1. **Corporate Policy**

a. Bank's Vision and Mission Statements

- **Vision**

The bank envisions being a progressive, reliable bank providing personalized, fast, efficient services, responsive to the emerging needs of the community.

- **Mission**

  - To develop, improve, and expand customer relations and bank services;
  - To generate funds from various sources to support, expand, and diversify services;
  - To optimize the use of assets to sustain and enhance growth;
  - To provide and encourage a professional and harmonious relationship among staff, customers and the public for the common good.
  - To develop, establish, and maintain a functional human resource development/management program;
  - To promote and foster shared values and vision.

- **Core Values**

  - Honesty and integrity- the heart of our core values
  - Fairness - resolving conflict situations
  - Maintain professional decorum
  - Excellence in giving the best quality service at all times
  - Protection of the client's confidential information
  - Protection and safeguarding the bank assets

b. Introduction of the Bank's Brand

Imus Rural Bank, Inc., as the First Rural Bank in Imus, Cavite and perhaps one of the oldest existing rural banks in the country, has stood the test of time, bringing products and services that cater not only to the residents of Cavite but also to those of the neighboring provinces of Southern Luzon, namely: Quezon province and Batangas.

The Bank was founded in 1953 by a group of professionals and businessmen who shared the same vision. The Bank started as a one- unit bank in Imus town proper until it established 3 more branches in the Province of Cavite: Imus Public Market (1982), Molino, Bacoor (1996), and Salawag, Dasmariñas (2016).

In line with the Bank's strategic plan to expand its network, the Bank opened its BLUs in Mauban, Quezon (2017) and in Balayan, Batangas (2018). Our Candelaria branch-lite (2019) was temporarily closed and will be relocated somewhere in Cavite to cater the needs of our clients particularly in Imus area.

c. **Business model of the bank**

The Bank's current business model is consistent with its vision that is to be a progressive bank responsive to the emerging needs of the community. Its branches and branch-lites are considered "the business centers" which are all focused on generating deposits and loans, thus, building revenues and resources.

As a simple bank, its main source of income comes from lending services through both secured and unsecured loans consisting of Real Estate Loans, Agri-Agra Loans, SME loans, Auto Loans, Personal and Consumption Loans, Market Business Loans, Farmers Loans. It also offers deposit services like Regular Savings Deposit, Special Savings Deposit, Current Accounts and US Dollar Deposits.

2. Financial Summary/Financial Highlights

	2023	2022
Profitability		
Total Net Interest Income	75,234,794.00	61,112,359.00
Total Non-Interest Income	6,555,473.00	4,841,108.00
Total Non-Interest Expense	47,818,594.00	46,431,333.00
Pre-provision profit	30,694,996.00	11,572,678.00
Allowance for credit losses	30,073,593.00	26,769,696.00
Net Income	21,611,989.00	9,238,282.00
Selected Balance Sheet Data		
Liquid Assets	397,766,154.00	337,749,553.00
Gross Loans	516,879,200.00	587,285,102.00
Total Assets	1,279,652,159.00	1,332,155,871.00
Deposits	1,037,545,378.00	1,108,817,177.00
Total Equity	235,231,507.00	213,619,518.00
Selected Ratios		
Return on equity	9.63%	4.48%
Return on assets	1.65%	0.69%
Capital adequacy ratio	25.63%	31.11%
Others		
Cash dividends declared	-	-
Headcount	58	54
Officers	26	19
Staff	32	35

3. Financial Condition and Result of Operation

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

As the economic conditions remained below growth projections, the management worked hand in hand to optimize the use of its assets to sustain and enhance growth. As a result, the Bank has improved markedly better since the pandemic.

In 2023, the Bank noted the following:

- 133.90 % increase in net income or Php21.612 million
- The profitability ratio improved, with return on equity rising to 9.63% from 4.48% in 2022, and the return on asset likewise went up to 1.65% from 0.69%.
- Total deposits went down by 6.4% or Php1.038 million.
- Net loans decreased by 13.10% or Php486.806 million
- Total assets decreased by 3.90% or Php1.280 million.

While the path for economic recovery remained uncertain, the Bank performed well during this crucial times and will continue to improve its operations and outcomes.

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

One of the sources of the Bank's income came from its lending operations. IRB extends loans and other credit facilities to support micro enterprises, small and medium enterprises (SMEs), private corporations, agri-agra loans. It also provides home, automobile, education, and salary loans for individual customers.

Imus is a highly urbanized area where rice fields are now substantially converted into housing and commercial developments. IRB remains committed in servicing key players in the agri-business value chain in Cavite and other provinces. At the end of 2023, the Bank posted a total of P86.723M loans to Agri-Agra; meanwhile, the outstanding loans to micro, small, and medium enterprises, including those engaged in other sectors such as transportation, housing, and education, reached P425.444M.

c. Major strategic initiatives of the bank and the banking group, as applicable

Since the Bank relies heavily on lending as its primary source of income, it will continue to improve its loan portfolio and considers this as a top priority. The year 2023 is an extension of the outcome of 2022 strategic plan, thus the following are the major strategic initiatives that the Bank sets out to achieve its long –term vision:

- Improve profitability and strengthen return on assets and return on equity;
- More efficient loan collection efforts;
- Staff development both for existing personnel, including new hires.

d. Challenges, opportunities, and responses during the year, if any

It has been three years since the onset of the pandemic, some adverse effects on which remain. Inflation, both global and domestic, has now impacted on the economic growth, but the Bank managed and continues to show strength and resilience.

The Bank has its own share of challenges:

1. Closure of Candelaria branch-lite in the 3rd quarter of 2023;
2. The outbreak of ASF that affected our clients in agri-business;
3. The low interest rates on loans offered by UBs/KBs;
4. The Bank was not able to reach its target both for loans and deposits.

The Bank nonetheless finished the year stronger and better than 2022, even with the difficult challenges and headwinds faced in the year.

4. Risk Management Framework Adopted

a. Overall risk management culture and philosophy

The Bank recognizes that risk management is an activity critical to its success. It is committed to ensure consistent adherence to best practices and standards and to apply prudence and accountability in its risk-taking activities. The Bank exposes itself to a myriad of risks as its Loan Portfolio expands. Such risks are mainly exposure to market, credit and liquidity risks. Consequently, the Bank has adopted the appropriate risk management structures, policies, and processes to address each type of risk. The key risk processes involve identifying, measuring, monitoring and controlling risks.

The following key features support the Bank's approach to risk management:

- *The Board of Directors* – The Board of Directors exercises oversight on all risk - related functions of the Bank based on a top - down structure. The BOD has the ultimate responsibility for approving and periodically reviewing the risk strategies and significant policies of the Bank. It adopts policies and guidelines to govern the safe and prudent functioning of the Bank with the end in view of effectively managing all risks in its activities. The policies to be formulated include, but not limited to, lending, investing, fund sourcing, liquidity management, personnel administration, and internal control.
- *Senior Management* – Senior management is responsible for the implementation of the strategies on risk control and makes adjustments to overall business strategy. They also ensure compliance with laws and regulations and systems to measure and monitor performance.
- *Board Credit Committee* –A board level committee responsible to oversee the credit risk - taking activities, quality and profitability of the credit portfolio, and credit evaluation process. All credit proposals beyond the credit approving limit of the Credit Committee pass through this committee for final approval. This committee also endorses credit proposals beyond its approving limit to the BOD for final approval.
- *Asset-Liability Management Committee* – A management level committee responsible for the overall management of the Bank's liquidity risks. It monitors the Bank's liquidity position and reviews the impact of strategic decisions on liquidity. It is responsible for managing liquidity risks and ensuring exposures remain within established tolerance levels.
- *Compliance Unit* – This unit is responsible for reviewing any legal or regulatory matters that could have a significant impact on the Bank's financial statements and compliance with laws and regulations. It reviews the effectiveness and adequacy of the system for monitoring compliance with laws and regulations. The Compliance Officer reports to the Board through the Audit Committee.
- *Internal Audit* – Internal Audit provides an independent assessment of the Bank's management and the effectiveness of existing internal control systems through adherence testing of processes and controls across the organization. The IA audits risk management processes throughout the Bank. It employs a risk -based audit approach that examines both the adequacy of the procedures and the Bank's compliance with the procedures. It discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

b. Risk appetite and strategy

The Board of Directors is responsible for defining the bank's level of risk tolerance and for the approval and oversight of the implementation of policies and procedures relating to the management of risks throughout the bank.
The risk management policy includes:

- A comprehensive risk management approach;
- Detailed structure limits, guidelines and other parameters used to govern risk taking;
- A clear delineation of lines of responsibilities for managing risk;
- An adequate system for measuring risk, and
- Effective internal controls and a comprehensive risk - reporting process. The board of directors ensure that a robust internal reporting system is in place that shall enable each employee to contribute to the appreciation of the bank's overall risk exposures.

The Bank does not engage in the trading of financial assets for speculative purposes.

The most significant financial risks to which the Bank is exposed to are described below.

Market Risk – The Bank is exposed to market risk through its use of financial instruments more specifically to interest rate risk and certain other price risk which resulted from its operating, investing and financing activities.

Interest Rate Risk – the bank follows a prudent policy on managing its resources and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.
As a result of these, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly managed.

The Bank maintains most of its deposit base on a short-term basis. Rates on special savings account are usually priced according to the amount deposited.

Foreign Currency Risk – except for small USD Savings Deposits, the Bank has no exposure to foreign currency risk as transactions are denominated in Philippine peso, its functional currency.

