERING COMBINED CREDIT MARKET AND OPERATIONAL RISKS

SIMPLIFIED SOLO BASIS

As of December 31, 2023

CONTROL PROOFLIST

PART I. CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO (in absolute amounts)

Item	Nature of Item	Account Code	Amount	
A.	**Calculation of Qualifying Capital**			
A.1	Tier 1 Capital (Sum of A.2 and A.3)	395000000000710000		205,229,230.11
A.2	Common Equity Tier 1 Capital	395000000000711000		185,232,430.11
A.3	Additional Tier 1 Capital	395000000000712000		19,996,800.00
A.4	Tier 2 Capital	395000000000720000		27,590,717.79
A.5	Total Qualifying Capital *[Sum of A.1 and A.4]*	395000000000700000		232,819,947.90
B.	**Calculation of Risk-Weighted Assets**			
B.1	Total Credit Risk-Weighted Assets [*B.1(d) minus B.1(h)*]	195931000000000000		1,026,105,641.56
(a)	Risk-Weighted On-Balance Sheet Assets	100000000000811000	1,026,105,641.56	
(b)	Risk-Weighted Off-Balance Sheet Assets	400000000000812000	0.00	
(c)	Counterparty Risk-Weighted Assets	110100000000813000		
(d)	Total Credit Risk Weighted Assets [*Sum of B.1(a), B.1(b) and B.1(c)*]	100000000000810000	1,026,105,641.56	
(e)	Deductions from Total Credit Risk-Weighted Assets			
(f)	General Loan Loss Provision (in excess of the amount permitted to be included in Tier 2 capital) *[Part III.1, Item G.(1)(b) minus Part II, Item B.1 (7)]*	175150500000000000		
(g)	Unbooked allowance for credit losses and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board	365052000000711000	0.00	
(h)	Total Deductions [*Sum of B.1(f) and B.1(g)*]	165000000000810000	0.00	
B.2	Total Operational Risk-Weighted Assets	195000000000830000		124,334,292.16
B.3	Total Market Risk-Weighted Assets	100000000000820000		
B.4	Total Risk-Weighted Assets [*Sum of B.1, B.2 and B.3*]	100000000000800000		1,150,439,933.72
C.	**Minimum Capital Ratios**			
C.1	RISK-BASED CAPITAL ADEQUACY RATIO [A.5 divided by B.4 multiply by 100]	990000000000000000		**20.24**
C.2	Common Equity Tier 1 Ratio [A.2 divided by B.4 multiply by 100]	990000000000000001		**16.10**
C.3	Capital Conservation Buffer [C.2 minus 6]	990000000000000002		**15.13**
C.4	Tier 1 Capital Ratio [A.1 divided by B.4 multiply by 100]	990000000000000003		**17.84**

I hereby certify that all matters set forth in this Computation of the Risk-Based Capital Adequacy Ratio Covering Combined Credit Market and Operational Risks are true and correct to the best of my knowledge and belief.

GENE M. SANGALANG
Authorized Signatory

PART I. CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO (in absolute amounts)

PART I. CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO (in absolute amounts)				
Item	Nature of Item	Account Code	Amount	
A.	**Calculation of Qualifying Capital**			
A.1	Tier 1 Capital (Sum of A.2 and A.3)	395000000000710000		205,229,230.11
A.2	Common Equity Tier 1 Capital	395000000000711000		185,232,430.11
A.3	Additional Tier 1 Capital	395000000000712000		19,996,800.00
A.4	Tier 2 Capital	395000000000720000		27,590,717.79
A.5	Total Qualifying Capital *[Sum of A.1 and A.4]*	395000000000700000		232,819,947.90
B.	**Calculation of Risk-Weighted Assets**			
B.1	Total Credit Risk-Weighted Assets [*B.1(d) minus B.1(h)*]	195931000000000000		1,026,105,641.56
(a)	Risk-Weighted On-Balance Sheet Assets	100000000000811000	1,026,105,641.56	
(b)	Risk-Weighted Off-Balance Sheet Assets	400000000000812000	0.00	
(c)	Counterparty Risk-Weighted Assets	110100000000813000		
(d)	Total Credit Risk Weighted Assets [*Sum of B.1(a), B.1(b) and B.1(c)*]	100000000000810000	1,026,105,641.56	
(e)	Deductions from Total Credit Risk-Weighted Assets			
(f)	General Loan Loss Provision (in excess of the amount permitted to be included in Tier 2 capital) [*Part III.1, Item G.(1)(b) minus Part II, Item B.1 (7)*]	175150500000000000		
(g)	Unbooked allowance for credit losses and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board	365052000000711000	0.00	
(h)	Total Deductions [*Sum of B.1(f) and B.1(g)*]	165000000000810000	0.00	
B.2	Total Operational Risk-Weighted Assets	195000000000830000		124,334,292.16
B.3	Total Market Risk-Weighted Assets	100000000000820000		
B.4	Total Risk-Weighted Assets [*Sum of B.1, B.2 and B.3*]	100000000000800000		1,150,439,933.72
C.	**Minimum Capital Ratios**			
C.1	RISK-BASED CAPITAL ADEQUACY RATIO [A.5 divided by B.4 multiply by 100]	990000000000000000		**20.24**
C.2	Common Equity Tier 1 Ratio [A.2 divided by B.4 multiply by 100]	990000000000000001		**16.10**
C.3	Capital Conservation Buffer [C.2 minus 6]	990000000000000002		**15.13**
C.4	Tier 1 Capital Ratio [A.1 divided by B.4 multiply by 100]	990000000000000003		**17.84**

PART II. QUALIFYING CAPITAL (in absolute amounts)

PART II. QUALIFYING CAPITAL (in absolute amounts)

Item	Nature of Item	Account Code	Seq. No.	Amount	
A.	**Tier 1 Capital**				
A.1	**Common Equity Tier 1 (CET1) Capital [Sum of A.1(1) to A.1 (8)]**	300000000000711000			182,105,928.20
(1)	Paid up common stock	305050000000000000		116,132,700.00	
(2)	Deposit for common stock subscription	305250500000000000			
(3)	Common stock dividends distributable	315120000000000000			
(4)	Additional paid-in capital	305200000000000000			
(5)	Retained earnings [1/]	315000000000000000		16,300,317.50	
(6)	Undivided profits	315150000000000000		20,418,171.83	
(7)	Other Comprehensive Income [Sum of A.7(i) to A.7(iv)]	320000000000000000		29,254,738.87	
(i)	Net Unrealized Gains/(Losses) on Financial Assets at FVOCI	320080000000000000		38,475,000.00	
(ii)	Cumulative foreign currency translation	320150000000000000			
(iii)	Net Gains/(Losses) on Fair Value Adjustment of Hedging Instruments in a cash flow hedge	320101000000000000			
(iv)	Others	320900000000000000		(9,220,261.13)	
	(a)	320900000000000000	1	(9,220,261.13)	
(8)	Non-controlling interest in subsidiary bank which are less than wholly-owned (for consolidated basis)	325150000000000000			
A.2	**Deductions from CET1 Capital [Sum of A.2(1) to A.2(17)]**	365050000000711000			(3,126,501.91)
(1)	Common stock treasury shares	365050500000711000			
(2)	Unbooked allowance for credit losses and other capital adjustments based on the latest ROE as approved by the Monetary Board	365052000000711000			
(3)	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses [11/]	365052500000711000		68,638.21	
(4)	Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, net of allowance for credit losses	365053000000711000			
(5)	Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral – net of allowance for credit losses; Provided, that in the case of government-owned or – controlled banks, the adjustment shall be exclusive of unsecured peso-denominated credit accommodations to the Republic of the Philippines and/or its agencies/ departments/bureaus	365053300000711000			
(6)	Deferred tax asset, net [2/]	365053500000711000		(4,132,908.00)	
(7)	Goodwill, net [3/]	365054000000711000			
(8)	Other intangible assets, net [4/]	195502500000711000		937,767.88	
(9)	Defined benefit pension fund assets (liabilities) [5/]	155100003500711000			
(10)	Investments in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for solo basis) [6/]	365200500000700000			
(11)	Investments in equity of unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) [6/]	365201500000700000			
(12)	Significant non-controlling investments (10%-50% of voting stock) in RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for both solo and consolidated bases) [6/]	365203001005711000			
(13)	Significant non-controlling investments (10%-50% of voting stock) in unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) [6/]	365203501005711000			
(14)	Non-controlling investments (below 10% of voting stock) in RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for both solo and consolidated bases) [6/]	365203001500711000			
(15)	Non-controlling investments (below 10% of voting stock) in unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) [6/]	365203501500711000			
(16)	Other equity investments in non-financial allied undertakings	145251500000000000			
(17)	Reciprocal investments in common stock of other banks/enterprises, after deducting related goodwill, if any (for both solo and consolidated bases)	365205000500711000			
A.3	**Total CET1 Capital [A.1 less A.2]**	395000000000711000			185,232,430.11
A.4	**Additional Tier 1 (AT1) Capital [Sum of A.4(1) to A.4(5)]**	305050000000712000			19,996,800.00
(1)	Instruments issued by the bank that are eligible as AT1 capital [Sum of A.4(1)(i) and A.4(1)(ii)]	305000000000000000		19,996,800.00	
(i)	Paid up perpetual and non-cumulative preferred stock	305100000000000000		19,996,800.00	
(ii)	Other AT1 capital instruments	305130000000000000		0.00	
	(a)	305130000000000000	1		
(2)	Deposit for perpetual and non-cumulative preferred stock subscription	305251000000000000			
(3)	Deposit for other AT1 capital instruments subscription	305253000000000000			
(4)	Additional paid-in capital	305201000000000000			
(5)	Non-controlling interest in subsidiary financial allied undertakings which are less than wholly-owned	325151000000000000			
A.5	**Deductions from AT1 Capital [Sum of A.5(1) to A.5(8)]**	365050000000712000			0.00
(1)	Perpetual and non-cumulative preferred stock and other AT1 instruments treasury shares including shares that the bank could be contractually obliged to purchase	365051000000712000			
(2)	Investments in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for solo basis) [7/]	145250501000000000			
(3)	Investments in equity of unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) [7/]	145251000505000000			
(4)	Significant non-controlling investments (10%-50% of voting stock) in RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for both solo and consolidated bases) [7/]	365203001010712000			
(5)	Significant non-controlling investments (10%-50% of voting stock) in unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) [7/]	365203501010712000			
(6)	Non-controlling investments (below 10% of voting stock) in RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for both solo and consolidated bases) [7/]	365203001505712000			
(7)	Non-controlling investments (below 10% of voting stock) in unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) [7/]	365203501500712000			
(8)	Reciprocal investments in AT1 capital instruments of other banks / enterprises, after deducting related goodwill, if any (for both solo and consolidated bases)	365205000500712000			
A.6	**Total AT1 Capital [A.4 less A.5]**	395000000000712000			19,996,800.00
A.7	**Total Tier 1 Capital [Sum of A.3 and A.6]**	300000000000710000			205,229,230.11
B.	**Tier 2 Capital**				
B.1	**Tier 2 Capital [Sum of B.1(1) to B.1(8)]**	300000000000720000			27,590,717.79
(1)	Instruments issued by the bank that are eligible as Tier 2 capital [8/] [Sum of B.1(1)(i) and B.1(1)(iv)]	305000000000720000		0.00	
	(i) Paid-up perpetual and cumulative preferred stock	305150000000000000			

	(ii) Paid-up limited life redeemable preferred stock with the replacement requirement upon redemption	220250500000000000			
	(iii) Paid-up limited life redeemable preferred stock without the replacement requirement upon redemption (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)	220251000000000000			
	(iv) Other Tier 2 capital instruments	305150000000720000		0.00	
	(a) Hybrid capital instruments[8/]	305150500000720000			
	(b) Unsecured subordinated debt[8/]	305151000000720000			
	(c) Others	305151500000720000		0.00	
	(a)	305151500000720000	1		
(2)	Deposit for perpetual and cumulative preferred stock subscription	305251500000000000			
(3)	Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption	305252000000000000			
(4)	Deposit for limited life redeemable preferred stock subscription without the replacement requirement upon redemption	305252500000000000			
(5)	Deposit for other Tier 2 capital subscription	305253500000000000			
(6)	Appraisal increment reserve – bank premises, as authorized by the Monetary Board	325050000000000000		21,493,367.40	
(7)	General loan loss provision [limited to 1.00% of total credit risk-weighted assets computed per Part I, Item B.1(d)] [9/]	175151000000000000		6,097,350.39	
(8)	Non-controlling interest in subsidiary financial allied undertakings which are less than wholly-owned	325151500000000000			
B.2	**Deductions from Tier 2 Capital [Sum of B.2(1) to B.2(10)]**	365050000000720000			0.00
(1)	Tier 2 capital instruments treasury shares	325101500000000000			
(2)	Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption	365101500000721000			
(3)	Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor)	365151000000722000			
(4)	Investments in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for solo basis) [10/]	145250501500000000			
(5)	Investments in equity of unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) [10/]	145251000515000000			
(6)	Significant non-controlling investments (10%-50% of voting stock) in RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for both solo and consolidated bases) [10/]	365203001015720000			
(7)	Significant non-controlling investments (10%-50% of voting stock) in unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) [10/]	365203501000720000			
(8)	Non-controlling investments (below 10% of voting stock) in RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for both solo and consolidated bases) [10/]	365203001510720000			
(9)	Non-controlling investments (below 10% of voting stock) in unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) [10/]	365203501500720000			
(10)	Reciprocal investments in Tier 2 capital of other banks/enterprises, after deducting related goodwill, if any (for both solo and consolidated bases)	365205000500720000			
B.3	**Total Tier 2 Capital *[B.1 less B.2]***	396000000000720001		27,590,717.79	
C.	**Total Qualifying Capital [Sum of A.7 and B.3]**	395000000000700000			232,819,947.90

1/ This shall exclude the portion appropriated for general provision.

2/ Net of any allowance for impairment and associated deferred tax liability: provided that the conditions to offset under PAS 12 are met and that any excess of deferred tax liability over deferred tax assets (i.e., net deferred tax liability) shall not be added to CET1 capital.

3/ Net of allowance for impairment and any associated deferred tax liability which would be extinguished upon impairment or derecognition including those relating to unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks (on solo basis) and unconsolidated non-financial allied undertakings (on solo and consolidated bases).

4/ Net of any allowance for impairment and any associated deferred tax liability which would be extinguished upon impairment or derecognition.

5/ The adjustment pertains to the defined benefit asset or liability that is recognized in the balance sheet. Such that CET1 cannot be increased by derecognizing the liabilities, in the same manner, any asset recognized in the balance sheet should be deducted from CET1 capital.

6/ For equity investments in financial entities, total investments include common equity exposures in both the banking and trading book. In case the instrument of the entity in which the bank has invested does not meet the criteria for CET1 capital of the bank, the capital is to be considered common shares and thus deducted from CET1.

7/ For equity investments in financial entities, total investments include other capital instruments in both the banking and trading book. In case the instrument of the entity in which the bank has invested does not meet the criteria for AT1 capital of the bank, the capital is to be considered common shares and thus deducted from CET1.

8/ This shall include existing issuances of Hybrid Tier 1 capital and Unsecured Subordinated Debt by covered banks. Such instruments shall be recognized as part of Tier 2 capital until maturity/pre-termination/redemption. In the case of Hybrid Tier 1 capital, no new issuances shall be allowed upon maturity of such capital instruments.

Must meet the following:
i. criteria for inclusion in Tier 2 capital as set out in Annex C of Appendix 63b; and
ii. Required loss absorbency feature at point of non-viability to ensure that the capital instrument absorbs losses and minimize public sector support as set out in Annex F of appendix 63b: Provided, that the applicable trigger point for stand-alone thrift, rural and cooperative banks is set at CET1 ratio of seven percent (7%) or below as determined by Bangko Sentral.

9/ This shall include the General Provision appropriated in the Retained Earnings.

10/ For equity investments in financial entities, total investments include other capital instruments in both the banking and trading book. In case the instrument of the entity in which the bank has invested does not meet the criteria for Tier 2 capital of the bank, the capital is to be considered common shares and thus deducted from CET1.

11/ In the case of government-owned or -controlled banks, the adjustment shall not include the unsecured peso-denominated credit accommodations to the Philippine National Government.

PART III.1. RISK-WEIGHTED ON-BALANCE SHEET ASSETS (in absolute amounts)

PART III.1. RISK-WEIGHTED ON-BALANCE SHEET ASSETS (in absolute amounts)

Item	Nature of Item	Account Code	Net Carrying Amount [1/] (1)	Risk Weight (in %) (2)	Risk Weighted Amount (3) = (1) * (2)
A.	0% Risk Weight –				
(1)	Cash on hand (including foreign currency notes and coins on hand acceptable as international reserves)	105050000000000000	17,390,789.30		
(2)	Peso denominated claims on or portions of claims guaranteed by or collateralized by peso-denominated securities issued by the Philippine National Government and the BSP				
	(a) Due from BSP	105150000500000000	14,012,677.34		
	(b) Debt Securities designated at fair value through profit or loss	118001000500000000			
	(c) Other financial assets mandatorily measured at fair value through profit or loss	119000000000000000			
	(d) Financial assets at Fair Value Through Other Comprehensive Income (FVOCI)	121000000000000000			
	(e) Debt Securities at Amortized Cost	124000000000000000	283,857,434.75		
	(f) Loans and receivables	195401200500000000			
	(g) Loans and receivables arising from repurchase agreements, certificates of assignment/participation with recourse, and securities lending and borrowing transactions	195402000500000000			
	(h) Others	199000000000000000			
(3)	Claims on or portions of claims guaranteed by or collateralized by securities issued by central governments and central banks of foreign countries with the highest credit quality	108100500000000000			
(4)	Claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks with the highest credit quality	108101000000000000			
(5)	Loans to the extent covered by hold-out on, or assignment of, deposits/deposit substitutes maintained with the lending bank	140150507500600000	4,530,476.07		
(6)	Loans or acceptances under letters of credit (LCs) to the extent covered by margin deposits	140150508000600000			
(7)	Peso denominated special time deposit loans to the extent guaranteed by Industrial Guarantee and Loan Fund (IGLF)	140150508500600000			
(8)	Peso denominated real estate mortgage loans to the extent guaranteed by the Philippine Guarantee Corporation	140150510500600000			
(9)	Peso denominated loans to the extent guaranteed by the Philippine Guarantee Corporation (Philguarantee)	140150509500600000			
(10)	Loans to the extent guaranteed by the Agricultural Credit Policy Council (ACPC)	140150513000600000			
(11)	Loans to small farmer and fisherfolk to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008, prior to the transfer of the administration of the AGFP to the Philguarantee.	140150512500600000			
(12)	Sub-total *[Sum of A (1) to A (11)]*	100000000000811100	319,791,377.46	0	0.00
B.	20% Risk Weight -				
(1)	Checks and other cash items (including foreign currency checks and other cash items denominated in currencies acceptable as international reserves)	105100000000000000	921,498.38		
(2)	Claims on or portions of claims guaranteed by or collateralized by securities issued by local government units (LGUs) with the highest credit quality	108101500000000000			
(3)	Claims on or portions of claims guaranteed by or collateralized by securities issued by non-central government public sector entities of foreign countries with the highest credit quality	108102000000000000			
(4)	Claims on or portions of claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality	108102500000000000			
(5)	Claims on or portions of claims guaranteed by foreign incorporated banks with the highest credit quality	108103000000000000			
(6)	Interbank call loans	195401000500000000			
(7)	Claims on or portion of claims guaranteed by Philippine incorporated private enterprises, including claims on government corporations and MSME not qualifying under highly diversified loan portfolio definition, with the highest credit quality	108103500000000000			
(8)	Claims on or portion of claims guaranteed by foreign incorporated private enterprises, including claims on government corporations, with the highest credit quality	108104000000000000			
(9)	Loans to MSMEs, which are performing, to the extent guaranteed by a Credit Surety Fund (CSF) Cooperative, subject to the conditions prescribed under Appendix 63c of the MORB	140150520000600000			
(10)	Sub-total [Sum of B (1) to B (9)]	100000000000811200	921,498.38	20	184,299.68
C.	50% Risk Weight -				
(1)	Loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower, which are not classified as non-performing	140150004000100000	318,729,038.62		
(2)	Foreign currency denominated claims on or portions of claims guaranteed by or collateralized by foreign currency denominated securities issued by the Philippine National Government & the BSP.	108104501500000000			
(3)	Sub-total [Sum of C(1) to C(2)]	100000000000811300	318,729,038.62	50	159,364,519.31
D.	75% Risk Weight –				
(1)	Qualified micro, small and medium enterprise (MSME) loan portfolio	140180500000000000	301,043,924.18	75	225,782,943.14
E.	100% Risk Weight –				
(1)	Non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower.	140150004000000000	21,863,241.18	100	21,863,241.18
F.	150% Risk Weight –				