Credit Risk – Credit risk refers to the potential loss of the Bank's earnings arising from the inability to adequately review and analyze requests for credit to determine likelihood of repayment. This includes the failure to manage the risk such that a loss is incurred if the borrower does not fulfil its financial obligations in a timely manner. Managing credit risk involves defining the principles and parameters governing credit activities at various levels, i.e. strategic level, portfolio level down to individual transaction or account level.

The following tools, among others, are used to identifying, assessing and managing credit risk:

- Established credit policies, asset allocations and concentration limits, collateral acceptance criteria, target market and clearly defined approving authorities;
- Defined documentation policies of approved credit lines;
- Independence of credit control and monitoring functions from the credit risk-taking function;
- Periodic monitoring of individual account performance;

- Regular review of the adequacy of valuation reserves;
- Active loan portfolio management to determine the quality of the loan portfolio. Including risks associated with particular industry sectors, loan size and maturity; monitoring portfolio growth, collection performance and delinquency trends, trend of non-performing loans, concentration risk, other performance indicators; and,
- Close monitoring of remedial accounts.
- Having a credit risk scoring system which measures the likelihood of a client's encountering repayment problems.

Credit Concentration –The Bank believes that good diversification across economic sectors and classification of borrowers will lessen this risk. Excessive concentration of lending poses undue risk on the Bank's asset quality.

The credit review auditor reviews the Bank's loan portfolio regularly and reports monthly, in line with its policy of avoiding significant concentration to specific industry or group of borrowers. To maintain the quality of its loan portfolio, the Bank enforces a stringent policy on credit evaluation.

Credit Quality – Loan classification is an integral part of the Bank's management of credit risk. On a regular basis, loans are reviewed classified and rated based on internal and external factors that affect their performance. Loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.
The carrying amount of financial assets recognized in the financial statements, represents the Bank's maximum exposure to credit risk without taking into account the value of any collateral obtained.

Collateral – Quality of collateral is one of the considerations in the granting of loans as this is an alternative way of collecting from the borrower in case of default. Collateral is valued according to existing credit policies, with the appraisal report as basis of the computed loan value.

As part of the Bank's risk control, a central unit is charged to handle collateral documentation wherein standard documents are used. Any deviation from these pro-forma documents are subject to Board of Directors and Legal Officer's approval prior to use and acceptance.

The Bank normally grants loans to borrowers at 60% (for land) and 40% (for improvements) of the latest appraised value of the borrowers' collateral. Any excess over these values requires Board approval. Non-risk assets are back-to-back loans granted against deposits.

Other Exposures to Credit Risk – The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in cash and cash equivalents are cash in banks and short-term deposits which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5million for every depositor per banking institution. Short-term investments are in the nature of Treasury Bills.

There is no significant credit risk relating to HTM financial assets that are generally guaranteed by the Philippine government. Other placements are with well established corporate issuers, i.e., top 500 corporations.

Liquidity Risk – Liquidity risk is the risk that funds available may not be adequate to meet the credit demands of the Bank's customers, sudden withdrawals of deposits and repayment of deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality and by maintaining a loan portfolio with evenly-spaced maturities and cash flows. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when these arise.

The main responsibility of daily asset/liability management lies with the Treasury Unit. Liquidity risk management is monitored through Asset-Liability Management Committee. The Bank's principal source of liquidity is comprised of cash and other cash items, due from BSP and due from other banks and regular amortization payments on loans.

A liquidity risk measurement tool to determine any future liquidity structural imbalances is in place to be able to formulate strategies to mitigate liquidity risk and address funding needs.

Liquidity is being monitored and controlled thru maturities of assets and liabilities over time bands as reflected in the liquidity gap report. This report is prepared to provide senior management and the Board timely appreciation of the Bank's liquidity position.

The ALCO and Treasury are responsible for the daily implementation and monitoring of relevant variables affecting IRBI's liquidity position. ALCO reviews the Bank's assets and liabilities position on a regular basis and, in coordination with the Treasury, recommend measures to promote diversification of its assets/ liabilities according to source to minimize liquidity risks resulting from concentration in funding sources.

IRBI formulated a liquidity contingency funding plan using extreme scenarios of adverse liquidity which evaluates the Bank's ability to withstand these prolonged scenarios and to ensure that it has sufficient liquidity at all times. The contingency plan focuses on the IRBI's strategy for coordinating managerial action during crises and includes procedures for making up cash flow shortfalls in adverse situations. The plan details the amount of available funds of the Bank (such as Due from Banks, HTM) and the scenarios under which it could use them.

Although the Bank pursues what it believes to be a prudent policy in managing liquidity risk, a maturity gap does, from time to time, exist between the Bank's assets and liabilities. In part this comes about as a result of the Bank's policy to seek higher yielding assets, a policy which will generally lead to the average maturity of its financial assets exceeding that of its liabilities.

The Bank does liquidity gap analysis using the Liquidity Gap Report (LGR). It is a risk measurement tool used in identifying the current liquidity position to determine the ability to meet future funding needs. It breaks down balance sheet items according to estimated maturities of assets and liabilities in order to determine any future structural imbalances such as long-term assets growing fast than long-term liabilities.

IRBI has established guidelines for liquidity risk limit setting to enable it to properly and prudently manage and control liquidity risk consistent with the nature and complexity of its business activities, overall level of risk and its risk appetite (15% of the total deposit liabilities).

c. Bank-wide risk governance and risk management process

The Bank's risk management framework aims to ensure that there is an efficient and effective process in place to manage risk. It is committed to ensure consistent adherence to best practices and standards and to apply prudence and accountability in its risk-taking activities.

AML Governance and Culture – In accordance with the laws of the country and the guidelines set by the Bangko Sentral ng Pilipinas as well as the best practices of other countries towards the proper implementation of an AML/CFT policy; the Bank hereby adopts a policy program that incorporates the following features:

- The Compliance Officer together with the Internal Audit unit are the key entities responsible in preventing, detecting and reporting potential money laundering and suspicious financial activities of clients as well as monitoring customer and counterparty transactions in compliance with the Anti-Money Laundering Law, its implementing rules and regulations and those of the BSP particularly Circular letters 706 & 950.
- The Board of Directors is primarily responsible for ensuring that the Bank possesses a comprehensive and effective AML/CFT compliance program and oversight framework. The BOD also ensures that the Bank's senior management is fully capable and enabled, qualified, and properly motivated to manage the program's compliance risk arising from the Bank's business activities in line with its AML/CFT policy. Furthermore, the senior management is responsible for communicating and reinforcing the bank's AML/CFT culture that is a must for the proper and strict implementation of the bank's AML/CFT policy program in accordance with national and international best practices.
- Conscientious observance of strict Customer Due Diligence (CDD), "Know Your Customer (KYC) and profiling practices as the first line of defense against money laundering and terrorism financing. Those identified as potential high risk customers must undergo an Enhanced Due Diligence (EDO) without violating their rights. These bank activities will be undertaken as a continuing pursuit. Anonymous accounts, accounts under fictitious names, and all other similar accounts are absolutely prohibited.
- Proper monitoring and identification of financial transactions and activities that may appear suspicious and not above board.
- Sufficient screening in the recruitment process which will ensure that only qualified personnel without any criminal record are employed in sensitive banking functions.
- Adoption of rigorous, regular, extensive and up to date training regimen for all front line employees in keeping with the objective of fully identifying the parties with whom the Bank is doing business with and thus ensure that all transactions are proper and in accordance with this policy.
- Good maintenance of records keeping of customer's identification and transaction documents for the required period within the bank's premises in compliance with existing rules and regulations.
- Creation of an independent unit to conduct periodic review of the different units of the Bank regarding it compliance with the provisions of the law, BSP rules and regulations and with this policy program.
- Regular updating of the Bank's AML/CFT policy program at least once a year to incorporate changes in the AML/CFT policies and procedures, the latest trends in money laundering and terrorism financing typologies and the most recent pertinent regulatory issuances.
- Recognition that due diligence must keep pace with the evolving schemes adopted by money launderers and terrorist organizations since adequate deterrence AML/CFT can only be brought about if it is observed and practiced as a continuing activity.

This policy program covers all its branches and branch-lite units.

5. Corporate Governance

It refers to the framework of rules, system and processes by which business are directed and controlled. The Bank recognizes that effective corporate governance practices are essential in achieving and maintaining public trust and confidence in the banking system. These are critical to the proper functioning of the banking sector and economy as a whole.

The Bank sticks with its Core Values of good governance:

- Honesty and integrity- the heart of our core values
- Fairness - reporting conflict of interest situations
- Maintain professional decorum
- Excellence in giving the best quality service at all times
- Protect the client's confidential information
- Protect and safeguard the bank assets

a. Overall corporate governance structure and practices

The Board acknowledges that to continue to be successful in the long term, the bank must be led by an active board, with appropriate skills, experience, independence and knowledge of the activities of the bank.

The Bank is headed by an effective board which collectively is responsible for the long term success of the bank.

The Board of Directors is composed of 9 members. The Board is supported in its governance functions by five (5) specialized oversight committees on Audit, Asset/Liability Management, Credit, Nominations, and Human Resource Compensation and Remuneration. All the committees report regularly to the BOD on their activities as follows:

a. *Audit Committee* – provides oversight of the Bank's Financial Reporting and Control and oversees the work of internal and external audit functions; it monitors and evaluates the adequacy and effectiveness of the internal control system.
b. *Asset/Liability Committee* – provides oversight of senior management's activities in managing liquidity, market risks, evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Also consider investments and operational risk.
c. *Credit Committee* – recommend changes in policy, procedures and underwriting guidelines to the BOD. Grant sound loans while protecting the overall financial stability of the bank.
d. *Nominations Committee* – provides assessment of Board effectiveness as well as qualifications/disqualifications of members of BOD as well as those of the nominees. It reviews and evaluates all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board.
e. *HR Compensation and Remuneration Committee* – provides oversight of remuneration of Senior Management and other key personnel thus ensuring that compensation is consistent with the Bank's culture, objectives, strategy, and control environment as reflected in the formulation of compensation policy.

b. Selection process for the board and senior management

The Board acknowledges that the Members along with the Senior Management have proper skills, experience and dedication for the growth of the bank.