(1)		All non-performing loans (except non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower), all non-performing sales contract receivables, and all non-performing debt securities	142001000000000000	37,956,011.15		
(2)		Real and other properties acquired and Non-current assets held for sale, net of allowance for losses	195501201500000000	177,035,626.95		
(3)		Sub-total [Sum of F(1) to F(2)]	100000000000811400	214,991,638.10	150	322,487,457.15
G.		100 % Risk Weight –				
(1)		Other Assets				
	(a)	Total Assets per Balance Sheet	100000000000000000	1,464,540,046.73		
	(b)	General Loan Loss Provisions per Balance Sheet [3/]	175150000000000000	6,097,350.39		
	(c)	Total Exposures excluding Other Assets [Sum of A(12), B(10), C(3), D(1), E(1), and F(3)]	100050000000811000	1,177,340,717.92		
	(d)	Sub-total *[Sum of G(1)(a) and G(1)(b) minus G(1)(c)]*	195000500000811000	293,296,679.20		
(2)		Deductions from Other Assets				
	(a)	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses [4/] *[Refer to Part II Item A.2.3]*	165500500000811000	68,638.21		
	(b)	Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, net of allowance for credit losses; Provided, that in the case of government-owned or – controlled banks, the adjustment shall be exclusive of unsecured peso-denominated credit accommodations to the Republic of the Philippines and/or its agencies/ departments/bureaus [Refer to Part II Item A.2.4]	165501000000811000	0.00		
	(c)	Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral - net of allowance for credit losses [Refer to Part II Item A.2.5]	165507500000811000	0.00		
	(d)	Deferred tax asset, net of deferred tax liability [Refer to Part II Item A.2.6]	165501500000811000	(4,132,908.00)		
	(e)	Goodwill, net of allowance for losses [Refer to Part II Item A.2.7]	165502000000811000	0.00		
	(f)	Other intangible assets, net [Refer to Part II Item A.2.8]	195502500000711000	937,767.88		
	(g)	Defined benefit pension fund assets (liabilities) [Refer to Part II Item A.2.9]	155100003500000000	0.00		
	(h)	Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption [Refer to Part II Item B.2.2]	165502500000811000	0.00		
	(i)	Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor) [Refer to Part II Item B.2.3]	165503000000811000	0.00		
	(j)	Investments in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for solo basis) [Refer to Part II Items A.2.10, A.5.2, and B.2.4]	165503500000811000	0.00		
	(k)	Investments in equity of unconsolidated subsidiary non-financial allied undertakings, after deducting related goodwill, if any (for both solo and consolidated bases) [Refer to Part II Items A.2.11, A.5.3, and B.2.5]	165504500000811000	0.00		
	(l)	Significant non-controlling investments (10%-50% of voting stock) in RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for both solo and consolidated bases) [Refer to Part II Items A.2.12, A.5.4, and B.2.6]	365203001000711000	0.00		
	(m)	Significant non-controlling investments (10%-50% of voting stock) in unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) [Refer to Part II Items A.2.13, A.5.5, and B.2.7]	365203501000711000	0.00		
	(n)	Non-controlling investments (below 10% of voting stock) in RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for both solo and consolidated bases) [Refer to Part II Items A.2.14, A.5.6, and B.2.8]	365203001500711000	0.00		
	(o)	Non-controlling investments (below 10% of voting stock) in unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) [Refer to Part II Items A.2.15, A.5.7, and B.2.9]	365203501500711000	0.00		
	(p)	Other equity investments in non-financial allied undertakings [Refer to Part II Item A.2.16]	145251500000000000	0.00		
	(q)	Reciprocal investments in common stock, AT1 capital or T2 capital of other banks/enterprises, after deducting related goodwill, if any (for both solo and consolidated bases) [Refer to Part II Items A.2.17, A.5.8, and B.2.10]	365205000500711000	0.00		
	(r)	Financial Assets held for trading	165506500000811000			
	(s)	Derivatives with Positive Fair Value Held for Hedging	165507000000811000			
	(t)	Total Deductions *[Sum of G(2)(a) to G(2)(s)]*	165500000000811000	(3,126,501.91)		
(3)		Net Other Assets *[G (1)(d) minus G (2)(t)]*	195000000000811000	296,423,181.11	100	296,423,181.11
H.		TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS [Sum of A(12), B(10), C(3), D(1), E(1), F(3) and G(3)]	100000000000811000			1,026,105,641.56

1/ This shall refer to the outstanding balance of the account inclusive of unamortized discount/(premium) and accumulated market gains/(losses).

2/ Executive Order No. 58 dated 23 July 2018 has approved the merged of Home Guaranty Corporation (HGC) and Philippine Export-Imprt Credit Agency (Philexim) and renamed Philexim to Philippine Guarantee Corporation (Philguarantee)

3/ GLLP is equivalent to 1 percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations.

4/ In the case of government-owned or -controlled banks, the adjustment shall not include the unsecured peso-denominated credit accommodations to the Philippine National Government.

PART III.2. RISK-WEIGHTED ON-BALANCE SHEET ASSETS (in absolute amounts)

PART III.2 RISK-WEIGHTED OFF-BALANCE SHEET ASSETS (in absolute amounts)

Item	Nature of item	Account Code	Seq. No.	Notional Principal Amount	Credit Conv. Factor (CCF)	Credit Equivalent Amount	Distribution of Credit Equivalent Amount According to Risk Weights 1/				Total
							0%	20%	75%	100%	
				(1)	(2)	(3) =(1)*(2)	(4)	(5)	(6)	(7)	(Sum of 4 to 7)
A.	Direct credit substitutes (.e.g. general guarantees of indebtedness and acceptances)										
(1)	Guarantees issued other than shipside bonds/airway bills	405000000000000000			100%	0.00					
(2)	Financial standby letters of credit - domestic (net of margin deposit)	410050500000000000			100%	0.00					
(3)	Financial standby letters of credit - foreign (net of margin deposit)	410051000000000000			100%	0.00					
(4)	Sub-total *[Sum of A (1) to A (3)]*	403000000000000000		0.00		0.00	0.00	0.00		0.00	
(5)	Risk-weighted amount *[A(4) x applicable risk weight]*	403000000000812000					0.00	0.00		0.00	0.00
B.	Transaction-related contingencies (e.g., performance bonds, bid bonds, warrantees and stand-by LCs related to particular transactions)										
(1)	Performance Standby LCs – domestic (net of margin deposit) established as a guarantee that a business transaction will be performed	410100500000000000			50%	0.00					
(2)	Performance Standby LCs – foreign (net of margin deposit) established as a guarantee that a business transaction will be performed	410101000000000000			50%	0.00					
(3)	Other Commitments e.g. formal standby facilities and credit lines with maturity of more than one year	425200000000000000			50%	0.00					
(4)	Sub-total *[Sum of B (1) to B (3)]*	408000000000000000		0.00		0.00	0.00	0.00		0.00	
(5)	Risk-weighted amount *[B (4) x applicable risk weight]*	408000000000812000					0.00	0.00		0.00	0.00
C.	Trade-related contingencies arising from movement of goods (e.g., documentary credits collateralized by the underlying shipments) and commitments with an original maturity of up to one (1) year										
(1)	Trade related guarantees – shipside bonds/airway bills	420100000000000000			20%	0.00					
(2)	Trade related guarantees – LCs confirmed	420050000000000000			20%	0.00					
(3)	Sight LCs - domestic (net of margin deposit)	415050500000000000			20%	0.00					
(4)	Sight LCs - foreign (net of margin deposit)	415051000000000000			20%	0.00					
(5)	Usance LCs - domestic (net of margin deposit)	415100500000000000			20%	0.00					
(6)	Usance LCs - foreign (net of margin deposit)	415101000000000000			20%	0.00					
(7)	Deferred LCs - domestic (net of margin deposit)	415150500000000000			20%	0.00					
(8)	Deferred LCs - foreign (net of margin deposit)	415151000000000000			20%	0.00					
(9)	Revolving LCs - domestic (net of margin deposit) arising from movement of goods and/or services	415200500000000000			20%	0.00					
(10)	Revolving LCs - foreign (net of margin deposit) arising from movement of goods and/or services	415201000000000000			20%	0.00					
(11)	Other commitments with an original maturity of up to 1 year	425250000000000000			20%	0.00					

Item		Description	Account Code									
	(12)	Sub-total *[Sum of C (1) to C (11)]*	412000000000000000		0.00		0.00	0.00	0.00	0.00	0.00	
	(13)	Risk-weighted amount *[C (12) x applicable risk weight]*	412000000000812000					0.00	0.00	0.00	0.00	0.00
D.		Other commitments which can be unconditionally cancelled at any time by the bank without prior notice										
	(1)	Credit card lines	425150000000000000			0%						
E.		Items not involving credit risk										
	(1)	Late deposits/payments received	495050000000000000			0%						
	(2)	Inward bills for collection	495100000000000000			0%						
	(3)	Outward bills for collection	495150000000000000			0%						
	(4)	Travelers' checks unsold	495200000000000000			0%						
	(5)	Trust department accounts	495250000000000000			0%						
	(6)	Items held for safekeeping/custodianship	495260000000000000			0%						
	(7)	Items held as collaterals	495350000000000000			0%						
	(8)	Deficiency claims receivable	495400000000000000			0%						
	(9)	Others (Please specify)	495950000000000000		0.00	0%						
		-	495950000000000000	1		0%						
						0%						
	(10)	Sub-total [Sum of E (1) to E (9)]	495000000000000000		0.00	-						
F.		Total Notional Principal Amount *[Sum of A (4), B (4), C (12), D (1) , E (10)]*	400000000000000000		0.00							
G.		TOTAL RISK-WEIGHTED OFF-BALANCE SHEET ASSETS *[Sum of A (5), B (5) and C (13)]*	400000000000812000									0.00

1/ Assign the appropriate risk weight according to the obligor, or if relevant, the qualified guarantor or the nature of the collateral.

PART IV. OPERATIONAL RISK-WEIGHTED ASSETS (in absolute amounts)

PART IV. OPERATIONAL RISK-WEIGHTED ASSETS (in absolute amounts)

Item		Nature of Item	Account Code	Gross Income			
				Year 3	Year 2	Last Year	Average 1/
A.		Net interest income					
	A.1	Interest Income	505050000000000000	73,274,475.73	76,157,567.12	82,455,242.67	
	A.2	Interest Expense	605100000000000000	11,287,507.17	10,033,396.88	7,045,913.29	
	A.3	Sub-total *(A.1 minus A.2)*	505000000000000000	61,986,968.56	66,124,170.24	75,409,329.38	
B.		Other non-interest income					
	B.1	Dividend Income	510050000000000000				
	B.2	Fees and Commissions Income	510100000000000000	5,201,140.44	5,654,177.72	6,608,807.20	
	B.3	Net Gain/loss on Financial Assets and Liabilities Held for Trading	510150000000000000				
	B.4	Net Profit/Loss on Foreign Exchange	510250000000000000				
	B.5	Net Gain/Loss on Fair Value Adjustment in Hedge Accounting	510350000000000000				
	B.6	Other Income	510450000000000000	7,025,324.12	11,840,512.54	8,818,154.11	
	B.7	Sub-total (Sum of B.1 to B.6)	510000000000000000	12,226,464.56	17,494,690.26	15,426,961.31	
C.		Gross Income *(Sum of A.3 and B.7)*	500000000000000000	74,213,433.12	83,618,860.50	90,836,290.69	82,889,528.10
D.		Capital Charge *[C (average) multiply by Capital Charge Factor of 12%]*	990000000000830000				9,946,743.37
E.		Adjusted Capital Charge *(D multiply by 125%)*	996000000000830000				12,433,429.22
F.		TOTAL OPERATIONAL RISK-WEIGHTED ASSETS *(E multiply by 10)*	195000000000830000				124,334,292.16

1/ When calculating the average, include only the positive annual gross income; hence, figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator.

MVSM Bank
a Rural Bank Since 1953

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **MVSM BANK (A RURAL BANK SINCE 1953) INC.** (the "Bank") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2023 and 2022, in accordance with the 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 going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless Management 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.

R.S. Bernaldo & Associates and **Punongbayan & Araullo**, 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 reports to the stockholders, have expressed their opinions on the fairness of presentation upon completion of such audits.

RUFINO SB. JAVIER
Chairman of the Board

BRIGIDA REGINA J. DE LUNA
President and CEO

ANGELINA RAIDA A. SALAMAT
Treasurer

Signed this 12th day of April 2024.

PKF
R.S. Bernaldo & Associates

R.S. Bernaldo & Associates
18/F Cityland Condominium 10
Tower 1, 156 H.V. dela Costa St.,
Ayala North, Makati City,
Philippines 1226

+632 8812-1718 to 22
info@pkfrsbernaldo.com
www.pkfrsbernaldo.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders
MVSM BANK (A RURAL BANK SINCE 1953) INC.
389 J.P. Rizal St.
Sto. Niño, Marikina City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **MVSM BANK (A RURAL BANK SINCE 1953) INC.** (the "Bank"), which comprise the statement of financial condition as at December 31, 2023 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to financial statement, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Matter

The financial statements of **MVSM BANK (A RURAL BANK SINCE 1953) INC.** for the year ended December 31, 2022 were audited by another auditor who expressed an unqualified opinion on those statements on April 13, 2023.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatement 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required by BSP Circular No. 1074 and Revenue Regulations No. 15-2010 and 19-2011 in Notes 37, 38, and 39, respectively, to the financial statements, is presented for purposes of filing with Banko Sentral ng Pilipinas and Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the Management of **MVSM BANK (A RURAL BANK SINCE 1953) 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.

R.S. BERNALDO & ASSOCIATES
BOA/PRC No. 0300
Valid until May 28, 2024
BSP Group B Accredited
Accreditation No. 0300-BSP
Valid until 2026 audit period
BIR Accreditation No. 08-007679-000-2023
Valid from January 31, 2023 until January 30, 2026
IC Group A Accredited
Accreditation No. 0300-IC
Valid until 2026 audit period

ANTHONY D. PAÑO
Partner
CPA Certificate No.141730
BSP Group C Accredited
Accreditation No. 141730-BSP
Valid until 2025 audit period
BIR Accreditation No. 08-007679-000-2022
Valid from March 30, 2022 until March 29, 2025
Tax Identification No. 415-160-393
PTR No. 10081203
Issued on January 9, 2024 at Makati City

April 12, 2024

MVSM BANK (A RURAL BANK SINCE 1953), INC.

STATEMENT OF FINANCIAL CONDITION

December 31, 2023

(With Comparative Figures as of December 31, 2022)

(In Philippine Peso)

	NOTES	2023	2022
A S S E T S			
Cash and other cash items	6	**18,312,288**	27,376,179
Due from Bangko Sentral ng Pilipinas	6	**14,012,677**	26,271,043
Due from other banks	6	**107,462,457**	138,211,707
Other financial assets at amortized costs	7	**283,857,435**	428,731,277
Loans and other receivables – net	8	**715,588,169**	604,830,937
Financial asset at FVOCI	9	**75,000,000**	58,000,000
Bank premises, furniture, fixtures, and equipment – net	10	**60,283,812**	46,744,115
Right-of-use assets – net	11	**11,448,041**	10,976,594
Investment properties – net	12	**177,035,627**	178,774,547
Other assets	13	**6,220,105**	4,594,023
TOTAL ASSETS		**1,469,220,611**	1,524,510,422
LIABILITIES AND STOCKHOLDERS' EQUITY			
L I A B I L I T I E S			
Deposit liabilities	15	**1,178,956,518**	1,264,785,938
Income tax payable		**4,017,392**	2,615,774
Lease liabilities	16	**12,619,301**	11,529,106
Retirement liabilities – net	25	**13,315,265**	3,878,352
Deferred taxes – net	29	**6,067,357**	4,132,908
Other liabilities	17	**25,774,993**	26,667,828
TOTAL LIABILITIES		**1,240,750,826**	1,313,609,906
S T O C K H O L D E R S' E Q U I T Y			
Capital Stock	19	**136,129,500**	136,129,500
Surplus Reserves	20	**23,497,516**	23,497,516
Revaluation Reserves	21	**35,399,686**	29,254,739
Surplus Free		**33,443,083**	22,018,761
TOTAL STOCKHOLDERS' EQUITY		**228,469,785**	210,900,516
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**1,469,220,611**	1,524,510,422

(See Notes to Financial Statements)

MVSM BANK (A RURAL BANK SINCE 1953), INC.

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended December 31, 2023

(With Comparative Figures for the Year Ended December 31, 2022)

(In Philippine Peso)

	NOTES	2023	2022
INTEREST INCOME			
Loans and receivables	8	**73,174,089**	67,469,641
Other financial assets at amortized cost	7	**11,987,466**	14,327,826
Due from other banks	6	**166,567**	657,776
		85,328,122	82,455,243
INTEREST EXPENSE			
Deposit liabilities	15	**5,886,211**	7,045,913
Lease liabilities	16	**415,370**	1,205,043
		6,301,581	8,250,956
NET INTEREST INCOME		**79,026,541**	74,204,287
PROVISION FOR EXPECTED CREDIT AND IMPAIRMENT LOSSES	14	**2,852,081**	1,976,254
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		**76,174,460**	72,228,033
OTHER INCOME – net	23	**24,042,625**	18,147,204
TOTAL OPERATING INCOME		**100,217,085**	90,375,237
OPERATING EXPENSES	24	**73,416,507**	65,157,541
INCOME BEFORE TAX		**26,800,578**	25,217,696
INCOME TAX EXPENSE	28	**7,208,486**	5,982,196
NET INCOME		**19,592,092**	19,235,500
OTHER COMPREHENSIVE INCOME (LOSS)			
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS:			
Net unrealized fair value gains on investment securities at FA at FVOCI	9	**12,750,000**	10,125,000
Net remeasurement of post-employment defined benefit plan - net	25	**(6,605,053)**	(648,085)
TOTAL COMPREHENSIVE INCOME		**25,737,039**	28,712,415

(See Notes to Financial Statements)

MVSM BANK (A RURAL BANK SINCE 1953), INC.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31, 2023

(With Comparative Figures for the Year Ended December 31, 2022)

(In Philippine Peso)

		Capital Stock		Surplus Reserves		Revaluation Reserves			
	Notes	Common Stock	Preferred Stock	Appraisal Increment	Regulatory	Net Unrealized Fair Value Gains on FA at FVOCI	Net Remeasurement on Retirement Benefit Obligation	Surplus Free	Total
Balance, January 1, 2022		116,132,700	19,996,800	21,493,367	2,004,149	28,350,000	(8,572,176)	15,034,916	**194,439,756**
Cash dividends declaration	22							(12,251,655)	**(12,251,655)**
Profit								19,235,500	**19,235,500**
Other comprehensive income	9,25					10,125,000	(648,085)		**9,476,915**
Balance, December 31, 2022	19,20,21	**116,132,700**	**19,996,800**	**21,493,367**	**2,004,149**	**38,475,000**	**(9,220,261)**	**22,018,761**	**210,900,516**
Cash dividends declaration	22							(8,167,770)	**(8,167,770)**
Profit								19,592,092	**19,592,092**
Other comprehensive income	9,25					12,750,000	(6,605,053)		**6,144,947**
Balance, December 31, 2023	19,20,21	**116,132,700**	**19,996,800**	**21,493,367**	**2,004,149**	**51,225,000**	**(15,825,314)**	**33,443,083**	**228,469,785**

(See Notes to Financial Statements)

MVSM BANK (A RURAL BANK SINCE 1953), INC.
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2023
(With Comparative Figures for the Year Ended December 31, 2022)
(In Philippine Peso)

	NOTES	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		**26,800,578**	25,217,696
Adjustments for:			
Depreciation and amortization	10,11,12,27	**6,754,026**	7,219,881
Provision for impairment and credit losses	8,14	**2,852,081**	1,976,254
Retirement expense	24,25	**826,011**	558,999
Interest expense on lease liabilities	16	**415,370**	1,205,043
Write-off of ROU asset	11,24	**246,000**	-
Gain on sale of bank premises, furniture, fixture and equipment	10,23	**(934,579)**	-
Gain on sale of investment proprerties	23	**(2,936,372)**	(2,966,243)
Interest income	6,7	**(12,154,033)**	(14,985,602)
Operating cash flows before changes in working capital		**21,869,082**	18,226,028
Decrease (Increase) in operating assets:			
Loans and receivables		**(110,193,848)**	(50,369,690)
Other assets		**(1,752,319)**	(44,387)
Increase (Decrease) in operating liabilities:			
Deposit liabilities		**(85,829,420)**	104,110,455
Other liabilities		**(892,836)**	(815,189)
Net cash generared from (used in) operations		**(176,799,341)**	71,107,217
Interest received	6,7	**12,154,033**	14,985,602
Retirement benefits paid	25	**(195,835)**	-
Income tax paid		**(5,920,735)**	(7,457,398)
Net cash from (used in) operating activities		**(170,761,878)**	78,635,421
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from matured other financial assets at amortized cost	7	**313,319,311**	240,912,601
Proceeds from cash sale of investment properties	12	**574,200**	6,581,880
Proceeds from disposal of bank premises, furnitures and equipment	10	**956,655**	-
Acquisition of bank premises, furniture, fixtures and equipment	10	**(17,941,804)**	(5,111,856)
Additional investments on other financial assets at amortized cost	7	**(168,445,469)**	(239,013,047)
Net cash from (used in) investing activities		**128,462,893**	3,369,578
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid on lease liabilities	16	**(415,370)**	(1,205,043)
Final tax paid on dividends	22	**(816,777)**	(1,225,166)
Payment of lease liabilities	16	**(1,189,383)**	(2,847,758)
Dividends paid	22	**(7,350,993)**	(11,026,490)
Net cash used in financing activities		**(9,772,523)**	(16,304,456)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(52,071,508)**	65,700,543
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**191,858,930**	126,158,386
CASH AND CASH EQUIVALENTS AT END OF YEAR		**139,787,422**	191,858,929

(See Notes to Financial Statements)

MVSM BANK (A RURAL BANK SINCE 1953) INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2023
(With Comparative Figures as of and for the Year Ended December 31, 2022)

1. CORPORATE INFORMATION

The MVSM Bank (A Rural Bank since 1953), Inc. (the "Bank"), was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on June 17, 1953. The Bank is the pioneer bank in the areas of San Mateo, Rizal and Marikina. The Bank's products and services are traditional deposits such as savings deposits, certificate of time deposits and demand deposits. The Bank also offers various types of loans such as commercial, agricultural, and personal loans. As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). As such, the Bank is required to comply with banking rules and regulations such as those relating to the maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of Republic Act (R.A.) No. 8791, *The General Banking Law of 2000* , and other related banking laws.

As of December 31, 2023, the Bank has ten (10) branches including its main branch, which are strategically located in the National Capital Region and Region IV -A.

The Bank's registered office, which is also its principal place of business, is located at 389 J.P. Rizal St., Sto. Niño, Marikina City.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Financial and Sustainability Reporting Standards Council (FSRSC) approved the issuance of new and revised Philippine Financial Reporting Standards (PFRS). The term "PFRS" in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations issued by the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the FSRSC and adopted by SEC.

These new and revised PFRS prescribe new accounting recognition, measurement and disclosure requirements applicable to the Bank. When applicable, the adoption of the new standards was made in accordance with their transitional provisions, otherwise the adoption is accounted for as change in accounting policy under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* .

2.01 New and Revised PFRSs Applied with No Material Effect on the Financial Statements

The following new and revised PFRSs have been adopted in these financial statements. The application of these new and revised PFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The definition of accounting estimates has been amended as follows: accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

  The amendment also clarifies the following:

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

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure Initiative – Accounting Policies*

  The amendments to PAS 1 are the following:

  - ➢ an entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
  - ➢ several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;

  The amendments also clarify the following:

  - ➢ accounting policy information may be material because of its nature, even if the related amounts are immaterial;
  - ➢ accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and
  - ➢ if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

In addition, PFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to PAS 1.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

- Amendment to PAS 12, *Deferred Tax Related to Assets and Liabilities arising from a Single Transaction*

  The amendments introduce an exception to the initial recognition exemption (IRE) in PAS 12. Additional exclusions have been added to the IRE, detailed in paragraphs 15(b)(iii) and 24(c) for deferred tax liabilities and assets respectively. The effects of these amendments essentially mean that the IRE is not available for transactions which involve the recognition of both an asset and liability – which in turn leads to equal and opposite temporary differences – such that deferred taxes are calculated and booked for both temporary differences, both at initial recognition and subsequently. Applying this exception, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

  The initial recognition exemption was initially included within PAS 12 to prevent a lack of reporting transparency for transactions which are not business combinations and, at the time of the transaction, do not affect either accounting or taxable profits. Under this exemption, deferred tax assets/liabilities would neither be recognized at initial recognition of the underlying asset/liability, nor subsequently.

  The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, the amendments also apply to taxable and deductible temporary differences associated with right-of-use assets and lease liabilities, and decommissioning obligations and corresponding amounts recognized as assets at the beginning of the earliest comparative period presented.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

- Amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*

  The amendments introduce a mandatory temporary exception to the accounting for 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 amendments are effective for annual reporting periods beginning on or after January 1, 2023.

2.02 New and Revised PFRSs in Issue but Not Yet Effective

The Bank will adopt the following standards and interpretations enumerated below when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PFRS, to have significant impact on the financial statements.

2.02.01 Standard Adopted by FSRSC and Approved by the Board of Accountancy (BOA)

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

  The amendments to PAS 1 are the following:

  - clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
  - clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
  - make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

  The amendments defer the effective date of the January 2020 Classification of Liabilities as Current or Non-current (Amendments to PAS 1) to annual reporting periods beginning on or after January 1, 2024, with early application permitted.

- Amendments to PAS 7 and PFRS 7, *Supplier Finance Arrangements*

  The amendments introduce new disclosure requirements to enhance the transparency and, thus, the usefulness of the information provided by entities about supplier finance arrangements.

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

- Amendments to PAS 1, *Non-current Liabilities with Covenants*

  The amendments clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current. Additional disclosures are required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.

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

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

  The amendments clarify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

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

- PFRS 17, *Insurance Contracts*

  PFRS 17 sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. It requires an entity that issues insurance contracts to report them on the balance sheet as the total of the fulfilment cash flows and the contractual service margin. It requires an entity to provide information that distinguishes two ways insurers earn profits from insurance contracts: the insurance service result and the financial result. It requ ires an entity to report as insurance revenue the amount charged for insurance coverage when it is earned, rather than when the entity receives premium. It requires that insurance revenue to exclude the deposits that represent the investment of the policyh older, rather than an amount charged for services. Similarly, it requires the entity to present deposit repayments as settlements of liabilities rather than as insurance expense.

  PFRS 17 is effective for annual periods beginning on or after January 1, 2025. Early application is permitted for entities that apply PFRS 9, *Financial Instruments and PFRS 15, Revenue from Contracts with Customers* on or before the date of initial application of PFRS 17.

  An entity shall apply PFRS 17 retrospectively unless impracticable, except that an entity is not required to present the quantitative information required by paragraph 28(f) of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and an entity shall not apply the option in paragraph B115 for periods before the date of initial application of PFRS 17. If, and only if, it is impracticable, an entity shall apply either the modified retrospective approach or the fair value approach.

- Amendments to PFRS 17, *Insurance Contracts*

  The amendments cover the following areas:

  - Insurance acquisition cash flows for renewals outside the contract boundary;
  - Reinsurance contracts held—onerous underlying insurance contracts;
  - Reinsurance contracts held —underlying insurance contracts with direct participation features; and
  - Recognition of the contractual service margin in profit or loss in the general model.

  The amendments are effective to annual reporting periods beginning on or after January 1, 2025.

- Amendment to PFRS 17, *Initial Application of PFRS 17 and PFRS 9 —Comparative Information*

  The amendment is a transition option relating to comparative information about financial assets presented on initial application of PFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

PFRS 17 incorporating the amendment is effective for annual reporting periods beginning on or after January 1, 2025.

2.02.02 Deferred

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments clarify the treatment of the sale or contribution of assets between an investor and its associate and joint venture. This requires an investor in its financial statements to recognize in full the gains and losses arising from the sale or contribution of assets that constitute a business while recognize partial gains and losses if the assets do not constitute a business (i.e. up to the extent only of unrelated investor share).

  On January 13, 2016, the FSRSC decided to postpone the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

3.01 Statement of Compliance

The financial statements have been prepared in conformity with the Philippine Financial Reporting Standards (PFRS). The financial statements have been prepared under the historical cost convention, except for properties carried at revalued amounts and financial instruments that are carried either at fair value or at amortized cost.

3.02 Functional and Presentation 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”).

The Bank chose to present its financial statements using its functional currency.

3.03 Order of Liquidity Presentation

Assets and liabilities of the Bank are presented in decreasing order of liquidity.

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 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value the Bank takes into consideration the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement assumes that the transaction to sell the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. In addition, it assumes that the transaction takes place either: (a) in the principal market; or (b) in the absence of a principal market, in the most advantageous market.

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

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

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

4.02 Financial Assets

4.02.01 Initial Recognition and Measurement

The Bank shall recognize a financial asset in its statement of financial condition when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank shall measure a financial asset at its fair value plus, in the case of financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

4.02.02 Classification

➢ Financial Asset at Amortized Cost

A financial asset shall be 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.

The Bank's financial assets measured at amortized cost include due from BSP, due from other banks, loans and other receivables, and other financial assets at amortized cost.

a. Due from BSP and Other Banks

Due from BSP refers to the balance of the deposit account maintained with the BSP. Due from other banks pertain to cash deposits held at call with banks that are subject to insignificant risk of change in value. This shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

b. Loans and Other Receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes financial assets such as direct loans to customers.

Loans and and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

c. Other Financial Assets at Amortized Cost

This pertains to treasury notes and retail treasury bonds which are fully guaranteed by the Philippine government. The contractual cash flow characteristics of this financial asset are solely for payments of principal and interest on the principal amount outstanding. While, the Bank's business model is to hold this financial asset in order to collect contractual cash flows.

This is subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

➢ Financial Asset at Fair Value through Other Comprehensive Income (FVOCI)

The Bank makes an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in FVOCI.

Financial assets at FVOCI include unquoted equity securities pertain to golf club shares.

4.02.03 Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments.

4.02.04 Impairment

The Bank measures expected losses of a financial instrument in a way that reflects:

- An unbiased and probability -weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable assumption that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

The Bank adopted the following approaches in accounting for impairment.

➢ General Approach

The Bank applies general approach to due from BSP, due from other banks, other financial assets at amortized cost, and other receivables.. At each reporting date, the Bank measures the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. However, if the credit risk has not increased significantly, the Bank measures the loss allowance equal to 12 -month expected credit losses.

The Bank compares the risk of default occurring as at the reporting date with the risk of default occurring as at the date of initial recognition and consider the macro-economic factors such as GDP, unemployment and inflation rates, interest rate, the performance of the counterparties' industry , and the available financial information of each counterparty to determine whether there is a significant increase in credit risk or not since initial recognition.

The Bank determines that there has been a significant increase in credit risk when there is a significant decline in the factors.

The Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition because the financial instrument is determined to have low credit risk at the reporting date.

The Bank does not apply the 30 days past due rebuttable presumption because the Bank determines that there have been no significant increases in credit risk before contractual payments are more than 30 days past due.

If the Bank has measured the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date, that the credit quality improves (i.e. there is no longer a significant increase in credit risk since initial recognition), then the Bank shall measure the loss allowance at an amount equal to 12 -month expected credit losses at the current reporting date.

The Bank recognizes in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date.

The Bank performs the assessment of significant increases in credit risk on collective basis for financial assets with collateral otherwise it is assessed on an individual basis.

The Bank does not apply the 90 days past due rebuttable presumption since based on the Bank's historical experience and aging schedules, past due amounts are still collectible even if over 90 days.

The Bank determines that a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the counterparty;
- A breach of contract, such as a default or past due event;
- The lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; and
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization.

➢ Simplified Approach

The Bank always measures the loss allowance at an amount equal to lifetime expected credit losses for loans receivables. The Bank determines that a customer is in default when it is already past due for 365 days and beyond. This is consistent with their historical experience with their customers.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the counterparty;
- A breach of contract, such as a default or past due event;
- The lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; and
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization.

Probability of Default (PD)

PD for the Bank's loan portfolio will be estimated through transition matrices using the borrower's days past due (DPD) information and movement. To have more granular and accurate estimation of PD, a borrower's monthly delinquency bucket movement will be traced, instead of annual delinquency bucket movement.

The delinquency bucket movement of the accounts must be properly traced in order to estimate the changes of a borrower to default. Account-level roll rates, also known as Markov chain model, use transition matrices to measure the movements in delinquency buckets in order to estimate PD.

Account-level roll rates predict the future outcome based on present state. The Markov transition or migration matrix is a square matrix that describe the probabilities of moving from one state to another in a dynamic system.

PFRS 9 requires that the ECL shall take into account all reasonable and supportable information such as historical experience, current conditions and forward-looking information. Management estimate overlay which includes quantitative overlay outside of the primary model and qualitative adjustments based on management's evaluation of macro-level and portfolio-level factors shall be used by the Company to adjust the historical data to reflect current expectations.

Macro-economic factors for overlay calculation may include any of the following:

1. Interest rate (short-term/average)
2. Foreign exchange rates (US dollar: Philippine Peso)
3. Unemployment
4. Inflation rate
5. GDP growth rate
6. Consumer Price Index

A grouping of exposures for collective assessment is performed on the basis of shared credit risk characteristics, such that risk exposures within a group are homogeneous. The grouping of exposures is as follows:

1. MSME
2. Housing

Loss Given Default (LGD)

LGD focuses on the written-off accounts, recoveries and cost incurred. For cost incurred during the recovery/workout period, these include, but not limited to, collection fees, legal fees and administrative costs. Net recovered amount (recoveries collected less cost incurred) shall be discounted in order to reflect the time value of money.

Appraised values of collaterals are determined by the Bank's internal and external appraisers acceptable by the BSP.

Cost to sell or recover pertains to the cost directly attributable to recover cash flows from defaulted loans.

Turn-around time is set at 5.7 years, 3 years and 0.5 years for loans with real estate mortgage, chattel mortgage and guarantee, respectively, as this represents the average estimated time that the Bank can resell/recover from such kind of collaterals after repossession at market price or appraised value as defined above.

Exposure at Default (EAD)

EAD pertains to the outstanding balance of the exposure including related accrued interests. EAD is extracted from the Company's loan management system (LMS). From the LMS, the monthly contractual cash flows from reporting date until maximum period, are plotted to estimate and reflect the current and future month-end exposures the Bank expects to collect.

4.03 Bank Premises, Furniture, Fixtures, and Equipment

Bank premises, furniture, fixtures and equipment are initially measured at cost. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use. Subsequent to initial recognition, bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation.

Subsequent expenditures relating to an item of bank premises, furniture, fixtures and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Bank. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Building held for use in the production or supply of goods or services, or for administrative purposes, is stated in the statement of financial condition at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional appraisers, less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of land is credited to revaluation surplus, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such revalued assets is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation surplus relating to a previous revaluation of those assets.

Land is not depreciated. Depreciation is computed on the straight-line method, based on the estimated useful lives of the assets as follows:

Building	20 years
Transportation equipment	5 years
Furniture, fixtures, and equipment	3 years
IT equipment	3 years

Leasehold rights and improvements are depreciated over the shorter between the improvements' useful life of 20 years or the lease term.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

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

4.04 Investment Properties

Investment properties pertain to Real and Other Properties Acquired (ROPA). Settlement of loans through foreclosure or dation in payment shall be booked under the ROPA account as follows:

(i) Upon entry of judgment in case of judicial foreclosure;

(ii) Upon execution of the sheriff's certificate of sale in case of extrajudicial foreclosure; and,

(iii) Upon notarization of the deed of dacion in case of dation in payment (dacion en pago)

If the carrying amount of ROPA exceeds ₱5,000,000, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

ROPA is recognized as investment property when the asset is yet to be classified as asset held-for-sale. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any impairment in value.

An investment properties acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment properties acquired is measured at the carrying amount of asset given up.

Expenditures incurred after the investment properties has been put into operations, such as repairs and maintenance costs, are normally charged against operations in the period in which the costs are incurred.

Allowance for impairment losses is recognized for any anticipated losses based on appraisal reports, current negotiations and programs to dispose these properties and the provisioning requirement of the BSP. The BSP requires banks to set up allowance for impairment losses based primarily on the holding period of the assets. Land, building and other non-financial assets not held for sale are impaired in accordance with Note 4.05.

Investment properties are derecognized when they have either been disposed of or are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment properties are recognized in the statement of comprehensive income under 'gain or loss on sale of assets' in the year of retirement or disposal.

4.05 Impairment of Assets

At each reporting date, the Bank assesses whether there is any indication that any assets other than deferred tax assets, assets arising from employee benefits, and financial assets that are within the scope of PFRS 9, Financial Instruments, may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.06 Financial Liabilities

4.06.01 Initial Recognition and Measurement

The Bank recognizes a financial liability in its statement of financial condition when, and only when, the Bank becomes party to the contractual provisions of the instrument.

At initial recognition, the Bank measures a financial liability at its fair value minus transaction costs that are directly attributable to the acquisition or issue of the liability.

4.06.02 Classification

The Bank classifies all financial liabilities as subsequently measured at amortized, except for:

- financial liabilities at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts;
- commitments to provide a loan at a below -market interest rate; and
- contingent consideration recognized by an acquirer in a business combination.

The Bank's financial liabilities measured at amortized cost include deposit liabilities, bills payable, lease liabilities and other liabilities (except for withholding tax payable. and SSS, medicar and employee premium).

The Bank has no financial liabilities measured at fair value through profit or loss in both years.

4.06.03 Derecognition

The Bank removes a financial liability (or part of a financial liability) from its statement of financial condition when, and only when, it is extinguished (i.e. when the obligation in the contract is discharged or cancelled or expired).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non -cash assets transferred or liabilities assumed, is recognized in profit or loss.

4.07 Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Ordinary shares are classified as equity.

4.08 Employee Benefits

4.08.01 Short-term 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, employee benefits, directors' fee, and other benefits.

4.08.02 Post-employment Benefits

The Bank has funded and non -contributory retirement plan. This benefit defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the Projected Unit Credit Method (PUCM) which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Post-employment expenses include current service cost, and net interest on defined benefit asset/liability. Remeasurements which include cumulative actuarial gains and losses are recognized directly in other comprehensive income and is also presented under equity in the statement of financial condition.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The asset recognized in the statement of financial condition in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by using the PUCM. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of market rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The asset that resulted from this calculation is a result of over funding or when an actuarial gain arises. It is recognized since it is a resource which the Bank controls and is available in the form of reduction in future contributions.

The funding policy is to contribute an amount based on the actuarial valuation report which is carried out at each reporting period.

4.09 Provisions and Contingent Liabilities

4.09.01 Provisions

Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is m easured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

4.09.02 Contingent Liabilities

Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one (1) or more uncertain future events not wholly within the control of the Bank.

Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

4.09 Revenue Recognition

The Bank recognizes revenue when (or as) the Bank satisfies a performance obligation by transferring a promised good or service (i.e. asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

4.09.01 Interest Income and Expense

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

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

4.09.02 Rental Income

The Bank's policy for recognition of revenue from operating leases is described in Note 4.11.

4.09.03 Performance Obligations Satisfied at a Point in Time

If a performance obligation is not satisfied over time, the Bank satisfies the performance obligation at a point in time. The Bank considers indicators of the transfer of control, which include, but are not limited to, the following:

- The Bank has a present right to payment for the asset.
- The customer has legal title to the asset.
- The Bank has transferred physical possession of the asset.

- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

Sale of goods encompasses the sale of investment properties.

4.09.04 Performance Obligations Satisfied Over Time

The Bank recognizes revenue over time, this is when the customers simultaneously receive and consume the benefits provided by the Bank's performance as the Bank performs.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Income from service charges are related to acquisition and origination of loan. These are amortized and recognized as income over the term of the loan.

4.10 Expense Recognition

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

The Bank recognizes expenses in the statement of comprehensive income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

4.11 Leases

4.11.01 The Bank as Lessee

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 a consideration. To apply this definition the Bank assesses whether the contract meets three key evaluations, which are whether:

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

Right-of-Use (ROU) Assets

At the commencement date, the Bank measures the ROU assets at cost, which comprises of:

- initial measurement of the lease liabilities;
- any lease payments made at or before the commencement date, less any incentives received;
- any initial direct costs incurred by the Bank; and

- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Bank incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

ROU assets are subsequently measured at cost less accumulated depreciation and accumulated impairment losses. The Bank depreciates the ROU assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the ROU assets or the end of the lease term. The Bank also assesses the ROU assets for impairment when such indicators exist.