To ensure diversity, the Board shall continue to consider age, educational background, business and professional experience in banking or related industry and competence.

The Directors and senior management are expected to remain fit and proper for their positions the entire duration of their terms. They should possess the proper business judgment, unquestioned integrity, and the ability to make decisions objectively and independently. The Directors recognize that their membership in the board carries grave and serious duties and responsibilities as it demands from them their complete devotion to safeguard the bank's resources and to enhance its stockholders' investment. They are also cognizant of the importance of observing and promoting good governance.

c. Board's overall responsibility

The Board of Directors, composed of nine (9) members, is mainly responsible for determining the Bank's mission and vision. The Board meets the obligation of accountability to their shareholders and take into account the interests of other recognized stakeholders. It approves and oversees the strategic objectives and corporate values that are communicated throughout the banking organization. It sets and enforces clear lines of responsibility and accountability throughout the organization,, consistent with prudent board policy, transparent and at an arm's length basis.

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

The Chairman of the Board provides leadership in the board. He is responsible for the efficient functioning including maintaining a relationship of trust with the members of the Board. He decides on all matters to be included in the agenda and presides at the meetings of stockholders and Board of Directors.

- Ensure active participation and sufficiently deep professional involvement of all members of the Board of Directors.
- Encourage and actively solicit views and opinions of other members of the Board prior to arriving at a decision.
- Ensures that all members of the Board are given sufficient information and time to enable them to study carefully and responsibly issues that come up to the board.
- Allows for, and even encourages, the expression of independent views that may be different from those proposed by top management.

e. Board composition

Name of Directors	Type of Directorship	No. of years served as director	No. of shares held	Percentage of shared Held
Crisostomo, Jose Jr. P.	Executive	28	17,665	1.77%
Villanueva, Susan Pearl D.	Executive	20	7,878	0.79%
Topacio, Sandra B.	Executive	14	9,857	0.99%

Saulog, Alejandro B.	Non-Executive	38	8,145	0.81%
Tirona, Oscar F.	Non-Executive	36	37,479	3.75%
Benedicto, Katherine R.	Non-Executive	5	14,154	1.42%
Abelardo, Nelson S.	Non-Executive	20	3,781	0.38%
Ugalde, Maria Bernadette S.	Independent	3	1,892	0.19%
Tirona, Gerardo Ma. Ramon D.	Non-Executive	1	9,410	0.94%

f. Board Qualification

Name of Directors	Relevant qualifications/experiences	Current directorship/officership in other companies	Age	Nationality
Crisostomo, Jose Jr. P.	Bachelor of Laws BS Business Economics	Partner JCrisostomo Law Office; President, Joyas Phils., Inc.	67	Filipino
Villanueva, Susan Pearl D.	Bachelor of Laws Bachelor of Arts History Post Graduate- Master of Laws	Senior Partner Cruz, Marcelo &Tenefrancia Law Office Director-First Community Bank, Inc. Director- Villanueva Holdings, Inc.	57	Filipino
Topacio, Sandra B.	BSBA – Banking & Finance		61	Filipino
Saulog, Alejandro Jr. B.	Bachelor of Laws BSC – Commerce	Senior Partner Saulog & De Leon Law Office President/Director MSSL Realty and Dev. Inc.	65	Filipino
Tirona, Oscar F.	BS- Mechanical Engineering Professional Mechanical Engr. Asian Institute of Management- Management Course De La Salle University – Professional Studies	Chairman/President of several real estate corp.	92	Filipino
Benedicto, Katherine R.	BS- Nursing BSBM- Entrepreneurship	Administrator – KRB Maternity, Adult & Child Clinic	41	Filipino
Abelardo, Nelson S.	Doctor of Medicine Post Graduate – Internal Medicine Specialty; Cardiology Specialty; P&G Studies in Cardiology	Chairman – Manila Doctors Hospital Dept. of Cardiology Staff Cardiologist Asian Hospital & Medical Center	72	Filipino

		Asst. Medical Director – Manila Doctors Hospital Medical Director- GX International Pharmaceutical		
Ugalde, Maria Bernadette S.	Doctor of Medicine Post Graduate-Fellowship	Owner-IPM Multi-Specialty Clinic	55	Filipino
Tirona, Gerardo Ma. Ramon D.	AB Psychology Masters in Business Management	Vice President/Head of Marketing Department-Sun Life Grepa Financial, Inc.	57	Filipino

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

Board Level Committees	Membership	Function
Credit Committee	Chairperson: Crisostomo, Jose, Jr. P. Members: Benedicto, Katherine R. Topacio, Sandra B.	Approves credit transactions up to its approval limit as delegated by the BOD, including credit exceptions. Approves the sale of ROPA up to its delegated limit. Reviews, deliberates, and endorses to the BOD credit proposals and ROPA sales beyond its delegated limit. Recommends changes in policy, procedures and underwriting guidelines to the BOD. Grant sound loans protecting the overall financial stability of the bank.
Audit Committee	Chairperson: Ugalde, Maria Bernadette S. Members: Saulog, Alejandro, Jr. B. Tirona, Gerardo Ma. Ramon D.	Provides oversight of the bank's financial reporting and control, as well as the internal and external audit functions. Responsible for monitoring and evaluating the adequacy and effectiveness of the internal control system. Reviews governance, risk management, and controls
Asset and Liability Committee (ALCO)	Chairperson: Villanueva, Susan Pearl D. Members: Crisostomo, Jose, Jr. P. Tirona, Gerardo Ma. Ramon D. Topacio, Sandra B.	Sets police and standards for liquidity, interest, market, and investment risk identification and analysis, measurement, monitoring and control. Provides oversight of senior

		management's activities in managing liquidity, market risks, evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Also consider investments and operational risks.
Personnel Committee	Chairperson: Abelardo, Nelson. S. Members: Benedicto, Katherine R. Crisostomo, Jose Jr. P. Topacio, Sandra B.	Formulates and reviews job descriptions, performance standards and evaluation forms, conduct hiring of staff. Responsible with respect to designing, approving, evaluating and administering compensations, polices and programs of the bank.
Nomination Committee	Chairperson: Ugalde, Maria Bernadette S. Members: Abelardo, Nelson S Saulog, Alejandro Jr. B.	Provides assessment of Board's effectiveness and directs the process of election of Board members. It reviews and evaluates all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board.

h. Directors' attendance at board committee meetings

Name of Directors	Board Number of Meetings		Credit Committee Number of Meetings		Audit Committee Number of Meetings		Personnel Committee Number of Meetings		ALCO Number of Meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Abelardo, Nelson S.	22/24	92%					7/7	100%		
Benedicto, Katherine R.	24/24	100%	24/24	100%			7/7	100%		
Crisostomo, Jose Jr. P.	24/24	100%	24/24	100%			7/7	100%	4/4	100%
Saulog, Alejandro Jr. B.	23/24	96%			8/10	80%				
Tirona, Gerardo Ma. Ramon D.	22/24	92%			8/10	80%			4/4	100%
Tirona,	24/24	100%								

Oscar F.										
Topacio, Sandra B.	24/24	100%	24/24	100%			7/7	100%	4/4	100%
Ugalde, Maria Bernadette S.	23/24	96%			10/10	100%				
Villanueva, Susan Pearl D.	20/24	83%							4/4	100%
Total Number of Meetings Held During the Year	24		24		10		7		4	

i. List of executive officers/senior management

Name	Position	Relevant qualifications/experience	Age	Nationality
Crisostomo, Jose Jr. P.	Chairman	Bachelor of Laws BS Business Economics	67	Filipino
Villanueva, Susan Pearl D.	Vice President	Bachelor of Laws Bachelor of Arts History Post Graduate- Master of Laws	57	Filipino
Topacio, Sandra B.	Treasurer	BSBA – Banking & Finance	61	Filipino
Sauler, Enrique K.	Corporate Secretary	BS- Computer Science	38	Filipino
Matro, Maria Consuelo G.	Compliance Officer	BSC- Accounting	58	Filipino
De Guzman, Roberto T.	Manager	BSC- Accounting	54	Filipino

j. Performance Assessment Program

- The Board of Directors undertakes a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.
- Individual evaluation of directors aims to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties). The Chairman acts on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the board, identifying individual and collective development needs and, where appropriate, proposing new members be appointed to the board.
- The Chairman conducts annual performance evaluations of the other executive directors, in relation to their role as members of the Board and reports this to the Corporate Governance Committee. A summary of the agreed outcome will be reported to the Board.