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

ROU assets are presented as a separate line item on the statement of financial condition.

Lease Liabilities

At the commencement date, the Bank measures the lease liabilities 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 if not, the Bank uses the incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liabilities comprise the following payments for the right to use the underlying assets during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under the residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Bank measures the lease liabilities by:

- increasing the carrying amount to reflect interest on the lease liabilities;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect in-substance fixed lease payments.

The Bank recognizes the amount of remeasurement of the lease liabilities as an adjustment to the ROU assets. However, if the carrying amount of the ROU assets are reduced to zero and there is further reduction in the measurement of the lease liabilities, the Bank recognizes any remaining amount of the remeasurement in profit or loss.

Lease liabilities are presented as a separate line item on the statement of financial condition.

4.11.02 The Bank as Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

4.12 Related Parties and Related Party Transactions

A related party is a person or entity that is related to the Bank that is preparing its financial statements. A person or a close member of that person's family is related to Bank if that person has control or joint control over the Bank, has significant influence over the Bank, or is a member of the key management personnel of the Bank or of a parent of the Bank.

An entity is related to the Bank if any of the following conditions applies:

- The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank. If the Bank is itself such a plan, the sponsoring employers are also related to the Bank.
- The entity is controlled or jointly controlled by a person identified above.
- A person identified above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- Management entity providing key management personnel services to a reporting entity.

Close members of the family of a person are those family members, who may be expected to influence, or be influenced by, that person in their dealings with the Bank and include that person's children and spouse or domestic partner; children of that person's spouse or domestic partner; and dependents of that person or that person's spouse or domestic partner.

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:

- On-and off-balance sheet credit exposures and claims and write-offs;
- Investments and/or subscriptions for debt/equity issuances;
- Consulting, professional, agency and other service arrangements/contracts;

- Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
- Construction arrangements/contracts;
- Lease arrangements/contracts;
- Trading and derivative transactions;
- Borrowings, commitments, fund transfers and guarantees;
- Sale, purchase or supply of any goods or materials; and
- 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 Taxation

Income tax expense represents the sum of the current and deferred taxes.

4.12.01 Current Tax

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

4.12.02 Deferred Taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, carry forward of unused tax credits from excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carry-over (NOLCO), to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction that affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets arising from deductible temporary differences are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

4.12.03 Current and Deferred Taxes for the Period

Current and deferred taxes are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss, whether in other comprehensive income or directly in equity, in which case the tax is also recognized outside profit or loss.

4.12.04 Final Tax on Dividends

When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. Such an amount paid or payable to taxation authorities is charged to equity as part of the dividends.

4.13 Changes in Accounting Policies

The adoption of the new and revised standards and as disclosed in Note 2.01 was made in accordance with their transitional provisions, otherwise the adoption is accounted for as change in accounting policy under PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Bank's accounting policies, which are described in Note 4, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. 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.

5.01 Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations that Management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

5.01.01 Revenue Recognition

The Bank's revenue recognition policies require Management to make use of estimates and assumptions that may affect the reported amounts of revenue. The Bank's revenue is recognized when earned, except interest on loans receivables on past due accounts which are recognized when a collection is actually made as provided under existing BSP MORB.

5.01.02 Distinction between Investment Properties, Assets Held for Sale and Bank Premises, Furniture, Fixtures and Equipment

The Bank determines whether a property qualifies as investment properties and assets held for sale. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process. Foreclosed land and building will be classified as asset held for sale should the Management had an active program to locate buyers and sell the properties within one (1) year, otherwise, it is classified as investment properties.

As of December 31, 2023 and 2022, certain foreclosed land and building amounting to ₱177,035,627 and ₱178,774,547, respectively, were classified as investment properties, as disclosed in Note 12, since Management had no active program to locate buyers and sell the properties within one (1) year.

Accordingly, the building is classified under bank premises, furniture, fixtures and equipment since it is primarily used in the bank's operations. Carrying amounts of the building amounted to ₱19,863,055 and ₱8,396,894 as of December 31, 2023 and 2022, respectively, as disclosed in Note 10. The Bank recognized rental income amounting to ₱1,178,368 and ₱1,041,720, in 2023 and 2022, respectively, on portion of bank premises leased out under operating leases, as disclosed in Notes 10, 23 and 27.

5.01.03 Assessment of Contractual Terms of a Financial Asset

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

Management assessed that the contractual terms of its financial assets (excluding financial assets at fair value through other comprehensive income) are solely payments of principal and interest, and consistent with the basic lending arrangement. As of December 31, 2023 and 2022, the Bank's financial assets measured at amortized cost amounted to ₱1,120,920,738 and ₱1,198,044,964, respectively, as disclosed in Note 32.04.

5.01.04 Assessment of Timing of Satisfaction of Performance Obligations

The Bank satisfies a performance obligation by transferring control of a promised service to the customer, which could occur over time or at a point in time.

Performance obligation from sale of investment properties is satisfied at a point in time, this is when there is a present right to payment for the asset, the customer has legal title to the asset, transfer physical possession of the asset, the significant risks and rewards of ownership of the asset, and acceptance by the same of the customer.

In 2023 and 2022, gain on sale of investment properties amounted to ₱2,936,372 and ₱2,966,243, respectively, as disclosed in Notes 8, 12 and 23.

Management assessed that the performance obligation is satisfied over time for service charges and fees, this is when the customer simultaneously receive and consumes the benefits provided by the Bank's performance. In 2023 and 2022, income from service charges amounted to ₱9,390,396 and ₱6,608,807, respectively, as disclosed in Note 23.

5.01.05 Assessment of the Transaction Price and the Amounts Allocated to Performance Obligations

A performance obligation is a vendor's promise to transfer a service that is 'distinct' from other services identified in the contract.

Management assessed that the allocation of transaction price is not applicable since performance obligation when rendering of services is separate from sale of investment properties.

5.01.06 Assessment of Provision and Contingency

Judgment is exercised by Management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 4.09.

5.01.07 Determining whether or not a Contract Contains a Lease

In both years, Management assessed that various leasing arrangements disclosed in Note 27, qualified as leases since the contracts contain identified assets, the Bank has the right to obtain substantially all of the economic benefits, and the Bank has the right to direct the use of the identified assets throughout the period of use.

5.01.08 Determining whether or not it is Reasonably Certain that an Extension Option will be Exercised and Termination Option will not be Exercised

Lease term is the non-cancellable period for which the Bank has the right to use an underlying asset including optional periods when the Bank is reasonably certain to exercise an option to extend (or not to terminate) a lease. The Bank considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option when determining the lease term and the enforceability of the option. The option to extend the lease term should be included in the lease term if it is reasonably certain that the lessee will exercise the option and the option is enforceable. The Bank is required to reassess the option when significant events or changes in circumstances occur that are within the control of the lessee.

For lease contracts, as disclosed in Note 27, Management assessed that it is reasonably certain that it will exercise the extension option and not exercise the termination option and that the extension option is enforceable.

5.01.09 Assessment of Classification of Lease

The Bank determines whether a lease qualifies as an operating lease. In making its judgments, the Bank considers whether the risk and reward of the leased property will be transferred to the lessee. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

The Bank entered into a lease agreement as a lessor. The Management determined that it retains all significant risks and rewards of ownership of this property which are accounted for under operating lease. The rental income earned by the Bank from its properties, all of which is leased out under operating leases, amounted to ₱1,178,368 and ₱1,041,720 in 2023 and 2022, respectively, as disclosed in Notes 10, 23 and 27.

5.02 Key Sources of Estimation Uncertainties

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting periods that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5.02.01 Reviewing Residual Values, Useful Lives and Depreciation Method of Bank Premises, Furniture, Fixtures and Equipment

The residual values, useful lives and depreciation method of the Bank's premises, furniture, fixtures and equipment are reviewed at least annually, and adjusted prospectively. The useful lives of the Bank's assets are estimated based on the period over which the assets are expected to be available for use. In determining the useful life of an asset, the Bank considers the expected usage, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output and legal or other limits on the use of the Bank's assets. In addition, the estimation of the useful lives is based on Bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of Bank's premises, furniture and fixtures would increase the recognized operating expenses and decrease assets. The Bank uses a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits.

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

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 assets' future economic benefits. As of December 31, 2023 and 2022, the aggregate carrying amounts of the depreciable bank premises, furniture, fixtures and equipment amounted to ₱28,091,355 and ₱14,551,658, respectively, as disclosed in Note 10.

5.02.02 Asset Impairment

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

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

In both years, Management believes that there is no indication of impairment on its bank premises, furniture, fixtures and equipment, right-of-use assets and other assets, except for land presented under 'investment properties' on which the Bank had recognized allowance for impairment amounting to ₱816,056 as of December 31, 2023 and 2022, as disclosed in Note 12 and 14.

As of December 31, 2023 and 2022, the aggregate carrying amounts of the aforementioned assets amounted to ₱254,987,585 and ₱241,089,279, respectively, as disclosed in Notes 10, 11, 12 and 13.

5.02.03 Estimating Allowance for Expected Credit Losses

The Bank measured expected credit losses of its financial assets using an unbiased and probability-weighted amount and reasonable and supportable assumption that is available without undue cost or effort. The Bank assessed the past events, current conditions, and forecast economic conditions that may affect the counterparties' capacity to settle its obligation. The Bank assessed the external credit ratings, industry performance, and available financial information of counterparties.

The Bank determined that counterparty banks have low credit risk. Hence, the probability of default is immaterial. In both years, no provision for expected credit loss was recognized for from due from BSP, due from other banks, other financial assets at amortized cost.

The Bank uses performance of macro-economic factors and economy's outlook to assess the expected credit losses on its loans and other receivables.

The carrying value of loans and other receivables are ₱715,588,169 and ₱604,830,937, net of allowance for expected credit losses on loans and and receivables amounting to ₱29,544,045 and ₱29,743,461 as of December 31, 2023 and 2022, respectively, as disclosed in Note 8.

In 2023 and 2022, the Bank recognized provisions for expected credit losses on loans and other receivables amounting to ₱2,852,081 and ₱1,976,254, respectively, as disclosed in Note 9 and 14.

As of December 31, 2023 and 2022, the Bank's financial assets measured at amortized cost amounted to ₱1,120,920,738 and ₱1,198,044,964 respectively, as disclosed in Note 32.04.

5.02.04 Deferred Tax Assets

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

In both years, Management believes that the Bank will be able to generate future taxable income against which the balances of deferred tax assets on effect of PFRS 16, allowance for expected credit losses and net retirement liabilities will be applied.

As of December 31, 2023 and 2022, the deferred tax assets recognized by the Bank amounted to ₱11,007,643 and ₱8,692,092, respectively, as disclosed in Note 25.

5.02.05 Post-employment Benefits

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

For the years ended December 31, 2023 and 2022, retirement benefits expense amounted to ₱826,011 and ₱558,999, respectively, as disclosed in Notes 24 and 25.

In 2023 and 2022, the Bank recognized remeasurement losses in OCI, net of related tax, amounting to ₱6,605,053 and ₱648,085, respectively, as disclosed in Note 25.02

Accordingly, retirement benefits obligation amounted to ₱13,315,265 and ₱3,878,352, as of December 31, 2023 and 2022, respectively, as disclosed in Note 25.02.

As of December 31, 2023 and 2022, remeasurement losses on retirement liabilities, net of related tax amounted to ₱15,825,314 and ₱9,220,261, respectively, as disclosed in Note 25.02.

5.02.06 Estimating Fair Value of Land and Building presented under Bank Premises, Furniture, Fixtures and Equipment and Investment Properties

The fair value of land and building have been arrived on the basis of a valuation carried out with reference to Philippine Valuation Standards. The valuation was determined by using Sales Comparison Approach.

As of December 31, 2023 and 2022, the fair value of land presented under bank premises, furniture, fixtures and equipment amounted to ₱32,192,457, as disclosed in Notes 10 and 31.02.

In 2023 and 2022, the aggregate fair value of land and building classified under investment properties amounted to ₱288,619,697 and ₱288,245,454, respectively, as disclosed Notes 12 and 31.02.

5.02.07 Estimating the Appropriate Discount Rate to Use

The Bank measures the lease liabilities 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 if not, the Bank uses the incremental borrowing rate.

Management used its incremental borrowing rate of 5.97% and 2.95% in 2023 and 2022, respectively, to measure the present value of its lease liabilities since the implicit rate was not readily available.

6. CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, cash and cash equivalents include cash and other cash items, due from BSP, and due from other banks.

Cash and cash equivalents at the end of the reporting periods, as shown in the statements of cash flows, can be reconciled to the related items in the statement of financial condition as follows:

		2023		2022
Cash and other cash items (Note 6.01)	₱	**18,312,288**	₱	27,376,179
Due from BSP (Note 6.02)		**14,012,677**		26,271,043
Due from other banks (Note 6.03)		**107,462,457**		138,211,707
	₱	**139,787,422**	₱	191,858,928

6.01 Cash and Other Cash Items

Cash and other cash items consist of the following:

		2023		2022
Cash in vault	₱	**17,390,789**	₱	24,455,279
Check and other cash items		**921,499**		2,920,900
	₱	**18,312,288**	₱	27,376,179

6.02 Due from BSP

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. Due from BSP does not bear annual interest rates in both years. Under Section 251 of the MORB on Required reserves against deposit and deposit substitute liabilities, as amended by Circular No. 1154 dated September 14, 2022, is hereby further amended by Circular No. 1175, series of 2023, the Bank is required to maintain one percent (1%) and two percent (2%) of its statutory reserve requirements in 2023 and 2022, respectively, in the form of deposits placed in bank's demand deposit accounts with the BSP as among the allowable instruments for reserve cover. Section 252 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposit which shall be limited to settlement of obligations with the BSP and withdrawals to meet cash requirements.

In accordance with Section 2 Paragraph b of Appendix 100, zero allowance for exposures under Stage 1 shall be rare. It shall be expected only for exposures with zero percent (0%) credit-risk weight under the Risk-Based Capital Adequacy Framework, such as Philippine peso-denominated exposures to the Philippine National Government and the BSP. In this regard, the Bank has a zero-credit rating exposure to its due from BSP. As of December 31, 2023 and 2022, the Bank's deposit account with BSP amounted to ₱14,012,677 and ₱26,271,043, respectively, in compliance with BSP reserve requirements.

6.03 Due from Other Banks

The balance of this account represents savings, time and demand deposit accounts with other local banks. Annual interest rates on these deposits ranges from 0.10% to 5.625% in 2023 and 2022. Details are as follows:

		2023		2022
Commercial banks				
Time deposit	₱	**34,200,000**	₱	28,207,004
Demand		**9,990,555**		21,510,719
Savings		**6,911,678**		9,499,743
		51,102,233		59,217,466
Government banks				
Demand		**56,350,224**		78,994,241
Savings		**10,000**		-
		56,360,224		78,994,241
	₱	**107,462,457**	₱	138,211,707

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. Deposits earn interest for these deposits from 0.05% to 3.75% in 2023 and 2022.

In 2023 and 2022, interest earned and received from other banks amounted to ₱166,567 and ₱657,776, respectively.

7. OTHER FINANCIAL ASSETS AT AMORTIZED COST

The composition of other financial assets at amortized cost as of December 31, 2023 and 2022 are as follows:

		2023		2022
Government securities	₱	**283,727,435**	₱	418,731,277
Corporate debt securities		**130,000**		10,000,000
	₱	**283,857,435**	₱	428,731,277

These securities are carried at amortized cost since the Bank intends to hold these securities to collect contractual cash flows.

The reconciliation of the carrying amounts of other financial assets at amortized cost are as follows:

		2023		2022
Balance at beginning of year	₱	**428,731,277**	₱	430,630,831
Additions		**168,445,469**		238,962,880
Maturities		**(313,319,311)**		(239,013,047)
	₱	**283,857,435**	₱	428,731,277

Interest income generated from these investments amounted to ₱11,987,466 and ₱14,327,826 in 2023 and 2022, respectively. Interest rates on these investment financial assets ranges from 1.84% to 6.40% and 1.30% to 6.40% per annum in 2023 and 2022, respectively.

8. LOANS AND OTHER RECEIVABLES

This account is comprised of:

		2023		2022
Loans and discounts	₱	**709,609,299**	₱	593,426,159
Unearned service fees		**(2,309)**		(83,735)
Allowance for expected credit losses		**(25,572,146)**		(23,263,400)
		684,034,844		570,079,024
Other receivables				
Sales contract receivables		**24,048,412**		26,586,241
Accrued interest receivables		**4,815,133**		7,445,903
Accounts receivables		**6,661,679**		7,199,830
Allowance for expected credit losses		**(3,971,899)**		(6,480,061)
		31,553,325		34,751,913
	₱	**715,588,169**	₱	604,830,937

Sales contract receivables represent the balance of the selling price of assets owned or acquired under an agreement wherein the title to the said assets shall only be transferred to the buyer upon full payment. Additions to the sale contract receivable amounted to ₱5,484,000 and ₱3,100,000 which arose from the sale of repossessed assets on installment in 2023 and 2022, respectively.

Annual interest earned for loans and sales contract receivables range from 6.06% to 25.00% and 6.06% to 20.00% in 2023 and 2022. Accounts receivable is noninterest-bearing, unsecured and are generally payable upon demand.

The total interest earned on loans and other receivables amounted to ₱73,174,089 and ₱67,469,641 in 2023 and 2022, respectively.

All of the Bank's loans and other receivables have been reviewed for impairment. Certain loans and other receivables were found to be impaired, and provisions have been recognized accordingly.

The breakdown of total loans and discounts, net of unearned service fees, as to secured and unsecured are as follows:

		2023		2022
Secured:				
Real estate mortgage	₱	**695,030,093**	₱	575,900,682
Hold-out-deposits		**4,579,574**		7,885,619
Chattel		**1,002,730**		3,193,224
		700,612,397		586,979,525
Unsecured		**8,996,902**		6,362,899
	₱	**709,609,299**	₱	593,342,424

A reconciliation of allowance for expected credit losses as of December 31, 2023 and 2022 are as follows:

		2023		2022
Balance, January 1	₱	**29,743,461**	₱	30,957,099
Provision for expected credit losses (Note 14)		**2,852,081**		1,976,254
Adjustments (Note 14)		**(3,051,497)**		(3,189,892)
	₱	**29,544,045**	₱	29,743,461

Adjustments on allowance pertain to the transfer of allowance to investment properties as a result of foreclosures.

The breakdown of allowance for expected credit losses on loans and other receivables is shown below:

		2023		2022
Loans and discounts	₱	**25,572,146**	₱	23,263,400
Sales contract receivables		**3,971,899**		6,480,061
	₱	**29,544,045**	₱	29,743,461

Classification of allowance for expected credit losses of loans and discounts as follows:

		2023		2022
Specific	₱	**19,474,796**	₱	20,018,131
Collective		**6,097,350**		3,245,269
	₱	**25,572,146**	₱	23,263,400

Movements of loans and discounts during 2023 are as follows:

		Stage 1		Stage 2		Stage 3		Total
Balance at January 1, 2023	₽	**352,416,280**	₽	**178,209,582**	₽	**62,800,297**	₽	**593,426,159**
Transfers from stage 1 to stages 2 and 3		**10,607,419**		**(17,542,794)**		**6,935,375**		-
Transfers from stage 2 to stages 1 and 3		**57,978,624**		**(122,614,944)**		**64,6446,320**		-
Transfers from stage 3 to stages 1 and 2		**54,028,902**		**-**		**(54,028,902)**		-
New assets originated or purchased		**294,437,100**		**-**		-		**294,437,100**
Assets derecognized or repaid		**(171,396,862)**		**-**		**(6,857,098)**		**(178,253,960)**
Balance at December 31, 2023	₽	**598,071,463**	₽	**38,051,844**	₽	**73,485,993**	₽	**709,609,299**

Movements of loans and discounts during 2022 are as follows:

		Stage 1		Stage 2		Stage 3		Total
Balance at January 1, 2022	₽	315,244,092	₽	141,927,692	₽	104,271,645	₽	561,443,429
Transfers from stage 1 to stages 2 and 3		(76,046,843)		22,774,142		53,272,701		-
Transfers from stage 2 to stages 1 and 3		72,165,978		(86,279,640)		14,113,662		-
Transfers from stage 3 to stages 1 and 2		13,334,198		94,779,126		(108,113,324)		-
New assets originated or purchased		189,646,989		5,756,219		-		195,403,208
Assets derecognized or repaid		(161,928,134)		(747,957)		(744,387)		(163,420,478)
Balance at December 31, 2022	₽	352,416,280	₽	178,209,582	₽	62,800,297	₽	593,426,159

Non-Performing Loans (NPLs) classified as secured and unsecured are as follows:

		2023		2022
Secured	₱	**59,781,293**	₱	61,023,456
Unsecured		**1,733,347**		1,571,525
	₱	**61,514,640**	₱	62,594,981

Breakdown of non-performing loans based on days outstanding are as follows:

		2023		2022
Past due accounts				
91-180 days	₱	**33,743,243**	₱	39,342,383
Over 180 days		**27,771,397**		23,252,598
	₱	**61,514,640**	₱	62,594,981

As of December 31, 2023 and 2022, NPLs not fully covered by allowance for expected credit losses are as follows:

		2023		2022
Total non-performing loans	₱	**61,514,640**	₱	62,594,981
Less: Non-performing loans covered by allowance for expected credit losses		**(5,803,547)**		(6,038,063)
	₱	**55,711,093**	₱	56,556,918

Information regarding the Bank's NPLs (based on Section 304 of the MORB) are as follows:

		2023		2022
Gross NPLs	₱	**61,514,640**	₱	62,594,981
Ratio of gross NPLs to gross TLP (%)		**8.67%**		10.55%
Net NPLs		**55,711,093**		56,556,918
Ratio of gross NPLs to gross TLP (%)		**7.85%**		9.53%
Ratio of total allowance for expected credit losses to gross NPLs (%)		**41.57%**		37.16%
Ratio of specific allowance for expected credit losses on gross TLP to gross NPLs (%)		**31.66%**		31.98%

Status of loans, net of unamortized loan discount, per product line are as follows:

2023		**Performing**		**Non-performing**		**Total**
Gross carrying amount	₱	**636,120,998**	₱	**73,485,992**	₱	**709,606,990**
Allowance for expected credit losses		**(15,837,595)**		**(9,734,551)**		**(25,572,146)**
Net carrying amount	₱	**620,283,403**	₱	**63,751,441**	₱	**684,034,844**

The breakdown of loans, net of unearned service fees , as to status are as follows:

2022		Performing		Non-performing		Total
Gross carrying amount	₱	530,747,443	₱	62,594,981	₱	593,342,424
Allowance for expected credit losses		(17,225,337)		(6,038,063)		(23,263,400)
Net carrying amount	₱	513,522,106	₱	56,556,918	₱	570,079,024

9. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial asset at fair value through other comprehensive income (FVOCI) as of December 31, 2023 and 2022 consists of unquoted equity securities amounting to ₱75,000,000 and ₱58,000,000, respectively.

The Bank has designated the said financial asset as at FVOCI because they are held for long-term investments and are neither held -for-trading nor designated as at FVTPL. These unquoted equity securities pertain to golf club shares.

As of December 31, 2023 and 2022, the fair values of the Bank's golf shares were determined based on the latest club share quotes from the leading and largest broker of proprietary golf club shares in the Country.

The reconciliation of the carrying amounts of the Bank 's financial assets at FVOCI for 2023 and 2022 are shown below:

		2023		2022
Cost	**₱**	**6,700,000**	₱	6,700,000
Accumulated change in fair value				
Balance at the beginning of the year		**51,300,000**		37,800,000
Net market adjustments		**12,750,000**		10,125,000
Deferred tax		**4,250,000**		3,375,000
Balance at December 31		**68,300,000**		51,300,000
	₱	**75,000,000**	₱	58,000,000

Fair value gains, net of tax, in the Bank's financial assets at FVOCI amounting to ₱12,750,000 and ₱10,125,000, were recognized as an adjustment in other comprehensive income and presented in the statement of comprehensive income under items that will not be reclassified subsequently to profit or loss. As of December 31, 2023 and 2022, net unrealized fai r value gains on FA at FVOCI amounted to ₱51,225,000 and ₱38,475,000, respectively.

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

The total carrying amounts and revalued amounts of the Bank's bank premises, furniture, fixtures, and equipment as of December 31, 2023 and 2022 are as follows:

		2023		2022
At revalued amount (Note 10.01)				
Land	₱	**32,192,457**	₱	32,192,457
At cost (Note 10.02)				
Building		**19,863,055**		8,396,894
Transportation equipment		**3,815,786**		4,227,147
Furniture, fixtures and equipment		**3,441,647**		1,876,990
Leasehold, rights and improvements		**970,867**		50,627
		28,091,355		14,551,658
	₱	**60,283,812**	₱	46,744,115

The BSP requires that investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As of December 31, 2023 and 2022, the Bank has satisfactorily complied with this requirement.

As of December 31, 2023 and 2022, the Bank has no outstanding contractual commitments to acquire certain bank premises, furniture, fixtures and equipment.

The Bank determined that there are no indication that an impairment loss has occurred on its bank premises, furniture, fixtures and equipment.

10.01 At Revalued Amount

The details of land carried at revalued amount are shown below :

		2023		2022
Carrying amount	₱		₱	
Cost		**10,699,090**		10,699,090
Accumulated change in fair value		**21,493,367**		21,493,367
	₱	**32,192,457**	₱	32,192,457

In 2023 and 2022, additions to land amounted to nil and ₱466,455, respectively.

The valuation was determined by using Sales Comparison Approach. The effective date of the valuation is April 18, 2012. In both years, the Management determines that there is no decline in the value of the Bank's land.

10.02 At Cost

The total carrying amounts of the Bank's bank premises, furniture, fixtures , and equipment as of December 31, 2023 and 2022 are as follows:

	Building	Transportation Equipment	Furniture, Fixture and Equipment	Leasehold, Rights and Improvements	IT Equipment	Total
January 1, 2022						
Cost	₱ 22,090,677	₱ 12,658,988	₱ 14,474,990	₱ 9,198,868	₱ 791,516	**₱ 59,215,039**
Accumulated depreciation	(12,614,974)	(10,251,006)	(12,997,221)	(8,657,935)	(791,516)	**(45,312,652)**
Carrying Amount	**9,475,703**	**2,407,982**	**1,477,769**	**540,933**	-	**13,902,387**
Movements during 2022						
Balance, January 1, 2022	**9,475,703**	**2,407,982**	**1,477,769**	**540,933**	-	**13,902,387**
Additions	-	3,068,000	1,577,399		-	**4,645,401**
Disposal				-		
Cost	-	(2,318,000)	(1,315,941)	(3,559,984)	-	**(7,193,925)**
Accumulated depreciation	-	2,318,000	1,315,941	3,559,984	-	**7,193,925**
Depreciation (Notes 25 and 27)	(1,078,809)	(1,248,835)	(1,178,178)	(490,306)	-	**(3,996,128)**
Balance, December 31, 2022	8,396,894	4,227,147	1,876,990	50,627	-	**14,551,658**
December 31, 2022						
Cost	22,090,677	13,408,988	14,736,448	5,638,884	791,516	**56,666,513**
Accumulated depreciation	(13,693,783)	(9,181,841)	(12,859,458)	(5,588,257)	(791,516)	**(42,114,855)**
Carrying Amount	₱ 8,396,894	₱ 4,227,147	₱ 1,876,990	₱ 50,627	₱ -	**₱ 14,551,658**

(Balance forwarded)

(Continued)

	Building	Transportation Equipment	Furniture, Fixture and Equipment	Leasehold, Rights and Improvements	IT Equipment	Total
January 1, 2023						
Cost	₱ 22,090,677	₱ 13,408,988	₱ 14,736,448	₱ 5,638,884	₱ 791,516	₱ **56,666,513**
Accumulated depreciation	(13,693,783)	(9,181,841)	(12,859,458)	(5,588,257)	(791,516)	**(42,114,855)**
Carrying Amount	8,396,894	4,227,147	1,876,990	50,627	-	**14,551,658**
Movements during 2023						
Balance, January 1, 2023	8,396,894	4,227,147	1,876,990	50,627	-	**14,551,658**
Additions	12,430,000	1,268,000	3,235,804	1,008,000	-	**17,941,804**
Disposal						
Cost	-	(2,999,800)	(429,834)	-	-	**(3,429,634)**
Accumulated depreciation	-	2,977,724	429,834	-	-	**3,407,558**
Depreciation (Notes 24 and 27)	(963,839)	(1,657,285)	(1,671,147)	(87,760)		**(4,380,031)**
Balance, December 31, 2023	**19,863,055**	**3,815,786**	**3,441,647**	**970,867**	-	**28,091,355**
December 31, 2023						
Cost	34,520,677	11,677,188	17,542,418	6,646,884	791,516	**103,371,140**
Accumulated depreciation	(14,657,622)	(7,861,402)	(14,100,771)	(5,676,017)	(791,516)	**(43,087,328)**
Carrying Amount	**₱ 19,863,055**	**₱ 3,815,786**	**₱ 3,441,647**	**₱ 970,867**	**₱ -**	**₱ 28,091,355**

In both years, additions to bank premises, furniture, fixtures, and equipment were paid in cash. In 2023 and 2022, fully depreciat ed assets with acquisition cost of ₱22.4M and 21.5M are still being used in operations.

The Bank recognized rental income amounting to ₱1,178,368 and ₱1,041,720, in 2023 and 2022, respectively, on portion of bank premises leased out under operating leases, as disclosed in Notes 2 3 and 27.

In both years, the Bank has determined that there is no indication that an impairment has occurred on its bank premises, furniture, fixtures and equipment.

In 2023, the Bank disposed and sold certain bank premises, furniture, fixture, and equipment with carrying amount of ₱22,076 for ₱956,655 and recognized gain on sale amounting to ₱934,579, as disclosed in Note 23, while in 2022, no proceeds or gain on sale was recognized for the disposal of fully depreciated bank premises, furniture, fixture, and equipment.

11. RIGHT-OF-USE ASSETS – net

The carrying amounts of the Bank's right-of-use assets as of December 31, 2023 and 2022 are as follows:

		2023		2022
Cost	₱	**16,769,753**	₱	3,494,791
Accumulated amortization		**(5,793,159)**		(2,820,201)
Carrying amount		**10,976,594**		674,590
Movements during the year				
January 1		**10,976,594**		674,590
Additions (Note 34)		**2,405,815**		13,274,962
Amortization (Notes 25 and 27)		**(1,688,368)**		(2,972,958)
Adjustments				
Cost		**(3,494,791)**		-
Accumulated amortization		**3,248,791**		-
Balance, December 31		**11,448,041**		10,976,594
December 31				
Cost		**15,680,777**		16,769,753
Accumulated amortization		**(4,232,736)**		(5,793,159)
Carrying amount	₱	**11,448,041**	₱	10,976,594

The details of the lease contracts are disclosed in Note 26.

As of December 31, 2023 and 2022, lease liabilities related to ROU assets amounted to ₱12,619,301 and ₱11,529,106, respectively, as disclosed in Note 16.

Adjustments in 2023 pertain to write-off of expired lease contract in 2022. Loss on write-off of ROU assets amounted to ₱246,000, as disclosed in Note 24.

In both years, the Bank has determined that there is no indication that impairment has occurred on its right-of-use assets.

12. INVESTMENT PROPERTIES – net

The carrying amounts of the Bank's investment properties consisting of land and buildings foreclosed from delinquent borrowers are as follows :

		Land		Building		Total
January 1, 2022						
Cost	₱	164,974,544	₱	1,644,013	₱	**166,618,557**
Accumulated depreciation		-		(271,466)		**(271,466)**
Accumulated impairment		(816,056)		-		**(816,056)**
Carrying Amount		**164,158,488**		**1,372,547**		**165,531,035**
Movements during 2022						
Balance, January 1, 2022		164,158,488		1,372,547		**165,531,035**
Additions		5,718,079		14,090,705		**19,808,784**
Disposal						
Cost		(5,014,377)		(1,644,013)		**(6,658,390)**
Accumulated depreciation		-		343,913		**343,913**
Depreciation		-		(250,795)		**(250,795)**
Balance, December 31, 2022		**164,862,190**		**13,912,357**		**178,774,547**
December 31, 2022						
Cost		165,678,246		14,090,705		**179,768,951**
Accumulated depreciation		-		(178,348)		**(178,348)**
Accumulated impairment		(816,056)		-		**(816,056)**
Carrying Amount		**164,862,190**		**13,912,357**		**178,774,547**
Movements during 2023						
Balance, January 1, 2023		**164,862,190**		**13,912,357**		**178,774,547**
Additions		8,987,952		672,448		**9,660,400**
Disposal						
Cost		(1,828,303)		(9,161,95 5)		**(10,990,258)**
Accumulated depreciation		-		276,565		**276,565**
Depreciation		-		(685,627)		**(685,627)**
Balance, December 31, 2023		**172,021,839**		**5,013,788**		**177,035,627**
December 31, 2023						
Cost		172,837,895		5,601,19 8		**178,439,093**
Accumulated Depreciation		-		(587,410)		**(587,410)**
Accumulated impairment		(816,056)		-		**(816,056)**
Carrying Amount	**₱**	**172,021,839**	**₱**	**5,013,788**	**₱**	**177,035,627**

As of December 31, 2022 and 2021, there were no foreclosed investment properties subject to redemption period by the borrowers.

Direct operating expense on these investment properties amounted to ₱1,550,016 and ₱2,282,082 in 2023 and 2022, respectively, are recorded as acquired asset expense, as disclosed in Note 24.

Gain on sale of investment properties amounted to ₱2,936,371 and ₱2,966,243 in 2023 and 2022, respectively, as disclosed in Note 23.

In 2023, the Bank disposed certain investment properties with carrying amount for realizing a gain on sale amounting to P ₋2,936,372, as disclosed in Note 2 3. Out of the total selling price, P ₋574,000 was paid in cash and the remaining will be paid in installment.

In 2022, the Bank disposed certain investment properties realizing a gain on sale amounting to P₋2,966,243, as disclosed in Note 24. Out of the total selling price, ₱6,581,880 was paid in cash and and the remaining will be paid in installment .

The Bank has carried out a review of the recoverable amounts of its investment properties and determined that there is indication that an impairment loss has occurred on some its investment properties. Aggregate f air values land and building classified under investment properties amounting to ₱288,619,697 and ₱288,245,454 as of December 31, 2023 and 2022 , respectively, a s disclosed in Note 31.02, have been arrived on the basis of a valuation carried out by internal and external appraisers.

13. OTHER ASSETS – net

Below is the composition of the Bank's other assets:

		2023		2022
Prepaid expenses	₱	**2,289,115**	₱	2,038,190
Miscellaneous		**3,930,990**		2,555,833
	₱	**6,220,105**	₱	4,594,023

Prepaid expenses comprises of prepayments for insurance, health care, uniforms and prepayments for real property taxes.

Miscellaneous include advance deposits, stationaries and supplies. Advance deposits include refundable deposits for the lease of various branches of the Bank from several parties.

14. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the allowance for credit and impairment losses are summarized as follows:

		2023		2022
Balance, January 1				
Loans and sales contract receivables (Note 8)	₱	**29,743,461**	₱	30,957,099
Investment properties (Note 12)		**816,056**		816,056
		30,559,517		31,773,155
Provision for expected credit and impairment losses				
Loans and sales contract receivables (Note 8)		**2,852,081**		1,976,254
Adjustments				
Loans and sales contract receivables (Note 8)		**(3,051,497)**		(3,189,892)
Balance, December 31				
Loans and sales contract receivables (Note 8)		**29,544,045**		29,743,461
Investment properties (Note 12)		**816,056**		816,056
	₱	**30,360,101**	₱	30,559,517

15. DEPOSIT LIABILITIES

The components of deposit liabilities are as follows:

		2023		2022
Savings	₱	**730,753,782**	₱	848,035,242
Time		**317,802,323**		406,013,216
Demand		**130,400,413**		10,737,480
	₱	**1,178,956,518**	₱	1,264,785,938

Annual interest rates ranges from 0.06% to 4.50% and 0.06% to 2.75% in 2023 and 2022, respectively. Interest expense on deposit liabilities amounted to ₱5,886,211 and ₱7,045,913 in 2023 and 2022, respectively. Accrued interest expense amounted to ₱141,634 and ₱311,938 as of December 31, 2023 and 2022.

Under BSP regulations, demand deposits, savings deposits and time deposits of the Bank are subject to statutory reserve, as disclosed in Note 6, equivalent to 1% and 2% in 2023 and 2022, respectively. As of December 31, 2023 and 2022, the Bank is in compliance with such regulations.

16. LEASE LIABILITIES

The Bank, as a lessee, entered into various leasing arrangements as disclosed in Note 27. The following are the amounts of lease liabilities:

	Minimum Lease Payments				Present Value of Minimum Lease Payments			
		2023		2022		2023		2022
Not later than one (1) year	**P**	**1,943,777**	P	1,352,280	**P**	**1,533,738**	P	1,026,041
Later than one (1) year but not later than five (5) years		**8,313,475**		6,119,920		**7,334,068**		5,161,898
Later than five (5) years		**3,874,176**		5,600,065		**3,751,495**		5,341,167
		14,131,428		13,072,265		**12,619,301**		11,529,106
Discount		**(1,512,127)**		(1,543,159)		-		-
Present value of minimum lease payments		**12,619,301**		11,529,106		**12,619,301**		11,529,106
Less: Current lease liabilities		**1,533,738**		1,026,041		**1,533,738**		1,026,041
Non-current lease liabilities	**P**	**11,085,563**	P	10,503,065	**P**	**11,085,563**	P	10,503,065

Movements in the account are as follows:

		2023		2022
Balance, January 1	**₽**	**11,529,106**	₽	1,101,901
Additions (Note 34)		**2,279,578**		13,274,962
Finance cost incurred		**415,370**		1,205,043
Finance cost paid		**(415,370)**		(1,205,043)
Payments to lease liabilities		**(1,189,383)**		(2,847,758)
Balance, December 31	**₽**	**12,619,301**	₽	11,529,106

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The effective interest rate contracted approximates 5.97% and 2.95% in 2023 and 2022, respectively.

The Bank is compliant with the terms and conditions of the lease contracts.

17. OTHER LIABILITIES

This account consists of:

		2023		2022
Accounts payable	**₽**	**19,637,976**	₽	21,442,616
Accrued liabilities		**3,819,355**		1,644,493
Withholding taxes payable		**314,705**		699,664
Accrued interest expense		**141,634**		311,938
SSS, medicare and employee premium		**114,864**		104,625
Miscellaneous		**1,746,459**		2,464,492
	₽	**25,774,993**	₽	26,667,828

Accounts payable include insurance payables and payables for real and other properties redemption.

Miscellaneous include overages and payable to Bayad center. These are payments of customers for the bills using bayad center which will be remitted by the Bank to Bayad Center's account.

18. RELATED PARTY TRANSACTIONS

Nature of relationship of the Bank and its related parties are disclosed below:

Related Parties	Nature of Relationship
Stockholders	Directors, Officers, Stockholders and Related Interests
Directors	Directors, Officers, Stockholders and Related Interests
Officers	Directors, Officers, Stockholders and Related Interests

18.01 Loans to Directors, Officers, Stockholders and Related Interests

In the ordinary course of business, the Bank entered into loan and other transactions with its certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risk. Under current banking regulations, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of investments in the Bank. On the aggregate, loans to DOSRI should not exceed the Bank's total capital funds or 15% of the Bank's total loan portfolio, whichever is lower. These limits do not apply to loans secured by assets considered as non-risks as defined in the regulations.

The movements of loans receivable from related parties are as follows:

		2023		2022
Balance, January 1	₱	**1,598,784**	₱	4,806,651
Loan issuances		**-**		2,485,000
Collections		**(420,952)**		(5,692,867)
	₱	**1,177,831**	₱	1,598,784

Interest income related to these loans in 2023 and 2022 are included as part of interest income presented in statement of comprehensive income. These loans receivable are interest-bearing with fixed interest rates of 6.06% to 10.00% payable in 120 days to 20 years.

Outstanding DOSRI loans pertain to loans receivables from various stockholders and officers.

The Bank has no unsecured, past due and non-accruing DOSRI loans as of December 31, 2023 and 2022. The DOSRI loans have been reviewed for impairment. No impairment loss was recognized on these loans in 2023 and 2022.

Section 342 of the MORB, provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such Bank as representative of the bank/quasi-bank. As of December 31, 2023 and 2022, the Bank is in compliance with these requirements.

18.02 Deposit Liabilities

Certain related parties have deposits with the Bank amounting to ₱60,057,152 and ₱65,191,396 as of December 31, 2023 and 2022, respectively. These are related to related parties with outstanding loan balances with the Bank, as discussed on Note 18.01. Interest expense from these deposits liabilities of related parties in 2023 and 2022 are included as part of the interest expense presented in the statement of comprehensive income.