- The Chairman determines the individual and collective development needs of the Board as a result of the performance evaluations set out above, and put appropriate development programs in place.
- Senior Management is assessed in their individual capacity and all officers and employees of the bank on a regular basis. The results of the assessment are documented and evaluated for the effectiveness of their functions.

k. Orientation and Education Program

- A newly appointed director is required to attend a special seminar on corporate governance to be conducted by a duly recognized private or government institution duly accredited by the Bangko Sentral ng Pilipinas within six (6) months after appointment, subject to exceptions as provided herein.
- The Board of Directors and key officers of the Bank also attend, at least once a year, a program on corporate governance conducted by training providers that are duly accredited by the SEC or BSP.
- The Bank shall also implements an appropriate communication and professional training and development program for officers and employees as well as a succession plan for senior management.
- The Compliance Office and Human Resource Office will collaborate regarding compliance training and education programs for various corporate business functions designed to ensure that all officials and employees have the awareness of legal requirements that are relevant to their work at a level appropriate to their jobs and that all employees have the awareness of bank policies, procedures and standards of conduct.

l. Retirement and Succession Policy

The Bank is still in the process of establishing its policy on the retirement for directors which shall be in line with considerations of ensuring the continuity of the bank as a vibrant and viable banking institution, while recognizing the valuable contribution of the long serving directors who have acquired extensive experience and familiarity with the bank's operations and of the environment in which it conducts business. Fundamental consideration is their continued compliance with the fit and proper requirement to fulfill the role of directors. Further, the Bank gives importance to the expertise and experiences of the senior directors and the valuable wisdom they can impart to the Board. This is especially significant in view of the largely personal and direct dealings of the Bank with its clients, who, by large, are known members of the community. The continued presence of the senior directors provides a real sense of stability and security for the members of the community for them to continue transacting with Imus Rural Bank in the face of the growing competition from larger, more aggressive banks and the difficult times brought about by several factors, including the pandemic. The directors should continue to be mentally and physically fit to discharge their duties and responsibilities. They should have the time to and make the effort to regularly attend Board meetings, actively participating in the discussions by sharing his/her knowledge and insights. They should be able to attend and adequately prepare for committee meetings where they are members. For independent directors, under applicable regulations, they may only serve as such for a maximum period of nine (9) years, after which, they shall be perpetually barred from serving as independent director in the Bank.

The retirement policy of the bank states that the rank-and-file employees have a compulsory retirement age at 55 years of age while for senior officers it is 60. However, IRBI may extend the services of individual employees and officers on a case-to-case basis in meritorious service where the interests of the Bank are properly served.

As far as executive or working directors, the bank has, until now, no prescribed retirement age. But the members of the BOD are considering setting a policy on this matter taking into consideration the current practice in the banking industry.

The Board shall ensure that IRBI has in place an appropriate and updated succession plan for key executives to address emergency in the event of extraordinary circumstances and ensure continuity of operations.

In the event of death, illness or other incapacity of a director, or if the director is removed under Section 7 of Article IV by stockholders holding 2/3 of the subscribed stock, or otherwise ceases to be a director, Section 6 Article IV of the by-laws shall apply, whereby, the remaining directors may elect the replacement for the balance of the unexpired term.

In case of death, illness, absence or other incapacity of the President, or should for any reason the office of the President becomes vacant, the Vice President shall exercise all the powers, authority, and duties of the President until such time as the board of directors elect the new President to serve the unexpired term.

In case the position of Vice President, Treasurer and Corporate Secretary becomes vacant, Section 6 Article IV of the by-laws shall apply, whereby, the remaining directors may elect the replacement for the balance of the unexpired term. In the absence or incapacity of Corporate Secretary, the board may designate an Assistant Corporate Secretary who shall exercise all the powers, authority, and duties of the Corporate Secretary.

In anticipation of the temporary absence or incapacity of senior officers, the heads of the different offices and branches are to designate appropriate employees within the branch or office who are to take over the duties of the officers who are absent or incapacitated. In this regard, appropriate cross training shall be regularly conducted among officers so as to allow them to competently assume the duties and responsibilities of other officers.

m. Remuneration policy

The levels of remuneration of IRBI shall be sufficient to attract and retain experienced and professional directors and officers needed to run the Company successfully. A proportion of executive directors' remuneration may be structured to link rewards to corporate and individual performance. The Bank's Personnel Committee shall monitor and review the remuneration and other incentives policy including plans, processes, and outcomes, at least annually, to ensure that it operates and achieves the objectives as intended. A Human Resources consultant was recently engaged to conduct a study on the compensation levels of the Bank's personnel, with an end to bringing the Bank to or near parity with comparable establishments in Cavite, as well as in Metro Manila.

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

Executive Directors – executive directors are not compensated as directors of the Bank. As officers of the Bank they receive salaries, bonuses and other standard bank benefits, as approved by BSP, in accordance with the performance management philosophy of the Bank based on meritocracy or pay for performance. The Bank allows travel (except foreign travel) for its officers for official or business reasons. All travel expenses are shouldered by the Bank, including the travel allowance/per diem subject to policy guidelines and approval by the President.

Non-Executive Directors - The Bank By-Laws provides that each director shall be entitled to receive from the Bank, pursuant to a resolution of the Board of Directors that was approved by the stockholders, reasonable honoraria (fees and other compensation for his services as director for actual attendance and/or participation in meetings, conferences or other official Bank functions. The Board of directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the director. In no case shall the total yearly compensation of directors exceed 10% of net income before tax of the Bank during the preceding year.

ii. Remuneration Policy for Senior Management

The total compensation program of the director is competitive and linked to the bank's overall compensation philosophy. The compensation system and policy applicable to the Board of Directors of IRBI are established in the By-laws. The Bank aims to provide the Board of Directors and its officers with a compensation package that is reasonable and comparable to what is paid by other companies taking into account the bank's position against peers in the industry and other market considerations. Generally, officers' salaries are determined with reference to the salary scale corresponding to the position and rank. Annual salary review is conducted and all increases are performance based. The Bank grants bonuses inclusive of 13th month pay required by the law. The Bank also grants a performance bonus (non-guaranteed) based on the bank's performance overall market conditions and individual performance of the recipients and does not merely stem from the circumstances prevailing in the market. The members of the Board of Directors receive compensation (fees, bonuses and allowances) based on their banking or finance experience and their attendance in meetings of the Board and the committees where they are members or by reason of any other advisory duties they may perform for the institution, other than those inherent in their capacity as directors. The Board of Directors sees to it that the remuneration policy is regularly reviewed to ensure that it is commensurate with corporate and individual performance and that the remuneration is consistent with industry while maintaining internal equity at the same time.

n. Policies and Procedures on Related Party Transactions

Imus Rural Bank, Inc. has established policies and procedures on related party transactions. These include definition of related parties, coverage of RPT policy, guidelines in ensuring arm's-length terms, identification and prevention or management potential or actual conflicts of interest which arise, adoption of materiality thresholds, internal limits for individual and aggregate exposures, whistle blower mechanisms, and restitution of losses and other remedies for RPTs.

The Related Party Transactions policy applies to IRBI and intended to ensure that every related party transaction is conducted in a manner that will protect the Company from conflict of interest situations which may arise between IRBI and its Related Parties; and proper review, approval, ratification and disclosure of transactions between IRBI and any of its related party/ies as required in compliance with legal and regulatory requirements. The policy also requires that any member of the RPT Committee who has a potential interest in any related party transaction shall abstain from the discussion and endorsement of the related party transaction and any member of the Board who has an interest in the transaction must abstain from the deliberation and approval of the any related party transaction.

The Bank approved loan to related parties with hold-out deposit securities amounting to Php350 thousand and Php500 thousand, respectively, which have outstanding balances amounting to Php239 thousand and Php325 thousand, respectively.

o. Self-Assessment Function

i. Internal Audit and Compliance Function

The internal audit function which shall be performed by an Internal Auditor conducts independent and objective internal audit activities designed to add value to and improve the Bank's operations and helps to accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes through which the Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are appropriate, adequate, effective and complied with key functions of internal audit include the following:

- Provide an independent and risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (i) promoting the right values and ethics, (ii) ensuring effective performance management and accounting in the organization, (iii) communicating risk and control information, and (iv) coordinating the activities and information among the Board, external and internal auditors, and Management;
- Perform regular and special audit as contained in the annual audit plan and/or based on the bank's risk assessment;
- Review, audit and assess the efficiency and effectiveness of the internal control system of all areas of the Bank;
- Evaluate operations or programs to ascertain whether results are consistent with established objectives and goals; and whether the operations or programs are being carried out as planned;
- Evaluate specific operations at the request of the Board or Management, as appropriate; and
- Monitors and evaluate governance processes.

The compliance officer remains sufficiently independent of the operations on which she conducts compliance testing and evaluation to enable him/her to perform his/her duties in a manner, which facilitates impartial and effective professional judgments and recommendations. The compliance officer has no operational responsibilities and reports directly to the Audit Committee during its monthly meetings. The report refers to the compliance risk assessment that has taken place during the reporting period, including any changes in the compliance risk profile based on relevant measurements such as performance indicators, summary of any identified breaches and/or deficiencies and the corrective measures recommended to address them, and report on corrective measures already taken.

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

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

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

p. Dividend policy

Shareholders receive dividends as may be decided by the Board of Directors. The decision to declare dividends depends on factors such as the profitability of the bank operations and subject to the requirements of the Bangko Sentral ng Pilipinas. IRBI shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital except:

a. when the Bank is prohibited by regulators or under any loan agreement with any financial institution or creditor to declare dividends without its consent and such consent has not been secured.

b. when such retention is clearly necessary under special circumstances obtaining in the Bank, such as a need for special reserves for possible contingencies.

c. when justified by definite corporate expansion projects or programs approved by the Board.

q. Corporate Social Responsibility

Every school graduation month, to inspire the young achievers of Imus, the Bank offers cash gifts in the form of a savings deposit account to all the valedictorians of different schools in the Municipality. It also participates in community activities for the youth like basketball tournament.

r. Consumer Protection Practices

i. Role and Responsibility of the Board and Senior Management

The Board sees to it that there is an avenue for clients to obtain help with regard to perceived shortcomings or defects in the services rendered by the Bank. The Board and Senior Management are responsible for developing the Banks consumer protection strategy and establishing an effective oversight over the Bank's consumer protection programs. The Board approves the consumer assistance policies and procedures, ensures its compliance, and provides adequate resources devoted to consumer assistance. While Senior Management is responsible for the implementation of the consumer protection policies approved by the Board, the latter shall be responsible for monitoring and overseeing the performance of Senior Management in managing the day to day consumer protection activities of the Bank.

ii. Consumer Protection Risk Management System of the Bank

The CPRMS is a means by which the Bank can identify, measure, monitor, and control consumer protection risks inherent in its operations. These include both risks to the financial consumers and the Bank.

To address this risk, the Bank develops and maintains a sound compliance management system that is integrated into the overall risk management strategy of the bank. Ultimately, compliance should be part of the daily routine of management and employees of the Bank.

Compliance management system is commonly comprised of three interdependent elements:

- Board and management oversight - The Board and Senior Management should be responsible for developing and maintaining a sound CPRMS which should be periodically reviewed for its effectiveness, including how findings are reported; whether the audit mechanisms is in place and the quality and timeliness of the information provided is adequate. The Board and Senior Management must also make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner.
- Compliance program – aims to ensure the adherence to the existing policies and procedure, relevant banking laws, rules and regulations of the regulatory bodies to prevent violations.
- Compliance audit - Independent of the compliance function, should review the Bank's consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations.
- Training - The Human Resources Department and respective business units should ensure that all relevant personnel specifically those whose roles and responsibilities have customer interface, receive specific and comprehensive training that reinforces and helps implement written policies and procedures on consumer protection. The training program should be able to address changes in consumer protection laws, rules and regulations, and policies and procedures, and should be provided in a timely manner.

iii. Consumer Assistance Management System

The Bank has a designated Consumer Assistance Officer in every branch and branch-lites to handle the complaints of the Financial Consumers who are dissatisfied with its financial products or services under the direct supervision of Vice President-Operations with defined roles and responsibilities in handling consumer concerns as follows:

- Main Office – Manager for all CASA and administrative related issues, Loans Head for all loans related issues
- Branch Offices – Manager for all CASA and administrative related issues of their respective branch.

Duties and Responsibilities:

- Receive and acknowledge consumer concerns;
- Record concerns in a Register/Database;

- Make an initial review and investigation of concerns;
- Provide official reply to consumer
- Request client feedback
- Prepare and submit report to the Operations Group Head.

6. Corporate Information

a. Organizational Structure

Name	Position
Jose P. Crisostomo, Jr.	President
Alejandro B. Saulog, Jr.	Chairman
Susan Pearl D. Villanueva	Vice- President
Sandra B. Topacio	Treasurer
Enrique K. Sauler, Jr.	Corporate Secretary/IT Officer
Maria Consuelo G. Matro	Compliance Officer
Arlene E. Ramirez	Internal Auditor
Susan Z. Delos Santos	Chief Operating Officer
Allan S. Sarreal	Loans Head
Earvin Noel C. Virata	Accounting Head
Maria Kriztine M. Dayrit	Head Cashier
Roberto T. De Guzman	Manager- Main Office
Daryll John R. Reno	Officer-in-Charge – Market Branch
Katherine D. Benedicto	Manager- Molino Branch
Angelo F. Villafuerte	Manager- Salawag Branch

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

Name of Stockholder	Nationality	% of Stockholdings	Voting Status
Oscar F. Tirona	Filipino	3.75%	Voting
Earl Patrick V. Benedicto	Filipino	1.90%	Voting
RASC Holdings Phils, Inc.	Filipino	1.84%	Voting
Jose P. Crisostomo, Jr.	Filipino	1.77%	Voting
Marianne Alexandra V. Benedicto	Filipino	1.51%	Voting
Ma. Cristina D. Tirona	Filipino	1.45%	Voting
Conrado P. Crisostomo	Filipino	1.45%	Voting
Emiliana p. Crisostomo	Filipino	1.43%	Voting
Pilar P. Crisostomo-Hernandez	Filipino	1.43%	Voting
Gloria Juana P. Crisostomo-Pollock	Filipino	1.43%	Voting
Katherine R. Benedicto	Filipino	1.42%	Voting
Eduardo E. Sayoc	Filipino	1.39%	Voting
Eric Jude V. Benedicto	Filipino	1.31%	Voting
Jesus Eugenio D.	Filipino	1.14%	Voting

Villanueva			
Agerico M. Sayoc	Filipino	1.12%	Voting
Lynne Grace T. Alviola	Filipino	1.07%	Voting
Rene Antonio V. Benedicto	Filipino	1.04%	Voting
Ma. Rosabel G. Villanueva	Filipino	1.00%	Voting

c. List and description of products and services offered

Loans	Agricultural/Agrarian, SME, Salary/Consumption, Housing, Vehicle, Business, Doctors, Corporate Loans
Deposit	Savings Deposit Regular, Special Savings, Current Accounts Regular, Savings Deposit with Automatic Transfer Arrangement, Foreign Currency Deposit
Safe deposit box services	

d. Bank Website

The bank website is at www.imusrb.com

e. List of banking units as of Dec. 31, 2023

Bank Office	Location	Contact Number
1. Main Office	Cor. Col. M. Sapinoso& Capt. I. Bella Sts., Poblacion I-C, City of Imus, Cavite	(046) 471-4519 Tel/Fax: (046) 471-0713 (046) 471-3358
2. Market Branch	Imus Public Market, City of Imus, Cavite	(046) 471-4415 Tel/Fax: (046) 471-2160
3. Molino Branch	Molino Road, Molino III, City of Bacoor, Cavite	(046) 517-2638 Tel/Fax: (046) 477-0828
4. Salawag Branch	CJNI Bldg. L1 B1 Sterling Nile, Golden City, Salawag, City of Dasmariñas, Cavite	Tel/Fax: (046) 436-0540
5. Mauban Branch-lite Unit	Plaridel Cor. Quezon Sts., Brgy. Lual (Poblacion), Mauban, Quezon	Tel/Fax: (042) 717-9180
6. Balayan Branch-lite Unit	Caoibes St. Brgy. 2, Balayan, Batangas	Tel/Fax: (043) 741-5825

7. Audited Financial Statements (AFS) with Auditor's Opinion

IMUS RURAL BANK, INC.

CORNER COL.M. SAPINOSO and CAPT. I. BELLA STS

POBLACION I-C, CITY OF IMUS, CAVITE

Audited Financial Statements
December 31, 2023
(with comparative figures of 2022)

and

Independent Auditor's Report

Philippine Peso

Edgardo M. Molina
Certified Public Accountant

Imus Rural Bank, Inc.
Corner Col. M. Sapinoso and Capt. I. Bella Sts.
Poblacion I-C, City of Imus, Cavite

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **IMUS RURAL BANK, INC.** is responsible for all information and representations contained in the financial statements as of December 31, 2023 and 2022 and for each of the two years in the period ended December 31, 2023, in accordance with the prescribed financial reporting framework indicated therein.

The Board of Directors is responsible for overseeing the Company's financial reporting process. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

In preparing the financial statement, management is responsible for assessing the Company'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 Company or to cease operation, or has no realistic alternative but to do so.

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

Edgardo M. Molina, CPA, *the independent auditor appointed by the stockholders for the period December 31, 2023 has audited the* **consolidated** *financial statements of the company in accordance with Philippine Standards on Auditing, and in his reports to the stockholders, have expressed his opinion on the fairness of presentation upon completion of such examination.*

Signature: ______________________
Name of the Chairman: **ALEJANDRO B. SAULOG, JR.**

Signature: ______________________
Name of the President: **JOSE P. CRISOSTOMO, JR.**

Signature: ______________________
Name of the Treasurer: **SANDRA B. TOPACIO**

Signed this 26th **day of** April, 2024

EDGARDO M. MOLINA
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
IMUS RURAL BANK, INC.
Corner Col. M. Sapinoso and Capt. I
Bella Sts., Poblacion I-C,
City of Imus, Cavite

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of **IMUS RURAL BANK, INC.** which comprise the statement of financial position as at December 31, 2023 and 2022, and the statement of operation, statement of changes in equity and statement of cash flow for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements presents fairly, in all material respects, the financial position of the Bank as at December 31, 2023 and 2022, and its financial performance and its cash flow for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC) in response to the COVID-19 pandemic.

Basis for Opinion

I conducted my audit in accordance with Philippine Standards on Auditing (PSA). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am 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 my audit of the financial statements in the Philippines, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Code of Ethics. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

Management is responsible for the other information. The other information comprises reports by management but does not include the financial statements and my auditor's report thereon.

In my opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with full Philippine Financial Reporting Standards (for large and public interest entities) and for such

EDGARDO M. MOLINA
Certified Public Accountant

internal control as management determines is necessary to enable the preparation of financial statement that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with PSA, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 Company'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 Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Blk 10, Lot 26, Kroner Street, Villa Carolina I, Tunasan, Muntinlupa City; 2281 Flerida St., Pandacan, Manila
Telephone No: (632) 8257145; Mobile No: (0917) 6283163 / (0917)6290499; Email: emmolinaconsultancy@gmail.com

- 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.