18.03 Rentals

Certain branches of the Bank were leased from the Bank's stockholders which amounted to ₱4,343,820 and ₱2,987,387 in 2023 and 2022, respectively, as disclosed in Note 26.

18.04 Remuneration of Key Management Personnel

Key management personnel are those personnel of the Bank having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

The Bank provided remuneration to its key management personnel as part of short-term benefits disclosed in Note 25, amounting to ₱805,650 and ₱6,200,000 in 2023 and 2022, respectively. The Bank also provided remuneration to Director's amounting to ₱1,013,452 and ₱1,010,910 in 2023 and 2022, respectively, as disclosed in Note 25.

18.04 Revenue Regulation No. 34-2020

The Bank is not covered by the requirements and procedures for related transactions provided in RR No. 34-2020.

19. ISSUED CAPITAL STOCK

The issued capital of the Bank is as follows:

		2023		2022
Common stock (Note 19.01)	₱	**116,132,700**	₱	116,132,700
Preferred stock (Note 19.02)		**19,996,800**		19,996,800
	₱	**136,129,500**	₱	136,129,500

19.01 Common Stock

Shown below are the details of common stock:

	2023			2022		
	Stocks		**Amount**	Stocks		Amount
Authorized at ₱100 par value per share	**1,300,000**	**₱**	**130,000,000**	1,300,000	₱	130,000,000
Issued and fully paid	**1,161,327**	**₱**	**116,132,700**	1,161,327	₱	116,132,700

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

19.02 Preferred Stock

Shown below are the details of preferred stock:

	2023			2022		
	Stocks		**Amount**	Stocks		Amount
Authorized at ₱100 par value per share	**200,000**	**₱**	**20,000,000**	200,000	₱	20,000,000
Issued and fully paid	**199,968**	**₱**	**19,996,800**	199,968	₱	19,996,800

Preferred shares of the Bank are non -voting, non -cumulative, non -participating and redeemable at the option of the issuer.

20. SURPLUS RESERVES

Surplus reserves composed of the following:

		2023		2022
Appraisal increment (Note 20.01)	**₱**	**21,493,367**	₱	21,493,367
Regulatory (Note 20.02)		**2,004,149**		2,004,149
	₱	**23,497,516**	₱	23,497,516

20.01 Appraisal Increment Reserves

As of December 31, 2023 and 2022, the appraisal increment arises from the revaluation of land at revalued amount with carrying amount of P –32,192,457. Had the land be measured on historical basis, the carrying amount would have been P –10,699,090, as disclosed in Note 10. When the revalued land is sold, the portion of the appraisal increment that relates that asset, as is effectively realized, is transferred directly to retained earnings. The appraisal increment arising from the revalued land as of December 31, 2023 and 2022 amounted to ₱21,493,367, as disclosed in Note 10.

20.02 Regulatory Reserves

Pursuant to the require ments of the BSP under Circular No. 1011 , the Bank shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for the accounts considered as credit risk-free under the existing BSP regulations. In cases when the comput ed ECL on those exposures is lessthan the one percent general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus. Regulatory reserve as of December 31, 2023 and 2022 amounted to ₱2,004,149.

21. REVALUATION RESERVES

Surplus reserves composed of the following:

		2023		2022
Net unrealized fair value gains on FA at FVOCI (Note 19)	₱	**51,225,000**	₱	38,475,000
Net remeasurement on retirement benefit obligation (Note 25)		**(15,825,314)**		(9,220,261)
	₱	**35,399,686**	₱	29,254,739

22. DIVIDENDS DECLARED

On July 12, 2022, the BOD approved the declaration of cash dividends of ₱5 per share for both common stock and preferred stock amounting to ₱5,806,635 and ₱999,840, respectively, to be distributed to stockholders of record as of July 22, 2022 in proportion to their stockholdings. Additionally, on December 6, 2022, the BOD approved the declaration of cash dividends of ₱4 per share for both common stock and preferred stock amounting to ₱4,645,308 and ₱799,872, respectively, to be to be distributed to stockholders of record as of December 12, 2022 in proportion to their stockholdings.

On June 13, 2023, the BOD approved the declaration of cash dividends of ₱5 per share for both common stock and preferred stock amounting to ₱5,806,635 and ₱999,840, respectively, to be distributed to stockholders of record as of May 31, 2023 in proportion to their stockholdings.

Cash dividend declaration amounted to ₱8,167,770 and ₱12,251,655 while dividend payments to stockholders amounted to ₱7,350,993 and ₱11,026,489, net of final tax of ₱816,777 and ₱1,225,166, in 2023 and 2022, respectively.

23. OTHER INCOME

Below is the composition of the Bank's other income:

		2023		2022
Service charges	₱	**9,390,396**	₱	6,608,807
Gain on sale of investment properties (Note 12)		**2,936,372**		2,966,243
Miscellaneous		**11,715,857**		8,572,154
	₱	**24,042,625**	₱	18,147,204

Miscellaneous composed of penalties, rental income , gain on sale of bank premises, furniture, fixture, and equipment, and commissions from payments of life insurance. Rental income in 2023 and 2022 amounted to ₱1,178,368 and ₱1,041,720, respectively, as disclosed in Note 10 and 27 . Gain on sale of bank premises, furniture, fixture and equipment amounted to ₱956,655 and nil in 2023 and 2022, respectively.

24. OPERATING EXPENSES

Below is the composition of the Bank's operating expenses:

		2023		2022
Employee benefits benefits (Note 25)	₱	**33,856,136**	₱	27,393,341
Depreciation and amortization (Note 27)		**6,754,026**		7,219,881
Rental (Note 26)		**6,149,185**		3,213,869
Outside services		**3,751,943**		2,981,344
Utilities		**3,381,238**		2,909,683
Insurance		**3,329,193**		3,287,263
Taxes and licenses		**2,118,013**		3,965,364
Transportation and travel		**1,794,875**		1,207,016
Fuel and lubricants		**1,591,126**		1,544,425
Acquired asset expense (Note 12)		**1,550,016**		2,282,082
Supplies		**1,476,062**		1,086,551
Repairs and maintenance		**1,414,682**		1,121,339
Professional fees		**1,414,218**		2,172,643
Representation and entertainment		**921,342**		867,830
Information technology		**442,092**		955,701
Membership and dues		**437,795**		401,170
Fees and commission		**345,825**		288,197
Supervision and fees		**325,377**		310,408
Advertising and promotions		**253,985**		380,268
Loss on write-off of ROU assets (Note 11)		**246,000**		-
Donations and charitable contributions		**102,400**		103,805
Miscellaneous		**1,760,978**		1,465,361
	₱	**73,416,507**	₱	65,157,541

25. EMPLOYEE BENEFITS

Aggregate employee benefits expense comprised:

		2023		2022
Short-term benefits (Note 25.01)	₱	**33,030,125**	₱	26,834,342
Retirement benefits (Note 25.02)		**826,011**		558,999
	₱	**33,856,136**	₱	27,393,341

25.01 Short-term Benefits

Breakdown of compensation and benefits, as disclosed in Note 24, are as follows:

		2023		2022
Salaries and wages	₱	**20,104,094**	₱	18,192,895
Fringe benefits		**8,915,270**		4,873,592
SSS, medicare and other contributions		**2,197,846**		1,794,229
Director's fee (Note 18)		**1,013,452**		1,010,910
Medical, dental and hospitalization		**799,463**		962,716
	₱	**33,030,125**	₱	26,834,342

25.02 Retirement Benefits

The Bank has a single retirement plan under the regulatory framework of the Philippines. Under R.A. No. 7641, the Bank is legally obliged to provide a minimum retirement pay for qualified employees upon retirement. The framework, however, does not have a minimum funding requirement. The Bank's benefit plan is aligned with this framework.

The Bank has defined benefit plan for qualifying employees. Under the plan, the employees are entitled to retirement benefits equal to 30 days pay per year of service on attainment of a normal retirement age of 60. The payments for the unfunded benefits are borne by the Bank as it falls due. Plan assets held by trustee are governed by a trust agreement between the latter and the Bank.

The plan shall be administered by a trustee appointed by the Bank who shall be responsible for the general administration of the plan. The trustee may create a Retirement Committee or seek the advice of a counsel and may appoint an investment manager or ma nagers to manage the fund, an independent accountant to audit the fund and an actuary to value the fund.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on January 26, 2024 by ActuarualExponents, Inc. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the PUCM.

For the year -ended December 31, 2022, the Bank did not engage the service of an independent actuary to update the post-employment expense and obligation. The figures presented below are based on past actuarial assumptions and were adjusted based on the cha nges in management's assumptions. The management believes that the retirement benefit obligation as actuarially determined is not materially different with the amount recognized in the statement of financial position as there are no significant changes in the number of employees and other financial assumptions.

In both years, there was no plan amendment and curtailment in the Bank's retirement plan.

The Bank is not required to pre -fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund are at the Bank's discretion. However, in the event a defined benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable from the Bank to the Retirement Fund.

The principal assumptions used for purposes of the actuarial valuation were as follows:

	2023	2022
Discount rate	**4.00%**	5.01%
Salary increase rate	**5.00%**	7.22%

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

		2023		2022
Current service cost	₱	**1,130,048**	₱	435,991
Interest on:				
Defined benefit obligation		**634,408**		735,885
Fair value of plan assets		**(938,445)**		(612,877)
	₱	**826,011**	₱	558,999

The amounts included in the statement of financial condition arising from the Bank's obligation in respect of its defined benefit plans are as follows:

		2023		2022
Present value of defined benefit obligation	₱	**24,198,092**	₱	15,860,194
Less: Fair value of plan assets		**10,882,827**		11,981,842
	₱	**13,315,265**	₱	3,878,352

To conform with the provisions of PAS 19 -R that the amount recognized as defined benefit obligation shall be net of the fair value of plan asset at the reporting dates.

Movements in the present value of the defined benefit obligation in the current period are as follows:

		2023		2022
Balance, January 1	₱	**15,860,194**	₱	14,688,318
Current service cost		**1,130,048**		435,991
Interest cost		**634,408**		735,885
Benefits paid from working capital		**(195,835)**		-
Benefits paid from plan assets		**(1,414,884)**		-
Remeasurement loss		**8,184,162**		-
	₱	**24,198,092**	₱	15,860,194

Movements in the remeasurement losses on retirement liabilities, net of deferred taxes, recognized in other comprehensive income (OCI):

		2023		2022
Cumulative loss in OCI, January 1	₱	**9,220,261**	₱	8,572,176
Remeasurement loss		**8,806,737**		864,113
Deferred tax (Note 29)		**(2,201,684)**		(216,028)
Cumulative loss in OCI, December 31	₱	**15,825,314**	₱	9,220,261

Movements in the fair value of plan assets are as follows:

		2023		2022
Fair value of plan assets, January 1	₱	**11,981,842**	₱	12,233,078
Interest income		**938,445**		612,877
Remeasurement loss		**(622,576)**		(864,113)
Benefits paid through plan assets		**(1,414,884)**		-
Fair value of plan assets, December 31	₱	**10,882,827**	₱	11,981,842

Summary of movements in the net defined benefit liability:

		2023		2022
Balance, January 1	₱	**3,878,352**	₱	2,455,240
Retirement expense		**826,011**		558,999
Remeasurement loss		**8,806,737**		864,113
	₱	**13,315,265**	₱	3,878,352

Funding Arrangements

The Bank is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund are at the Bank's discretion. However, in the event a benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable by the Bank to the Retirement Fund.

The Bank is exposed to a number of risks through its defined benefit plan. The most significant risks are detailed below:

Asset-liability Matching Strategies to Manage Risks

The Bank ensures that the investment positions are managed within an Asset -Liability Matching (ALM) framework that has been developed to achieve long -term investments that are in line with the obligations under the benefit schemes. Within this framework, the Bank's ALM objective is to match assets to the retirement obligations by investing in long -term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how t he duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. The group has not changed the processes used to manage its risks from previous periods. The Bank does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in the current year consists of debt instrument. The group believes that debt instrument offers the best returns over the long term with an acceptable level of risk.

Volatility Risk

The plan liabilities are calculated using a discount rate based on the Bankers Association of the Philippines (BAP), PHP Bloomberg BVAL Reference Rates (BVAL) benchmark reference curve for the government securities market (previously the PDEx (PDST-R2) mar ket yields on benchmark government bonds) as of the valuation date and considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

As the plans mature, the Bank intends to reduce the level of investment risk by investing more in assets that better match the liabilities. The assets are composed of debt instruments, domestic equities and cash equivalents. The government bonds represent investments in Philippine government securities only.

However, the Bank believes that due to the long -term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the group's long -term strategy to manage the plans efficientl y.

Investment Risk

Investment risk is the risk that investments on plan assets will result to a lower return than originally expected. This risk emanates on the premise that funded defined benefit plans should be arranged on the basis of Asset -Liabilities Matching principle.

Thus, plan assets and future contributions are invested in such a way that it will generate return to cover-up future payments of defined benefit obligations and interest costs. These plan activities expose the Bank to sensitivity in investment risks that would result to lower plan assets and higher defined benefit obligations should the performance of the investment portfolio falls below the inflation rate, interest rates and other economic conditions.

Investment risk is mitigated through proper investment planning and concentration of investments. Plan assets as of December 31, 2023 and 2022 are concentrated both on government securities which account for 64% of the total plan assets.

Inflation Risk

Inflation risk is the risk that the equivalent purchasing power of the plan assets will not be able to match the recorded liabilities.

Payments for the defined benefit plan of the Bank are affected by inflation. However, the exposure to this risk is immaterial.

26. LEASE AGREEMENTS

26.01 The Bank as a Lessee

The Bank has the following leases. Except for short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use assets and lease liabilities.

26.01.01 Lease payments not recognized as a liability

Right-of-use assets, as disclosed in Note 11, are detailed as follows:

		2023		2022
City of Pasig	₱	**9,403,098**	₱	10,730,594
Pasig Rotunda Retail Corporation		**2,044,943**		-
Others		-		246,000
	₱	**11,448,041**	₱	10,976,594

Lease liabilities, as disclosed in Note 16, are detailed as follows:

		2023		2022
City of Pasig	₱	**10,503,065**	₱	11,529,106
Pasig Rotunda Retail Corporation		**2,116,236**		-
	₱	**12,619,301**	₱	11,529,106

City of Pasig

In 2021, the Bank entered into a lease agreement with City of Pasig for the lease of commercial building located infront of Public Market of Pasig City. The lease term is ten (10) years starting from February 1, 2021 to January 31, 2031 with monthly rental of ₱102,620, exclusive of VAT and withholding tax. An escalation rate of 5% shall be applied every year.

Pasig Rotunda Retail Corporation

In 2023, the Bank entered into a lease agreement with Pasig Rotunda Retail Corporation for the lease of commercial building known as Pasig Rotunda Building located at Pasig Boulevard Extension, C. Raymundo Avenue, Caniogan, Pasig City. The lease term is five (5) years commencing on April 1, 2023 to March 31, 2028 with monthly rental of ₱42,079, exclusive of VAT and withholding tax. An escalation rate of 5% shall be applied every year. The lease agreement may be renewed by giving the lessor a written notice of its intent to renew within 60 days prior to the expiry date of the lease term.

The Bank shall pay an advance rental equivalent to three (3) months amounting to ₽126,237 and shall be applied on the first three (3) months. Security deposit equivalent to three months rent shall also be paid to the lessor. The security deposit shall be returned to the Bank within 60 days after completing the lease period, provided that the bank has settled all the obligations with the lessor.

26.01.02 Lease payments not recognized as a liability

The Bank has elected not to recognize lease liabilities for short term leases (leases of expected term of twelve (12) months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred. The expense relating to payments not included in the measurement of the lease liabilities is as follows:

Rent expense, as disclosed in Note 24, are detailed as follows:

		2023		2022
Related parties (Note 18)	₽	**4,343,820**	₽	2,987,387
Third parties		**1,805,365**		226,482
	₽	**6,149,185**	₽	3,213,868

27.02 The Bank as a Lessor

Operating leases relate to bank premises with average lease term of one (1) year. The property rental income earned, by the Bank from its properties, all of which is leased out under operating leases, amounted to P1,178,368 and P1,041,720 for the years ended 2023 and 2022, respectively, as disclosed in Notes 10 and 23.

27. DEPRECIATION AND AMORTIZATION

Breakdown of depreciation and amortization, as disclosed in Note 24, is as follow:

		2023		2022
Bank Premises, furniture, fixtures and equipment (Note 10)	₽	**4,380,031**	₽	3,996,128
Right-of-use assets (Note 11)		**1,688,368**		2,972,958
Investment properties (Note 12)		**685,627**		250,795
	₽	**6,754,026**	₽	7,219,881

28. INCOME TAXES

28.01 Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

		2023		2022
Current tax expense	₱	**4,236,991**	₱	3,772,226
Final tax expense		**3,085,362**		2,812,303
Deferred tax benefit (Note 29)		**(113,867)**		(602,333)
	₱	**7,208,486**	₱	5,982,196

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	₱	**26,800,578**	₱	25,217,696
Tax expense at 25%		**6,700,145**		6,304,424
Adjustment for income subject to lower tax rates		**46,854**		(599,213)
Tax effects of the following:				
Non-deductible expenses		**914,682**		780,060
Adjustments on deferred taxes		**148,510**		-
Non-taxable income		**(601,704)**		(503,075)
	₱	**7,208,486**	₱	5,982,196

29. DEFERRED TAXES – net

Below is the offsetting of deferred tax assets and deferred tax liabilities:

		2023		2022
Deferred tax assets (Note 29.01)	₱	**11,007,643**	₱	8,692,092
Deferred tax liabilities (Note 29.02)		**(17,075,000)**		(12,825,000)
	₱	**(6,067,357)**	₱	(4,132,908)

29.01 Deferred Tax Assets

The component of the Bank's deferred tax assets with respective movement are as follows:

		Effect of PFRS 16		Allowance for Expected Credit Losses		Retirement Benefit Obligation – net		Total
Balance, January 1, 2022	₱	106,827	₱	7,943,289	₱	1,028,281	₱	**9,078,397**
Recognized in profit or loss (Note 28)		31,302		(507,424)		(126,211)		**(602,333)**
Recognized in other comprehensive income (Note 25)		-		-		216,028		**216,028**
Balance at December 31, 2022		138,129		7,435,865		1,118,098		**8,692,092**
Recognized in profit or loss (Note 28)		154,687		(49,854)		9,034		**113,867**
Recognized in other comprehensive income (Note 25)		-		-		2,201,684		**2,201,684**
Balance at December 31, 2023	₱	292,816	₱	7,386,011	₱	3,328,816	₱	**11,007,643**

29.01 Deferred Tax Liabilities

Deferred tax liabilities arise from unrealized fair value gains on financial assets at FVOCI. In 2023 and 2022, deferred tax recognized in other comprehensive income amounted to ₱4,250,000 and ₱3,375,000, respectively, as disclosed in Note 9. As of December 31, 2023 and 2022, deferred tax liability amounted to ₱17,075,000 and ₱12,825,000, respectively.

30. MATURITY PROFILE OF ASSETS AND LIABILITIES

The following tables present the assets and liabilities by contractual maturity and settlement dates as of December 31, 2023 and 2022:

	2023		
	Due Within One (1) Year	Due Beyond One (1) Year	Total
Financial Assets:			
Cash and other cash items	₽ 18,312,288	₽ -	₽ 18,312,288
Due from BSP	14,012,677	-	14,012,677
Due from other banks	107,462,457	-	107,462,457
Other financial assets at amorrized costs	116,852,451	167,004,984	283,857,435
Loans and other receivables – net	125,167,899	590,420,270	715,588,169
Financial assets at FVOCI	-	75,000,000	75,000,000
	381,807,772	832,425,254	1,214,233,026
Non-financial Assets:			
Bank premises, furniture, fixtures and equipment – net	-	60,283,812	60,283,812
Right-of-use assets – net	-	11,448,041	11,448,041
Investment properties – net	-	177,035,627	177,035,627
Other assets	6,220,105	-	6,220,105
	6,220,105	248,767,480	254,987,585
Total Assets	₽ 388,027,877	₽ 1,081,192,734	₽ 1,469,220,611
Financial Liabilities:			
Deposit Liabilities	₽ 1,116,069,437	₽ 62,887,081	₽ 1,178,956,518
Lease liabilities	1,533,738	11,085,563	12,619,301
Other liabilities	25,345,424	-	25,345,424
	1,142,948,599	73,972,644	1,216,921,243
Non-financial Liabilities:			
Income tax payable	4,017,392	-	4,017,392
Retirement liabilities – net	-	13,315,265	13,315,265
Deferred taxes – net	-	6,067,357	6,067,357
Other liabilities	429,569	-	429,569
	4,446,961	19,382,622	23,829,583
Total Liabilities	₽ 1,147,395,560	₽ 93,355,266	₽ 1,240,750,826

	2022		
	Due Within One (1) Year	Due Beyond One (1) Year	Total
Financial Assets:			
Cash and other cash items	₱ 27,376,179	₱ -	₱ 27,376,179
Due from BSP	26,271,043	-	26,271,043
Due from other banks	138,211,707	-	138,211,707
Other financial assets at amorrized costs	315,886,060	112,845,217	428,731,277
Loans and other receivables – net	34,642,143	570,188,794	604,830,937
Financial assets at FVOCI	-	58,000,000	58,000,000
	542,387,132	741,034,011	1,283,421,143
Non-financial Assets:			
Bank premises, furniture, fixtures and equipment – net	-	46,744,115	46,744,115
Right-of-use assets – net	-	10,976,594	10,976,594
Investment properties – net	-	178,774,547	178,774,547
Other assets	4,594,023	-	4,594,023
	4,594,023	236,495,256	241,089,279
Total Assets	₱ 546,981,155	₱ 977,529,267	₱ 1,524,510,422
Financial Liabilities:			
Deposit Liabilities	₱ 1,151,822,664	₱ 112,963,274	₱ 1,264,785,938
Lease liabilities	1,026,041	10,503,065	11,529,106
Other liabilities	25,863,539	-	25,863,539
	1,178,712,244	123,466,339	1,302,178,583
Non-financial Liabilities:			
Income tax payable	2,615,774	-	2,615,774
Retirement liabilities – net	-	3,878,352	3,878,352
Deferred taxes – net	-	4,132,908	4,132,908
Other liabilities	804,289	-	804,289
	3,420,063	8,011,260	11,431,323
Total Liabilities	₱ 1,182,132,307	₱ 131,477,599	₱ 1,313,609,906

31. FAIR VALUE MEASUREMENTS

31.01 Fair Value of Financial Assets and Liabilities

The carrying amounts and estimated fair values of the Bank's financial assets and financial liabilities as of December 31, 2023 and 2022 are presented below:

	2023		2022	
	Carrying Amount	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets:				
Cash and other cash items	**P 18,312,288**	**P 18,312,288**	P 27,376,179	P 27,376,179
Due from BSP	**14,012,677**	**14,012,677**	26,271,043	26,271,043
Due from other banks	**107,462,457**	**107,462,457**	138,211,707	138,211,707
Other financial assets at amortized cost	**283,857,435**	**283,857,435**	428,731,277	428,731,277
Loans and orher receivables– net	**715,588,169**	**715,588,169**	604,830,937	604,830,937
Financial assets at FVOCI	**75,000,000**	**75,000,000**	58,000,000	58,000,000
	P 1,214,233,026	**P 1,214,233,026**	P 1,283,421,143	P 1,283,421,143
Financial Liabilities:				
Deposit liabilities	**P 1,178,956,518**	**P 1,178,956,518**	P 1,264,785,938	P 1,264,785,938
Lease Liabilities	**12,619,301**	**12,619,301**	11,529,106	11,529,106
Other liabilities	**25,345,243**	**25,345,243**	25,863,539	25,863,539
	P 1,216,921,062	**P 1,216,921,062**	P 1,302,178,583	P 1,302,178,583

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

- Due to either short -term or demand feature of financial assets and financial liabilities other than the loans and other receivables, financial assets at FVOCI and deposit liabilities, Management believes that carrying values approximate the fair values.
- Financial assets at FVOCI is an equity security measured based on the latest club share quotes from the leading and largest broker of proprietary golf club shares in the Country.
- Loans and other receivables– fair values of the Bank's loans and other receivables are estimated using the effective interest method less any allowance for impairment and principal repayment or reduction and using current incremental lending rates for similar types of loans. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximate their fair values.
- Due to demand nature of deposits liabilities, Management believes that the carrying amounts approximate their fair values.
- Management believes that the carrying amount of lease liabilities approximates its fair value since this was discounted using the Bank's incremental borrowing rate at the date of initial application.

31.02 Fair Value Determinations of Assets

The following provides an analysis of assets and liabilities that are measured at fair value on a non -recurring basis subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which inputs to valuation techniques are observable:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within the Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

31.02.01 Fair Value Hierarchy

Shown below are the fair values of assets:

Recurring Fair Value Measurements

	Level 1	Level 2	Level 3	Total
2023				
Land	**₱ -**	**₱ -**	**₱ 32,192,457**	**₱ 32,192,457**
2022				
Land	₱ -	₱ -	₱ 32,192,457	₱ 32,192,457

Fair Value Disclosure

	Level 1	Level 2	Level 3	Total
2023				
Investment properties	₱ -	₱ -	₱ 288,619,697	₱ 288,619,697
2022				
Investment properties	₱ -	₱ -	₱ 288,245,454	₱ 288,245,454

31.02.02 Valuation Technique used to Derive Level 3 Fair Value

Land

The fair values are carried out with reference to Philippine Valuation Standards. Sales comparison approach is a comparative approach that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

Investment Properties

The fair value was derived using the market comparison approach. Market comparison approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets. Under market comparison approach, the most significant input into this valuation is the price per square meter.

31.02.03 Highest and Best Use

The Bank's non-financial assets are composed of land and building under 'bank premises, furniture, fixtures and equipment' and 'investment properties' being idle and held for capital appreciation and land and building held for use in the production or supply of goods or services, or for administrative purposes. However, as of December 31, 2023 and 2022, the Bank assessed the highest and best use of the foregoing assets from the perspective of market participants. The land and building could be sold. On other hand, land and building under 'investment properties' are held to be sold in the future. Management is currently assessing probable options by which it can derive best benefits from the property.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

32.01 Risk Management System

All financial institutions assume some amount of risk as part of normal operations. It is the policy of the Bank to manage and control the amount of risk it assumes. The primary objectives of the Bank's asset/liability management process include consistent earnings-to-growth plan and Net Worth to Assets within acceptable and controllable levels of the following main risks:

- Interest Rate Risk (IRR) – is identified on mismatches on maturities. It measures interest rate risk by identifying gaps between repricing dates of assets and liabilities.
- Liquidity Risk – current and prospective risk to earnings or capital arising from Bank's inability to meet its obligations when they come due without incurring unacceptable losses.
- Credit Risk – involves the possible financial losses of the Bank resulting from default of its borrowers or from the depreciation in value of the assets acquired by the Bank in settlement of loans.

Other risks are measured from time to time. Their importance is also a key to the Bank's continued successful operations. The Management reviews these risks at least annually, and more often as conditions may warrant.

- Market risk – risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions such as market movements.
- Operations Risk – arises from the failure and inefficiency of the Bank's internal policies, system failure and human error that result in unexpected loss to the Bank, inadequacy in management reporting system, weakness in organization set up and poor management oversight.
- Legal risk – the potential loss due to non-existent, incomplete, incorrect and unenforceable documentation that the Bank use to protect and enforces right under the law on obligations and contracts.

- Compliance Risk – the risk to earnings or capital arising from violations of, or non -conformity with laws, rules, regulations, prescribed practices, internal policies, and procedures.
- Reputation Risk – occurs when the Bank is seen or perceived to be poorly prepared to deal with its operational difficulties or when it seems to lack the ability to operate normally and efficiently during crises.

Technology Risk – arises from the inefficiency and insufficiency of the Bank's electronic or computerized systems and its existing technology in use to process its transactions.

32.02 Liquidity and Funds Management

32.02.01 Liquidity

Liquidity is measured in terms of having sufficient funds available at all times, to meet fully and promptly, the legitimate demands for money made on the bank arising from deposit withdrawal, presentation of cheques, maturing investments, draws under committed loan facilities, and other financial commitments. The Bank needs to assure depositors that they can withdraw their funds when desired, borrowers of the availability of funds to meet legitimate demands for credit expansion, and employees of the Bank stability and longevity. It must be remembered however that too much liquidity will have a negative impact on profitability, while too little liquidity will increase the risk of insolvency. The Bank is deemed to have adequate liquidity when it can obtain sufficient cash promptly and at a reasonable rate (cost). The determination of the adequacy of the Bank's liquidity position depends upon an analysis of the Bank's position relative to the following factors: (i) historical funding requirements; (ii) current liquidity position; (iii) anticipated future funding needs; (iv) present and anticipated asset quality; (v) present and future earnings capacity; and (vi) sources of funds.

32.02.02 Funding

Forecasting future events is essential to adequate liquidity planning. Sound financial management can help buffer negative changes in the Bank's economic climate and accentuate positive ones. Forecasting of future events is very subjective and fraught with potential error. Management must therefore develop contingency plans in case its projections are wrong. Effective contingency planning involves identifying minimum and maximum liability needs and weighing the alternative courses of action designed to meet the needs. Monthly cash flow projections will be sought from large customers.

The following are alternative ways the Bank can meet its liquidity needs: (i) increase core (retail) deposits; (ii) acquire interbank deposits; (iii) sell large time or notice deposits in domestic money market; (iv) borrow from lender of last resort (BSP); (v) borrow the Inter Bank Market; (vi) lengthen the average life of the bank's liabilities portfolio; (vii) maintain unused lines of credit with other financial institutions; and (viii) loan participations.

The Management reviews annually, as part of the annual budget preparation, or as often as necessary, the Bank's deposit structure in relation to volume and trend of various types of deposits, maturity distribution of time deposits and rates paid compared to rates offered by competitors.

32.02.03 Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below shows the maturity profile of Bank's financial liabilities as of December 31, 2023 and 2022 based on contractual undiscounted repayment obligations:

	2023			
	On Demand	**Within One (1) Year**	**Beyond One (1) Year**	**Total**
Deposit liabilities				
Savings	**₱ 730,753,782**	**₱ -**	**₱ -**	**₱ 730,753,782**
Time	-	**254,915,242**	**62,887,081**	**317,802,323**
Demand	**130,400,413**	-	-	**130,400,413**
Lease liabilities	-	**1,943,777**	**12,187,651**	**14,131,428**
Other liabilities	-	**25,345,424**	-	**25,345,424**
	₱ 861,154,195	**₱ 282,204,443**	**₱ 75,074,732**	**₱ 1,218,433,370**

	2022			
	On Demand	Within One (1) Year	Beyond One (1) Year	Total
Deposit liabilities				
Savings	₱ 848,035,242	₱ -	₱ -	₱ 848,035,242
Time	-	151,309,997	254,703,219	406,013,216
Demand	10,737,480	-	-	10,737,480
Lease liabilities	-	1,352,280	11,719,985	13,072,265
Other liabilities	-	25,863,539	-	25,863,539
	₱ 858,772,722	₱ 178,525,816	₱ 266,423,204	₱ 1,303,721,742

32.02.04 Expected Maturity of Financial Asset

The following table details the Bank's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non -derivative financial assets is necessary in order to understand the Bank's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted Average Effective Interest Rate	**On Demand**	**Within one (1) Year**	**More than one (1) year to five (5) years**	**Total**
December 31, 2023					
Cash and other cash items	**-**	**₱ 18,312,288**	**₱ -**	**₱ -**	**₱ 18,312,288**
Due from BSP	**-**	**14,012,677**	-	-	**14,012,677**
Due from other banks	**0.05% to 3.75%**	**73,262,457**	**22,200,000**	**12,000,000**	**107,462,457**
Other financial asset at amortized cost	**1.84% to 6.40%**	-	**116,852,451**	**167,004,984**	**283,857,435**
Loans and other receivables – net	**6.06% to 25.00%**	-	**125,167,899**	**590,420,270**	**715,588,169**
Financial asset at FVOCI	**-**	-	-	**75,000,000**	**75,000,000**
		₱ 105,587,422	**₱ 264,220,350**	**₱ 844,425,254**	**₱ 1,214,233,026**

	Weighted Average Effective Interest Rate		On Demand		Within one (1) Year		More than one (1) year to five (5) years		Total
December 31, 2022									
Cash and other cash items	-	P	27,376,179	P	-	P	-	P	27,376,179
Due from BSP	-		26,271,043		-		-		26,271,043
Due from other banks	0.05% to 3.75%		110,004,703		25,207,004		3,000,000		138,211,707
Other financial asset at amortized cost	1.30% to 6.40%		-		315,886,060		112,845,217		428,731,277
Loans and other receivables – net	6.06% to 20.00%		-		34,642,123		570,188,794		604,830,937
Financial asset at FVOCI	-		-		-		58,000,000		58,000,000
		P	163,651,925	P	375,735,187	P	744,034,011	P	1,283,421,143

32.03 Market Risk Management

Market risk refers to the uncertainty of future earnings resulting from changes in interest rates, exchange rates, market prices and volatilities. The Bank assumes market risk from consumer and corporate loans, position taking, and trading and investment activities.

The strategy for controlling market risk shall involve: (i) stringent control and limits; (ii) regular reporting of positions; and (iii) regular review of all control and limits.

32.03.01 Interest Rate Risk Management

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

32.03.01.01 Asset Allocation Strategies

Interest rate risk is managed through (1) investments (2) loan pricing, and (3) deposit pricing. Asset/Liability policies and strategies is formulated upon the examination of how interest rate risk affect overall business risk, i.e., capital risk, and liqu idity risk, credit risk, interest rate risk. After review of the current situation, the Board of Directors devised various strategies to minimize risk while maximizing earnings and net worth. The following methods for managing the asset/liability mix are reviewed: (i) buying and selling assets; (ii) changing liability structure and mix; (iii) balance sheet growth, structure, and maturity; and (iv) hedging.

The proper strategy depends on the current level of risk, the time frame, and the current interest rate environment. If the Bank determines that there is a good chance that interest rates will increase, an attempt is made to extend fixed-rate liabilities to longer maturities while purchasing variable rate assets in order to widen the net interest margin. If it is perceived that interest rates will decline, an attempt is made to shorten fixed rate liabilities while securing longer-term fixed-rate assets in order to increase the net interest margin. Asset maturities will be managed as a result of the liability structure to maintain compliance within the ranges detailed.

32.03.01.02 Sensitivity Analysis

The sensitivity analyses have been determined based on the exposure to interest rates for non -derivative instruments at the end of the reporting period. For floating rate 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 is used when reporting interest rate risk internally to key management personnel and this represents Management's assessment of the reasonably possible change in interest rates. There is no material impact of changes in interest rates on equity for the years ended December 31, 2023 and 2022.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. Deposits earn interest for these deposits from 0.05% to 3.75%.

32.04 Credit Risk Management

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligation. The Bank is exposed to credit risks from due from BSP, due from other banks, other financial assets at amortized cost, and loans and other receivables.

The Bank's credit risk shall be consistent with separate written policies and procedures. The credit policies include the Bank's credit structure, target markets, credit evaluation, administration and monitoring and collection guidelines. Moreover, the Bank continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Bank's policy is to deal only with creditworthy counterparties. In addition, for certain type of loans, collateral and required to mitigate credit risk.

Financial assets measured at amortized cost are as follows:

		2023		2022
Due from BSP	₱	**14,012,677**	₱	26,271,043
Due from other banks		**107,462,457**		138,211,707
Other financial assets at amortized costs		**283,857,435**		428,731,277
Loans and other receivables – net		**715,588,169**		604,830,937
	₱	**1,120,920,738**	₱	1,198,044,964

The Bank's assessment of expected credit loss on due from BSP and due from other banks is detailed as follows:

	December 31, 2023				December 31, 2022			
		Gross Carrying Amount		**Estimated credit losses**		Gross Carrying Amount		Estimated credit losses
Due from BSP	₱	**14,012,677**	₱	-	₱	27,376,179	₱	-
Due from other banks								
Commercial		**51,102,233**		-		59,217,466		-
Government		**56,360,224**		-		78,994,241		-
	₱	**121,475,134**	₱	-	₱	165,587,886	₱	-

The Bank believes that the assessed amount of ECL above is immaterial. As of December 31, 2023 and 2022, expected credit losses on due from BSP and due from other banks amounted to nil.

32.04.01 Loan Portfolio – Expected Credit Loss

The calculation of allowance for expected credit losses of Loan Portfolio is currently based on the methodologies provided in the PFRS 9.

32.04.02 Probability of Default

The probability of default is measured over either 12-month or the lifetime of a financial instrument.

32.04.03 Maximum Exposure to Credit Risk Before Collateral Held or Other Credit Enhancements

An analysis of the maximum exposure to credit risk without taking into account any collateral held or other credit enhancements is shown below:

		2023		2022
Due from BSP	₽	**14,012,677**	₽	26,271,043
Due from other banks		**107,462,457**		138,211,707
Loans and other receivables		**715,588,169**		604,830,937
	₽	**837,063,303**	₽	769,313,687

32.04.04 Concentration by Industry

The table below show the industry sector analysis of the Bank's financial assets in gross amounts before and after taking into account the fair value of the loan collateral held or other credit enhancements:

		2023		2022
Consumption	₽	**35,069,598**	₽	31,588,234
Micro, small and medium enterprise		**301,045,715**		270,097,546
Agricultural		**25,830,895**		29,218,677
Housing purposes		**346,399,025**		247,516,399
Other loans		**1,264,066**		14,921,568
		709,609,299		593,342,424
Less: Allowance for expected credit losses		**25,572,146**		(23,263,400)
	₽	**684,037,153**	₽	570,079,024

32.04.05 Collateral and Other Credit Enhancements

The Bank holds collateral against loans and other receivables in the form of real estate. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is assessed to be impaired. Generally, collateral is held over loans and advances to the Bank. Collateral is usually not held against investment securities, and no such collateral was held as of December 31, 2023. The Bank is not permitted to sell or repledge the collateral held in the absence of default by the owner of the collateral.

32.04.06 Credit Quality per Class of Financial Assets

Loans, receivables and other financial assets are either classified as High Grade, Standard Grade and Substandard Grade depending on the inherent risks or weaknesses noted on the accounts during credit evaluation periodically conducted following the credit classification criteria of the BSP.

High Grade credits are those accounts that do not have greater than normal risk or do not have potential weaknesses. Lumped under this category are credits covered by hold-out on deposits and sovereign guarantees, following the Bank's Internal Credit Risk Rating System.

Standard Grade credits represent accounts that are current in status and not impaired with risk rating of 4 to 5.

Substandard Grade credits represent accounts that display potential weaknesses, by the occurrence of limited or random delinquency/default, which when left unattended, may affect the repayment of the loan and increase credit r isk to the Bank.

The Bank's borrower's risk rating system considers the combination of application data, internal as well as external data. Presented below are the characteristics of each of the Bank's risk rating/grade:

1 - Excellent. Borrower pays as agreed, no history of delinquencies. Payment source is sustainable, with strong trends in operation. The borrower meets earnings and payment expectations. There are no disruptions from external factors. Management shows competence under the present business model.

2 - Strong. Borrower pays as agreed, no history of delinquencies. Strong liquidity, borrower meets earnings and payment expectations. There are no disruptions from external factors. Management shows competence under the present business model.

3 - Good. Borrower pays as agreed, no history of default in the last 12 months. The borrowing base/payment source fully supports the line of credit. Account meets expectations, with no disruptions from external factors. Management shows competence under the present business model.

4 - Satisfactory. Borrower pays as agreed. Liquidity is adequate to marginal. Expectations are generally met. There are known sources of external disruptions but effects can be anticipated. There may be recent departures or lack of key personnel.

5 - Acceptable. Liquidity may be marginal or, certain operating trends could show a decline but neither would seriously jeopardize repayment. Expectations not always met. The business model may change with new external factors. There are uncertainties in business environment. Turnover and unfilled management positions may be chronic.

6 - Watchlisted. May occasionally turn past due for 30-60 days but will likely revert to current. Liquidity is marginal. Earnings and payment expectations are not met. Some defaults occur. There are identified external factors that have a negative effec t on operations. The Bank changes its business model with negative implications (for both shareholders and lenders).

7 - Especially Mentioned. There is evidence of weakness in financial condition and credit worthiness. Credit evaluation should show a negative risk rating. Financial difficulties are expected and credit exposure is at risk. Negative external factors are affecting the business. The borrower's ability or willingness to service the debt is in doubt.

8 - Sub-standard. Credit evaluation estimates up to 50% probability of default. Collection of principal and/or interest becomes questionable. The operation cannot support the present debt burden. Second way out (collateral) is weak or insufficient. Managerial record is unfavorable or characteristically weak.