I 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 I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significant in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in the Notes to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of **Imus Rural Bank, Inc.** and has been subjected to the auditing procedures applied in my audit of the basic financial statements. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

EDGARDO M. MOLINA
TIN No. 123-467-133-000
CPA Certificate No. 0039419 valid until September 1, 2026
BOA/PRC Certificate No. 2577, valid until September 1, 2024
BIR Accreditation No. 08-005012-001-2022, valid until September 27, 2025
BSP Accreditation No. 39419-BSP (Category C), issued March 26, 2020,
valid for a period of five (5) years to engage in the audit of 2019 to 2023 financial statements
CDA Accreditation No. CDA-CEA No. 463, valid until April 7, 2024
PTR No. 10521794, issued January 4, 2024 at Muntinlupa City

April 15, 2024

EDGARDO M. MOLINA
Certified Public Accountant

CERTIFICATION

The Stockholders and Board of Directors
Imus Rural Bank, Inc.
Corner Col. M. Sapinoso and
Capt. I. Bella Sts. Poblacion I-C,
City of Imus, Cavite

This is to certify that **NO** material weakness or breach in the internal control and risk management system was noted in the course of audit of **IMUS RURAL BANK, INC.**

This certification is issued in connection with the requirement of section 174 of the Manual of Regulation for Banks.

EDGARDO M. MOLINA
TIN No. 123-467-133-000
CPA Certificate No. 0039419 valid until September 1, 2026
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April 15, 2024

15 APR 2024

SUBSCRIBED AND SWORN TO BEFORE ME, on the ____day of ________ 2024 by affiant who exhibited to me his valid Passport with No. P3678818B issued on October 29, 2019 and valid up to October 28, 2029.

Doc. No. 6
Page No. 3
Book No. XVIII
Series of 2024

RAUL JOHN Y. TAÑEDO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2025
PTR NO. 2510325 / 01-23-24 QUEZON CITY
IBP LIFETIME NO. 02678 RSM / ROLL NO. 40849
MCLE COMPLIANCE NO. VII-0013142/ VALID UNTIL 04.14.2025

Blk 10, Lot 26, Kroner Street, Villa Carolina I, Tunasan, Muntinlupa City; 2281 Flerida St., Pandacan, Manila
Telephone No: (632) 8257145; Mobile No: (0917) ...

EDGARDO M. MOLINA
Certified Public Accountant

CERTIFICATION

The Officer-in-charge
Bangko Sentral ng Pilipinas
Malate, Manila

In connection with my audit with **IMUS RURAL BANK, INC.** and in pursuant to the provision of section 174 of the MORB which require the submission of annual financial audit of Bank, I hereby certify the following:

1.) That I have commenced my engagement to audit the financial statements of **IMUS RURAL BANK, INC.,** on January 26, 2024 and had finished the audit on April 15, 2024.

2.) That the Financial Reporting and Certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank were submitted to the Board of Directors on April 20, 2024.

3.) That I, the auditor-in-charge of the engagement, and the members of our immediate families do not have any direct or indirect financial interests with the bank including its affiliates and subsidiaries and that my independence is not at all impaired under any of the circumstances specified in the Code of Professional Ethics for Certified Public Accounts.

4.) That I have read-only access to the BSP report of examination;

5.) That I have **none to report** on the following matters under **BSP Circular 1040 series of 2019**;

   a. Any material finding involving fraud or dishonesty (including cases that were resolved during the audit period).
   b. Any potential losses, the aggregate of which amounts to at least ten percent (10%) of the consolidated total asset;
   c. Any findings to the effect that consolidated asset of the Bank, ongoing concern basis, are no longer adequate to cover the total claims of creditor;
   d. Material internal control weakness which may lead to financial reporting problems.

6.) That the Bank has complied with the disclosure requirement under Section 174 of the MORB, as amended by Circular No. 1074 series of 2020.

7.) That I have **none to report** on discovery of material breach of laws and BSP rules and regulations such as on capital adequacy ratio and on loans and other risks and classification.

8.) That I have **no report** on findings regarding corporate governance issues;

9.) That I have **no report** regarding termination and resignation as external auditor.

Blk 10, Lot 26, Kroner Street, Villa Carolina I, Tunasan, Muntinlupa City; 2281 Flerida St., Pandacan, Manila

EDGARDO M. MOLINA
Certified Public Accountant

10.) That I have **none to report** with respect to material breach of BSP rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement methodology, significant vulnerabilities to money laundering and countering the financing of terrorism; and

11.) That I have **none to report** with respect to material findings on matters of corporate governance that may require urgent action by the BSP, whichever is applicable.

It is however understood that the accountability of the undersigned practitioner is based on matters within the normal coverage of an audit conducted in accordance with the Philippine Standards on Auditing.

These certifications are being issued in compliance with the requirements by the BSP in the submission of audited financial statements on the above-mentioned rural bank.

EDGARDO M. MOLINA
TIN No. 123-467-133-000
CPA Certificate No. 0039419 valid until September 1, 2026
BOA/PRC Certificate No. 2577, valid until September 1, 2024
BIR Accreditation No. 08-005012-001-2022, valid until September 27, 2025
BSP Accreditation No. 39419-BSP (Category C), issued March 26, 2020,
valid for a period of five (5) years to engage in the audit of 2019 to 2023 financial statements
CDA Accreditation No. CDA-CEA No. 463, valid until April 7, 2024
PTR No. 10521794, Issued January 4, 2024 at Muntinlupa City

April 15, 2024

15 APR 2024

SUBSCRIBED AND SWORN TO BEFORE ME, on the ____day of ________ 2024 by affiant who exhibited to me his valid Passport with No. P3678818B issued on October 29, 2019 and valid up to October 28, 2029.

Doc No.: 4
Page No': 2
Book No': XVIII
Series of 2024

RAUL JOHN Y. TAÑEDO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2025
PTR NO. 2510325 / 01-23-24 QUEZON CITY
IBP LIFETIME NO. 02678 RSM / ROLL NO. 40849
MCLE COMPLIANCE NO. VII-0013142/ VALID UNTIL 04.14.2025

Blk 10, Lot 26, Kroner Street, Villa Carolina I, Tunasan, Muntinlupa City; 2281 Flerida St., Pandacan, Manila
Telephone No: (632) 8257145; Mobile No: (0917) 6283163 / (0917)6200400;

EDGARDO M. MOLINA
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT FOR SUPPLEMENTARY INFORMATION

To the Stockholders and Board of Directors
IMUS RURAL BANK, INC.
Corner Col. M. Sapinoso and Capt. I. Bella Sts.
Poblacion I-C, Ciy of Imus, Cavite

I have audited in accordance with Philippine Standards of Auditing, the financial statements of **IMUS RURAL BANK, INC.** as at and for the taxable year ended December 31, 2023 on which I issued my report thereon dated April 15, 2024. My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness indicators including their definitions, formulas, and calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Bank's management.

These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other banks. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Bank's financial statements as at December 31, 2023 and no material exceptions were noted.

EDGARDO M. MOLINA
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Telephone No: (632) 8257145; Mobile No: (0917) 6283163 / (0917)6290499; Email: emmolinaconsultancy@gmail.com

Imus Rural Bank, Inc.
Corner Col. M. Sapinoso and Capt. I. Bella Sts.
Poblacion I-C, City of Imus, Cavite

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN

The management of IMUS RURAL BANK, INC. is responsible for all information and representations contained in the Annual Income Tax Return as of December 31, 2023. The Management is likewise responsible for all information and representations contained in the financial statements accompanying the (Annual Income Tax Return or Annual Information Return) covering the same period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other returns.

In this regard, Management affirms that the attached audited financial statements for the year ended December 31, 2023 and accompanying Annual Income Tax Return are in accordance with the Books and records of the Bank are complete and correct in all material respects.

Management likewise affirms that:

The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau or Internal Revenue;

Any disparity of figures in the submitted reports arising from the preparation of the financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulation No. 8-2007 and other relevant issuance; and

That, the Bank has filed all applicable tax returns, reports and statements required to be filed under the Philippine Tax Laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Signature: ______________________
Name of the Chairman: ALEJANDRO B. SAULOG, JR.

Signature: ______________________
Name of the President: JOSE P. CRISOSTOMO, JR.

Signature: ______________________
Name of the Treasurer: SANDRA B. TOPACIO

Signed this 26th day of April, 2024

EDGARDO M. MOLINA
Certified Public Accountant

REPORT OF INDEPENDENT AUDITOR TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE BUREAU OF INTERNAL REVENUE

The Board of Directors
Imus Rural Bank, Inc.
Corner Col. M. Sapinoso and
Capt. I. Bella Sts. Poblacion I-C,
City of Imus, Cavite

I have audited the accompanying financial statements of **Imus Rural Bank, Inc.** as at December 31, 2023 and 2022 and for the years then ended, on which I have rendered the attached report dated April 15, 2024.

In compliance with Revenue Regulations V-20, I am stating the following:

1. That I am not related by consanguinity or affinity to the president, manager or principal stockholders of the Company.
2. That I have no financial interest to the Corporation or any family relationships with its management.
3. The taxes paid and or/accrued by the Company during the years are shown in the Schedule of Taxes and Licenses attached to the Annual Income Tax Return.

EDGARDO M. MOLINA
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April 15, 2024

Blk 10, Lot 26, Kroner Street, Villa Carolina I, Tunasan, Muntinlupa City; 2281 Flerida St., Pandacan, Manila
Telephone No: (632) 8257145; Mobile No: (0917) 6283163 / (0917)6290499; Email: emmolinaconsultancy@gmail.com

DISCLOSURE REQUIREMENT UNDER SECURITIES AND EXCHANGE COMMISSION MEMORANDUM CIRCULAR 13, SERIES OF 2006

1. *Any material findings involving fraud or error which will reduce the total assets of the company by five percent (5%)*

   In the conduct of our audit for the years ended December 31, 2023 and 2022 of **Imus Rural Bank, Inc.**, there are no material findings involving fraud or error which will reduce the total assets of the company by five percent (5%).

2. *Losses or potential losses, the aggregate of which amounts to at least ten percent (10%) of the total assets of the company.*

   There were no losses incurred or potential losses which amounts to at least ten percent (10%) of the total assets of the **Imus Rural Bank, Inc.**

3. *Any findings to the effect that the total assets of the company, on a going concern basis are no longer adequate to cover the total claims of creditors.*

   There were no findings that affect the total assets of the company, on a going concern basis are no longer adequate to cover the total claims of creditors.

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SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITOR

The Board of Directors
Imus Rural Bank, Inc.
Corner Col. M. Sapinoso and
Capt. I. Bella Sts. Poblacion I-C,
City of Imus, Cavite

I have audited the financial statements of Imus Rural Bank, Inc. for the years ended December 31, 2023 and 2022 on which I have rendered the attached report dated April 15, 2024.

In compliance with SRC Rule 68, I am stating that said company has a total number of 114 stockholders owning one hundred (100) or more shares as of December 31, 2023.

EDGARDO M. MOLINA
TIN No. 123-467-133-000
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IMUS RURAL BANK, INC.
Comparison of Submitted Consolidated Balance Sheet and Income Statement and Audited Financial Statements
As of December 31, 2023

	Submitted Report	Audited Report	Variance/ Discrepancy	Reason for Discrepancy
ASSETS				
Cash and other cash items	12,681,847	12,681,847	-	
Due from Bangko Sentral ng Pilipinas	14,474,634	14,474,634	-	
Due from Other Banks	370,609,673	370,609,673	-	
Investment Securities at Amortized Cost	357,004,084	357,004,084	-	
Loans and receivables - net	483,528,931	486,805,608	(3,276,677)	A
Bank premises, furniture, fixtures and equipment - net	15,140,903	15,140,903	-	
Rights-of-use assets - net	4,328,481	3,098,394	1,230,086	B
Investment property (ROPA) - net	10,554,102	10,554,102	-	
Deferred tax asset	7,955,928	2,484,798	5,471,130	C
Retirement benefit asset-net	15,414,788	5,191,516	10,223,272	D
Other assets - net	1,606,600	1,606,600	-	
TOTAL ASSETS	1,293,299,970	1,279,652,159	13,647,811	
LIABILITIES AND EQUITY				
Deposit liabilities	1,037,545,378	1,037,545,378	-	
Lease liabilities	4,529,177	3,266,453	1,262,724	E
Income tax payable	179,361	157,778	21,582	F
Accrued expenses and other liabilities	3,451,042	3,451,042	-	
Deferred Tax Liabilities	4,050,921	-	4,050,921	G
Retirement	8,395,331	-	8,395,331	G
TOTAL LIABILITIES	1,058,151,211	1,044,420,652	13,730,559	
EQUITY				
Paid-in Capital stock	99,950,200	99,950,200	-	
Retained earnings - free	78,650,239	78,732,987	(82,748)	H
Retained earnings - reserves	57,465,312	57,465,312	-	
Remeasurements of post-employment defined benefit asset	(916,992)	(916,992)	-	
Undivided Profits	-	-	-	
TOTAL EQUITY	235,148,759	235,231,507	(82,748)	
TOTAL LIABILITIES AND EQUITY	1,293,299,970	1,279,652,159	13,647,811	

	Submitted Report	Audited Report	Variance/ Discrepancy	Reason for Discrepancy
INCOME AND EXPENSE ACCOUNTS				
Interest income	83,143,436	83,143,436	-	
Interest expense	7,617,331	7,908,642	(291,311)	To record interest expense payment of lease
NET INTEREST INCOME	75,526,105	75,234,794	291,311	
NON-INTEREST INCOME				
Gain from Sale of Non-financial assets-ROPA	866,993	866,993	-	
Fees and Commissions Income	1,121,486	1,121,486	-	
Other Income	4,566,994	4,566,994	-	
	6,555,473	6,555,473	-	
NON-INTEREST EXPENSE				
Compensation/fringe benefits	21,122,879	21,749,332	(626,453)	To adjust retirement in accordance with PAS 19R
Taxes and licenses	4,174,282	4,174,282	-	
Fees and commission expenses	364,986	364,986	-	
Other administrative expenses	19,510,779	17,956,746	1,554,033	To adjust the additional depreciation for leashold improvements, retirement in accordance with PAS19R
Depreciation/Amortization	2,343,161	3,573,248	(1,230,086)	and record amortization
	47,516,088	47,818,594	(302,506)	
INCOME BEFORE PROVISIONS	34,565,490	33,971,673	593,817	
(LOSSES)/RECOVERIES ON FINANCIAL ASSETS				
Impairment losses	-	-		
Provision for probable losses	(3,276,676)	(3,276,676)	-	
INCOME BEFORE TAX	31,288,814	30,694,996	593,817	
Income tax expense	(6,144,272)	(9,083,007)	2,938,736	effect of DTAL
NET INCOME AFTER TAX	25,144,542	21,611,989	3,532,553	
OTHER COMPREHENSIVE INCOME		-		
Item that will not be reclassified subsequently to profit or loss				
Remeasurements of post-employment defined benefit liability	-	-		
Tax income (expense)	-	-		
TOTAL COMPREHENSIVE INCOME	25,144,542	21,611,989	3,532,553	

Reason for Discrepancy

A. Loans and receivables-net Php475,972,185 and Accrued Interest Income for Financial Assets-Net Php7,556,746 per submitted report were presented as Loan and receivables-net Php486,805,608 account per Financial Audit Report (FAR). The difference of Php3,276,677 is due to (b) staggered booking allowances for probable losses (as presented per FAR) which was reported as full amount in submitted report.

Computation:

Loans and receivables - net	P	475,972,185
Accrued Interest Income from Financial Assets - net		7,556,746
Total per BSP submitted report		483,528,931
vs. Loans and receivables - net		486,805,608
Variance	P	(3,276,677)

Variance is due to		
Specific Allowance -Submitted Report	P	(28,432,849)
Specific Allowance - Audited Report		(25,156,172)
	P	(3,276,676)

B. Rights-of-use assets - net-Php4,328,481 accounts per BSP submitted report were presented as Rights-of-use assets - net Php3,098,394 account per FAR. The variance is due recording of amortization expenses for year 2022 and additional ROUA for renewed contract.

Computation:

Beginning Balance-ROUA			P	4,328,481
Less: Amortization Expense				
SALAWAG	P	628,143		
MAUBAN		495,871		
CANDELARIA		106,073		1,230,086
ROUA, END			**P**	**3,098,394**

C. Deferred tax assets -Php7,955,928 accounts per BSP submitted report were presented as Deferred tax assets - Php2,484,798 accounts per FAR. The variance is due changes in DTAL for year 2023 (See schedule 1)

D. Retirement Assets-Php 15,414,788 and Provision P8,395,331 accounts per BSP submitted report was reported as Retirement Assets-Net Php5,191,516 per FAR. The variance is due to the difference between the present value of obligations and provision and other changes in the retirement plan (see notes 23)

E.Lease Liabilities Php4,529,177 presented as part of Other liabilities in BSP submitted report was reported as Lease Laibilities-Php3,266,453 per FAR. The variance is due to recording of lease liability payment.

LEASE LIABILITIES:

Beginning Balance			P	4,529,177
Less: Payments net of Interest Expense				
SALAWAG	P	670,914.60		
MAUBAN		431,076.30		
CANDELARIA		160,733.50		1,262,724
LEASE LIABILITIES END			P	**3,266,453**

F. Income Tax Payable -Php 179,361 per submitted report was reported as Income Tax Payable -Php157,779 per FAR. The difference is due to changes in income tax due (please see note 24).

G. Deferred Tax Liabilities - Php4,050,921 and Retirement Laibilities P8,395,331 per BSP submitted was presented as parts of Deferred Tax Assets and Retirement Assets per FAR.

H. Retained Earnings-Free-Php78,650,239s per BSP submitted report were presented as Retained Earnings-Free-Php78,732,987 accounts per FAR. The difference of Php82,748 in Retained earnings free is due to adjustment to current income tax expense and other adjusments that have direct effect with retained earnings.

PROPOSED ADJUSTING ENTRIES

	Debit	Credit
Lease Liabilities	1,262,724	
Right of Used Assets		1,230,086
Retained Earnings-Free		32,638
To record payment of lease and amotization of ROUA		
Income Tax Payable	21,582	
Deferred Tax Assets	175,726	
Retained Earnings-Free		197,309
To record changes in income tax payable and income tax expense		
Retained Earnings	1,595,934	
Deferred Tax Liabilities		1,595,934
To record net increase in DTL		
Deferrred Tax Assets	231,936	
Retained Earnings		231,936
To record net increase in DTA		
Retained Earnings-Free	626,454	
Retirement		626,454
To record current service cost.		
Retained Earnings-Free	2,041,031	
Retirement Benefit-Net Assets		2,041,031
To record changes in Fair Value of Assets		
Retirement		
Retained Earnings-Free	2,267,957	
To record changes in present value of retirement liability		2,267,957
	8,223,346	8,223,346