9 - Doubtful. The extent of loss to creditors still cannot be quantified but is likely to be significant. The borrower is unable or unwilling to service the debt even over an extended period. Loss is unavoidable despite efforts by both borrower and credit or. Managerial record is unfavorable or characteristically weak.

10 - Loss. The prospect of re-establishment of credit-worthiness is remote. Debt servicing is remote. The lender is taking steps to foreclose on available collateral. 100% loss is set for unsecured loans. Loss may not be easily determined but is not practical to defer a write- off. The borrower and/or his co-makers are insolvent.

	2023					
	Neither Past Due nor Specifically Impaired			Past Due but Not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade			
Due from BSP	**P 14,012,677**	**P -**	**P -**	**P -**	**P -**	**P 14,012,677**
Due from other banks	**107,462,457**	**-**	**- -**	**- -**	**-**	**107,462,457**
Other financial assets at amortized cost	**283,857,435**	**-**	**- -**	**- -**	**-**	**283,857,435**
Loans and other receivables	**598,071,462**	**-**	**-**	**38,051,844**	**73,485,993**	**709,609,299**
	P 1,003,404,031	**P -**	**P -**	**P 38,051,844**	**P 73,485,993**	**P 1,114,941,868**

	2022					
	Neither Past Due nor Specifically Impaired			Past Due but Not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade			
Due from BSP	P 14,012,677	P -	P -	P -	P -	P 14,012,677
Due from other banks	107,462,457	-	- -	- -	-	107,462,457
Other financial assets at amortized cost	428,731,277	-	- -	- -	-	428,731,277
Loans and other receivables	521,886,296	-	-	8,943,406	62,596,458	593,426,159
	P 1,072,092,707	P -	P -	P 8,943,406	P 62,596,458	P 1,143,632,570

The table below shows the aging analysis of past due but not impaired loans and other receivables per class that the Bank held as of December 31, 2023 and 2022. Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

	2023			2022		
	90-180 days	**Over 180 days**	**Total**	90-180 days	Over 180 days	Total
Loans and discounts	**P 7,882,635**	**P 38,963,125**	**P 46,845,760**	P 2,335,742	P 56,844,507	P 59,180,251

The banks restructured loans amounted to ₱72,566,113 and ₱70,274,272 as of December 31, 2023 and 2022, respectively.

33. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Bank manages its capital to ensure that the Bank will be able to continue as going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Bank consists of equity of the Bank (comprising capital stock, additional paid-in capital, revaluation surplus, remeasurement losses on retirement liabilities and surplus free).

Based on Manual of Regulations for Banks under Section 121, as amended by BSP Circular 1151 series of 2022, *Amendments to the Minimum Capitalization of Rural Banks*, the Bank is required to meet the capital requirement amounting to ₽120,000,000. As of December 31, 2023 and 2022 the Bank's total capital stock is ₽136,129,500. As of December 31, 2023 and 2022, the bank is in compliance with such regulation.

The Bank's Board of Directors reviews the capital structure of the Bank on an annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

The Bank's capital structure is as follows:

		2023		2022
Common stock	₽	**136,129,500**	₽	136,129,500
Surplus reserves		**23,497,516**		23,497,516
Revaluation reserves		**35,399,686**		29,254,739
Surplus free		**32,841,379**		22,018,761
	₽	**227,868,081**	₽	210,900,516

Under Section 34 of R.A. No. 8791/Section 125 of the MORB, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

In addition, in compliance with the risk -based capital ratio, the Bank, shall maintain a minimum adjusted risk -based CAR covering combined credit risk and market risk of ten percent (10%) calculated on solo and on consolidated basis which is expressed as a percentage of qualifying capital to risk -weighted assets which includes credit risk and market risk-weighted assets. The components of this calculation are as follows:

- **Market risk-weighted assets** are the sum of the capital charges for all market risk categories calculated using either the standardized approach or the internal models approach [multiplied by 125% for those calculated using the standardized methodology to be consistent with the higher capital charge for credit risk, i.e., ten percent (10%) as opposed to BIS recommended eight percent (8%) multiplied by 10. (The multiplier 10 is the reciprocal of the BSP required minimum capital adequacy ratio for credit risk of ten percent (10%). The effect is to convert the sum of the market risk capital charges into a risk -weighted assets equivalent which can then be directly added to the total credit risk-weighted assets).

- **Credit risk-weighted assets** are the total risk weighted assets calculated in accordance with Appendix to Section 125, less the part calculated for on -balance sheet debt securities and equities in the trading book. (The credit risk -weighted assets for on-balance sheet debt securities and equities are deducted because they represent an element now covered by the market risk capital charge).

- **Operational risk-weighted assets** are risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk capital charge is calculated as the three (3)-year average of the simple summation of the regulatory capital charges across each of the business lines in each year. In any given year, negative capital charges (resulting from negative gross income) in any business line may offset positive capital charges in other business lines without limit. However, where the aggregate capital charge across all business lines within a given year is negative, then figures for that year shall be excluded from both the numerator and denominator. The resultant operational risk capital charge is to be multiplied by 125% before multiplying by ten (10) [i.e., the reciprocal of the minimum capital ratio of ten percent (10%)].

- **Qualifying capital** consist of Tier 1 capital which comprised of paid-up common stock, surplus and surplus reserves and Tier 2 capital elements in which upper. Tier 2 capital is composed of net unrealized gains on available for sale equity securities and general loan loss provision.

  The Bank deducted from the total of Tier 1 capital the total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI; unsecured loans and deferred income tax.

  The Bank did not deduct any from Tier 2 capital.

33.01 Capital Management

The primary objective of the Bank's capital management is to ensure that it complies with externally imposed capital requirements and to maintain 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.

Under the current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk-weighted assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets is total capital funds excluding:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to DOSRI;
(c) deferred tax asset;
(d) goodwill, if any;
(e) sinking fund for redemption of redeemable preferred stock; and
(f) other regulatory deductions.

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

As of December 31, 2023 and 2022, the Bank is in compliance with the current banking regulation.

The regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 of the Bank are defined as follows:

a. Tier 1 Capital includes the following:
   i. paid up common stock,
   ii. additional paid -up capital
   iii. surplus,
   iv. surplus reserves, and
   v. undivided profits (for domestic banks only).

Subject to deductions for:
   i. deferred income tax.

b. Tier 2 Capital includes:
   i. perpetual cumulative preferred stock,
   ii. appraisal increment reserve – bank premises
   iii. 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, 2023 and 2022 is shown below.

		2023		2022
Tier 1 Capital	₽	**205,229,230**	₽	130,633,111
Tier 2 Capital		**27,590,718**		37,496,137
Gross qualifying capital		**232,819,948**		168,129,248
Total risk-weighted assets	₽	**1,150,439,934**	₽	1,071,687,444
Total capital ratio		**20.24%**		15.69%
Tier 1 ratio		**17.84%**		12.19%

The breakdown of the Bank's risk -weighted assets as of December 31, 2023 and 2022 are as follows:

		2023		2022
Credit risk-weighted assets	₽	**1,026,105,642**	₽	950,932,140
Operational risk-weighted assets		**124,334,292**		120,755,304
	₽	**1,150,439,934**	₽	1,071,687,444

As of December 31, 2023 and 2022, the Bank's capital adequacy ratio (CAR) and capital is in compliance with the regulatory requirements.

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

There have been no material changes in the Bank's management of capital during those years.

The BSP sets also another measure of Bank's liquidity by minimum liquidity ratio. Under the existing BSP regulations, the Bank's minimum liquidity ratio is expressed as a percentage of eligible stock of liquid assets to its total qualifying liabilities.

a. The stock of liquid assets shall consist of:
   i. cash on hand,
   ii. eligible debt securities,
   iii. deposits in other banks, and
   iv. interbank loans receivables with contractual maturity dates that fall within the next 30 calendar days.

b. The qualifying liabilities shall consist of the following:

- Total liabilities, where the following obligations are subject to the conversion factors as stated below:
  i. Retail current and regular savings deposits with outstanding balance per account of ₽500,000 and below subject to 50% conversion factor,
  ii. deposits where the account holder has no contractual or legal discretion to withdraw said deposit or pre-terminate the account within the next 30 calendar days, borrowings that are non-callable in, or have contractual maturity dates beyond, the next calendar days, and
  iii. obligations arising from operation expenses.

- Irrevocable obligations under off-balance sheet items, such as:
  i. guarantees issued,
  ii. trade related guarantees,
  iii. letters of credit, and
  iv. other committed credit lines.

Information regarding the Bank's "minimum liquidity ratio" as of December 31, 2023 and 2022 is shown below (amounts in thousands except for MLR figure):

		2023		2022
Stock of liquid assets	₽	**422,723**	₽	567,682
Qualifying liabilities		**1,237,125**		1,209,865
Minimum Liquidity ratio		**34.17%**		46.92%

As of December 31, 2023 and 2022, the Bank's minimum liquidity ratio is in compliance with the regulatory requirements.

34. NON-CASH TRANSACTIONS

The Bank entered into the following non-cash investing and financing activities which are not reflected in the statements of cash flows:

		2023		2022
Additions to investment properties (Note 12)	₱	**9,660,400**	₱	19,808,784
Additions to ROU assets (Note 11)		**2,405,815**		13,274,962
Additions to lease liabilities (Note 16)		**2,279,578**		13,274,962
Sale of investment properties through sale contract receivable (Notes 8)		**5,484,000**		3,100,000

35. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

Reconciliation of liabilities arising from financing activities are as follows:

		2023		2022
Balance, January 1	₱	**11,529,106**	₱	1,101,901
Changes from financing cash flows				
Dividend declarations		**8,167,770**		12,251,655
Additions to lease liabilities		**2,279,578**		13,274,962
Finance cost incurred on lease liabilities		**415,370**		1,205,043
Finance cost paid on lease liabities		**(415,370)**		(1,205,043)
Final tax on dividends		**(816,777)**		(1,225,166)
Payment to lease liabilities		**(1,189,383)**		(2,847,758)
Dividends paid		**(7,350,993)**		(11,026,489)
	₱	**12,619,301**	₱	11,529,106

36. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issuance by the Board of Directors on April 12, 2024.

37. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

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

37.01 Basic Quantitative Indicators of Financial Performance

The key financial performance indicators of the Bank are shown below (in %):

	2023	2022
Return on average equity	**9.69%**	9.38%
Return on average assets	**1.37%**	1.32%
Net interest margin	**7.33%**	6.04%
TIER 1 Capital ratio	**17.84%**	12.19%
Capital adequacy ratio	**19.43%**	15.69%
Minimum liquidity ratio	**34.17%**	47.18 %

37.02 Capital Instruments Issued

The Bank has no capital instruments issued in both years.

37.03 Significant Credit Exposures

As of December 31, 2023 and 2022, information on the concentration of credit as to industry or economic sector is as follows:

		2023	**%**		2022	%
Real estate activities	**₱**	**423,677,340**	**59.71%**	₱	318,343,204	53.65%
Construction		**105,598,232**	**14.88%**		40,520,517	6.83%
Wholesale and retail trade, repair of motor vehicles and motorcycles		**48,926,604**	**6.89%**		80,407,848	13.55%
Agriculture, forestry and fishing		**25,830,895**	**3.64%**		29,218,677	4.92%
Undifferentiated Production Activities of Private Households		**25,783,542**	**3.63%**		-	0.00%
Education		**21,757,476**	**3.07%**		29,855,288	5.03%
Transportation and storage		**20,323,345**	**2.86%**		18,362,718	3.09%
Manufacturing		**10,285,183**	**1.45%**		13,239,094	2.23%
Primarily for personal use purposes		**9,286,056**	**1.31%**		31,588,234	5.32%
Accomodation and food service activities		**9,137,344**	**1.29%**		36,953	0.01%
Human health and social work activities		**4,574,673**	**0.64%**		6,238,736	1.05%
Administrative and support services activities		**2,073,912**	**0.29%**		-	0.00%
Arts, entertainment and recreation		**978,104**	**0.14%**		-	0.00%
Electricity, gas, steam and air conditioning supply		**112,527**	**0.02%**		-	0.00%
Financial and insurance activities		**-**	**0.00%**		525,056	0.09%
Other service activities		**1,264,066**	**0.18%**		25,089,834	4.23%
	₱	**709,609,299**	**100.00%**	₱	593,426,159	100.00%

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry on economic sector exceeds 30% of the total loan portfolio. During 2023 and 2022, concentration of credit exists to real estate activities .

37.04 Breakdown of Total Loans as to Security and Status

The table below shows the breakdown of loans and discounts as to secured and unsecured and as to the type of security as of December 31, 2023 and 2022:

		2023	**%**		2022	%
Loan secured by:						
Real estate	₱	**695,030,093**	**97.95%**	₱	575,900,682	97.06%
Deposit hold-out		**4,579,574**	**0.64%**		7,885,619	1.33%
Chattel		**1,002,730**	**0.14%**		3,193,224	.54%
Secured		**700,612,397**	**98.73%**		586,979,525	98.93%
Unsecured		**8,996,902**	**1.27%**		6,362,899	1.07%
	₱	**709,609,299**	**100.00%**	₱	593,342,424	100.00%

37.05 Information on Related Party Loans

In the ordinary course of business, the Bank entered into loan and other transactions with its certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risk. Under current banking regulations, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of investments in the Bank. On the aggregate, loans to DOSRI should not exceed the Bank's total capital funds or 15% of the Bank's total loan portfolio, whichever is lower. These limits do not apply to loans secured by assets considered as non-risks as defined in the regulations.

The following table shows information relating to DOSRI accounts of the Bank:

Particulars		**DOSRI Loans**				**Related party loans (inclusive of DOSRI Loans)**		
		2023		2022		**2023**		2022
Outstanding Loans	**P**	**1,1 77,832**	P	1,598,784	**P**	1,246,470	P	1,598,784
Percent of DOSRI/ Related Party loans to total loan Portfolio		**0.17%**		0.34%		**0.18%**		0.34%
Percent of unsecured DOSRI/ Related Party? Loans to total DOSRI/ Related Party Loans		**0.00%**		0.00%		**0.00%**		0.00%
Percent of past due DOSRI/ Related Party loans to total DOSRI/ Related Party loans		**0.00%**		0.00%		**0.00%**		0.00%
Percent of non- performing DOSRI/ Related Party loans to total DOSRI/ Related Party loans		**0.00%**		0.00%		**0.00%**		0.00%

38.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2023 and 2022, the Bank has no secured liabilities and assets pledged as security.

37.07 Commitments and Contingent Liabilities

As of December 31, 2023 and 2022, the Bank has no contingencies and commitments arising from off -balance sheet items, transaction -related contingencies, short- term self-liquidating trade -related contingencies arising from movement of goods, sale and repurchase agreements not recognized in the statement of financial condition; interest and foreign exchange-rate related items; and other commitments.

37.08 Breakdown of Exposures to Trustees, Officers and their Related Interest (TORI)

The Bank has no outstanding loans to TORI as of December 31, 2023 and 2022.

38. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS NO. 15 – 2010

The Bureau of Internal Revenue (BIR) has released a new revenue regulation dated November 25, 2010 amending Revenue Regulations No. 21-2002 setting forth additional disclosures on Notes to Financial Statements. Below are the disclosures required by the said Regulation:

38.01 Taxes, Duties and Licenses Paid or Accrued

The details of the Bank's taxes and licenses fees paid or accrued in 2023 are as follows:

38.01.01 Documentary Stamp Tax

The Bank's documentary stamp tax paid during the year amounted to ₽2,485,314 arising from time deposits and lease agreements in pursuant to new documentary stamp tax rates under RA 10963 or the TRAIN Law of 2017.

38.01.02 Other Taxes and Licenses

An analysis on the Bank's other taxes and licenses and permit fees paid or accrued during the year is as follows:

Gross receipts tax	₽	483,495
Permits		706,272
Real estate tax		221,360
Registration		286,208
	₽	**1,697,335**

Taxes and licenses were charged directly to operating expenses.

38.01.03 Withholding Taxes

An analysis on the Bank's withholding taxes paid or accrued during the year is as follows:

Expanded withholding taxes	₱	898,494
Final withholding taxes – dividends		816,777
Final withholding taxes – interest payments		717,131
Withholding tax on compensation and benefits		434,064
Final withholding tax – fringe benefits		55,085
	₱	**2,921,551**

The interest expense paid to peso savings deposit, time deposit and deposit substitutes were subjected to final withholding tax of 20%.

39.01.04 Tax Assessements

The Bank received a Letter of Authority (LOA) No. eLA 201900004782/LOA -045-2022-00000037 on February 24, 2022 from Revenue District Office No. 045 for the examination of the Bank 's books of accounts and other accounting records for all internal revenue taxes for the taxable year 202 0. This has been settled on March 30 , 2023 on the amount of P 1,441,673. As of December 31, 2023, the Bank has no outstanding cases in any court or bodies outside of the BIR.

39. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATION NO. 19 – 2011

Pursuant to Section 244 in relation to Section 6(H) of the National Internal Revenue Code of 1997 (Tax Code), as amended, these Regulations are prescribed to revise BIR Form 1702 setting forth the following schedules. Below are the disclosures required by the said Regulation:

39.01 Revenue

The Bank's revenue for the taxable year pertain to interest income from loans and other receivables amounted to ₱73,174,089.

39.02 Interest Expense

The Bank's interest expense from deposit liabilities and borrowed funds are as follows:

Interest expense	₱	5,886,211
BIR limit		(2,430,807)
	₱	**3,455,404**

39.03 Taxable Other Income

The Bank's other income for the taxable year is as follows:

Service charges	₱	9,390,396
Gain on sale of investment properties		2,936,372
Miscellaneous		11,742,872
	₱	**24,069,640**

39.04 Itemized Deductions

The following is an analysis of the Bank's itemized deductions for the taxable year:

Employee benefits benefits	₱	33,030,125
Depreciation and amortization		5,065,659
Rental		7,880,175
Outside services		3,751,943
Utilities		3,381,238
Insurance		3,329,193
Provision for credit and impairment losses		3,051,497
Taxes and licenses		2,118,013
Transportation and travel		1,794,875
Fuel and lubricants		1,591,126
Acquired asset expense		1,550,016
Supplies		1,476,062
Repairs and maintenance		1,414,682
Professional fees		1,414,218
Representation and entertainment		853,281
Information technology		442,092
Membership and dues		437,795
Fees and commission		345,825
Supervision and fees		325,377
Advertising and promotions		253,985
Retirement benefits paid		195,835
Donations and charitable contributions		102,400
Miscellaneous		601,118
	₱	**74,406,530**

39.05 Reconciliation on Effect of PFRS 16

		Per PFRS		Effect of Adoption of PFRS 16		Per Tax Code
Depreciation and amortization	₱	6,754,026	₱	(1,688,368)	₱	**5,065,659**
Interest expense		6,301,581		(415,370)		**5,886,211**
Rental		6,149,185		1,730,990		**7,880,175**

PKF
R.S. Bernaldo & Associates

R.S. Bernaldo & Associates
18/F Cityland Condominium 10
Tower 1, 156 H.V. dela Costa St.,
Ayala North, Makati City,
Philippines 1226

+632 8812-1718 to 22
info@pkfrsbernaldo.com
www.pkfrsbernaldo.com

SUPPLEMENTAL INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders
MVSM BANK (A RURAL BANK SINCE 1953) INC.
389 J.P. Rizal St.
Sto. Niño, Marikina City

We have audited the financial statements of **MVSM BANK (A RURAL BANK SINCE 1953) INC.** for the year ended December 31, 2023 on which we have rendered the attached report dated April 12, 2024.

In compliance with Revenue Regulation V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Bank.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the said Company has a total number of twelve (12) stockholders owning one hundred (100) or more shares each.

R.S. BERNALDO & ASSOCIATES
BOA/PRC No. 0300
Valid until May 28, 2024
BSP Group B Accredited
Accreditation No. 0300-BSP
Valid until 2026 audit period
BIR Accreditation No. 08-007679-000-2023
Valid from January 31, 2023 until January 30, 2026
IC Group A Accredited
Accreditation No. 0300-IC
Valid until 2026 audit period

ANTHONY D. PAÑO
Partner
CPA Certificate No.141730
BSP Group C Accredited
Accreditation No. 141730-BSP
Valid until 2025 audit period
BIR Accreditation No. 08-007679-000-2022
Valid from March 30, 2022 until March 29, 2025
Tax Identification No. 415-160-393
PTR No. 10081203
Issued on January 9, 2024 at Makati City

April 12, 2024