IMUS RURAL BANK, INC.
STATEMENTS OF FINANCIAL POSITION

	Notes		As of December 31 2023		2022
ASSETS					
Cash and other cash items	7	P	12,681,847	P	15,119,852
Due from Bangko Sentral ng Pilipinas	7		14,474,634		31,789,767
Due from Other Banks	8		370,609,673		290,839,934
Investment Securities at Amortized Cost	9		357,004,084		388,311,146
Loans and receivables - net	10		486,805,608		560,515,406
Bank premises, furniture, fixtures and equipment - net	11		15,140,903		16,989,984
Rights-of-use assets - net	Schedule 2		3,098,394		4,328,481
Investment property (ROPA) - net	12		10,554,102		11,632,109
Deferred tax asset	Schedule 1		2,484,798		3,905,006
Retirement benefit asset-net			5,191,516		7,019,457
Other assets - net	13		1,606,600		1,704,730
TOTAL ASSETS			1,279,652,159		1,332,155,871
LIABILITIES AND EQUITY					
Deposit liabilities	14		1,037,545,378		1,108,817,177
Lease liabilities	Schedule 2		3,266,453		4,529,177
Income tax payable	24		157,778		126,054
Accrued expenses and other liabilities	15		3,451,042		5,063,945
TOTAL LIABILITIES			1,044,420,652		1,118,536,353
EQUITY					
Paid-in Capital stock	16		99,950,200		99,950,200
Retained earnings - free	16		78,732,987		57,120,998
Retained earnings - reserves	16		57,465,312		57,465,312
Remeasurements of post-employment defined			-		-
benefit asset			(916,992)		(916,992)
Undivided Profits	16		-		-
TOTAL EQUITY			235,231,507		213,619,518
TOTAL LIABILITIES AND EQUITY		P	1,279,652,159	P	1,332,155,871

See accompanying Notes to Financial Statements

IMUS RURAL BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Notes		Years Ended December 31 2023		2022
INCOME AND EXPENSE ACCOUNTS					
Interest income	17	P	83,143,436	P	66,178,264
Interest expense	17		7,908,642		5,065,905
NET INTEREST INCOME			75,234,794		61,112,359
NON-INTEREST INCOME					
Gain from Sale of Non-financial assets-ROPA			866,993		-
Fees and Commissions Income			1,121,486		930,102
Other Income	18		4,566,994		3,911,006
Total non-interest income			6,555,473		4,841,108
NON-INTEREST EXPENSE					
Compensation/fringe benefits	19,23		21,749,332		20,225,417
Taxes and licenses	20		4,174,282		4,466,949
Fees and commission expenses			364,986		458,789
Other administrative expenses	21		17,956,746		17,618,235
Depreciation/Amortization	22		3,573,248		3,661,943
Total non-interest expense			47,818,594		46,431,333
INCOME BEFORE PROVISIONS			33,971,673		19,522,134
(LOSSES)/RECOVERIES ON FINANCIAL ASSETS					
Impairment losses			-		-
Provision for probable losses	10		(3,276,676)		(7,949,456)
INCOME BEFORE TAX			30,694,996		11,572,678
Income tax expense	24		(9,083,007)		(2,334,396)
NET INCOME AFTER TAX			21,611,989		9,238,282
OTHER COMPREHENSIVE INCOME			-		-
Item that will not be reclassified subsequently to profit or loss					
Remeasurements of post-employment defined benefit liability			-		-
Tax income (expense)			-		-
TOTAL COMPREHENSIVE INCOME		P	21,611,989	P	9,238,282
EARNINGS PER SHARE	28	P	21.62	P	9.24

See accompanying Notes to Financial Statements

IMUS RURAL BANK, INC.
STATEMENTS OF CASH FLOWS

	Notes		Years Ended December 31 2023		2022
CASH FLOWS FROM OPERATING ACTIVITIES					
Income before tax		P	30,694,996	P	16,245,458
Adjustments for:					
Depreciation and amortization	11,schedule 2		3,573,248		3,661,943
Impairment losses	10		3,276,676		3,276,676
Gain on sale of investment properties			(866,993)		-
Interest on lease liabilities	Schedule 2		291,311		319,415
Gain on disposal of bank premises, furnitures, fixtures and equipment			-		-
Operating Income before working capital changes			36,969,238		23,184,077
Changes in operating assets and liabilities:					
Decrease (Increase) in:					
Loans and receivables	10		70,465,019		(210,665,921)
Retirement benefit asset			1,827,941		(1,159,594)
Other resources	13		98,130		147,203
Increase (Decrease) in:					
Deposit liabilities	14		(71,271,799)		29,469,836
Accrued expenses and other liabilities	15		(1,612,903)		1,575,220
Cash (used in) operations			36,475,627		(157,449,179)
Income Tax Paid			(5,964,911)		(3,905,740)
Net cash flow (used in) operating activities			30,510,716		(161,354,920)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisitions of investment securities at amortized cost	8		(265,268,000)		(228,877,000)
Maturities of investment securities at amortized cost	8		294,877,000		251,064,000
Proceeds from sale of investment properties			1,945,000		-
Acuquisitions of bank premises, furniture, fixtures and equipment	11		(494,080)		(545,612)
Proceeds from sale of bank premises, furniture, fixtures and equipment			-		-
Net cash flow provided by (used in) investing activities			31,059,920		21,641,388
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of lease liability	Schedule 2		(1,554,036)		(1,566,017)
Payment of cash dividends			-		-
Net cash flow (used in) financing activities			(1,554,036)		(1,566,017)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		P	60,016,601	P	(141,279,549)

See accompanying Notes to Financial Statements

		Years Ended December 31 2023		2022
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	P	15,119,852	P	16,384,592
Due from Bangko Sentral ng Pilipinas		31,789,767		32,262,820
Due from other banks		290,839,934		430,381,690
		337,749,553		479,029,102
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items		12,681,847		15,119,852
Due from Bangko Sentral ng Pilipinas		14,474,634		31,789,767
Due from other banks		370,609,673		290,839,934
		397,766,154		337,749,553
OPERATIONAL CASH FLOWS FROM INTEREST				
Interest paid		7,617,331		5,065,905
Interest received		83,143,436		66,178,264

See accompanying Notes to Financial Statements

IMUS RURAL BANK, INC.
STATEMENTS OF CHANGES IN EQUITY

		Years Ended December 31 2023		2022
Authorized Capital - P100,000,000.00 divided into 1,000,000 Common Stock with par value of P100 per share				
Issued and outstanding as of December 31, 2022 999,502 shares				
Capital Stock				
Balance, January 1	P	99,950,200	P	99,950,200
Cash Dividends Declared		-		-
Balance, December 31		99,950,200		99,950,200
Retained Earnings - Reserves:				
Balance, January 1		57,465,312		57,465,312
Balance, December 31		57,465,312		57,465,312
Remeasurements of Post-employment Defined Benefit Asset				
Balance, January 1		(916,992)		(916,992)
Total Comprehensive Income		-		-
Balance, December 31		(916,992)		(916,992)
Retained Earnings - Free:				
Balance, January 1		57,120,998		47,882,716
Net Income After Tax		21,611,989		9,238,282
Undivided Profits		-		-
Balance, December 31		78,732,987		57,120,998
TOTAL EQUITY	P	235,231,507	P	213,619,518

See accompanying Notes to Financial Statements

IMUS RURAL BANK, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 *Incorporation and Operations*

Imus Rural Bank, Inc. (the Bank) was incorporated in the Philippines on February 27, 1953 to engage in the business of banking authorized under Republic Act (R.A.) 7353, otherwise known as "Rural Banks Act" of 1992 and R.A. 8791, otherwise known as the "General Banking Law" of 2000 and other allied laws. The Bank operates as a rural bank providing services such as deposit-taking, loans and trade finance, and micro-finance services under the regulation and supervision of the Bangko Sentral ng Pilipinas (BSP). The Bank was registered with the BSP on December 23, 1952 to operate as a rural bank.

On August 28, 2002, the Philippine Securities and Exchange Commission (SEC) approved the extension of the term of existence of the Bank for another 50 years from and after the expiration of the original term.

The Board of Directors (BOD) approved the establishment of the Bank's extension office in Candelaria, Quezon on August 9, 2018, and in Mauban, Quezon and Balayan, Batangas on May 3, 2017 following the BSP's authorization.

As of December 31, 2022, the Bank has three branches located at Imus Public Market, Imus City, Cavite, Molino III, Bacoor City, Cavite and Salawag, Dasmariñas City. The Bank also has branch lite unit at Mauban, Quezon and Balayan, Batangas. There are no new branch offices set up for the calendar year 2023. However, the Bank's Candelaria Branch-lite Unit was temporarily closed due to relocation. The Bank plans to relocate said branch-lite unit in Cavite.

The Bank's registered address, which is also its principal place of business, is at Cor. Col. M. Sapinoso and Capt. I. Bella Sts., Poblacion I-C, City of Imus, Cavite.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2023 (including the comparative financial statements as of and for the year ended December 31, 2022) were authorized for issue by the Bank's BOD on April 15, 2024.

1.3 Additional Corporate Information

Impact of Russia - Ukraine Conflict on the Bank's Business

On February 24, 2022, Russia started its invasion of Ukraine which caused far-reaching impact for economies, markets, and businesses. The ongoing military conflict has introduced a wide range of sanctions against Russia, including certain Russian entities and individuals and led to significant casualties, dislocation of population, damage to infrastructure, slowdown of business operations in both countries, disruption of supply chains and commodity flows that impact prices of items such as petroleum products, cereals, iron, and steel. In principle, it cannot be ruled out that a prolonged conflict between Russia and Ukraine may result in a significant slowdown in the global and Philippine economy and therefore a potential consequential deterioration in the business outlook for the Philippines.

However, as of December 31, 2023, the **IMUS RURAL BANK, INC.**, whose business is primarily in the Philippines, has not been affected in a material way by the Russia-Ukraine conflict, despite its inflationary impact on commodity prices, disruption in supply chains, and volatility in interest rates and foreign exchange rates. The Philippines remains a domestically-focused, import-dependent consumption economy, and despite the higher inflation resulting from the conflict, Philippine Gross Domestic Product (GDP) numbers remained relatively strong and resilient in 2023.

The reopening of the economy, the relaxation of mobility restrictions and the resurgence in consumption spending all contributed to this strong GDP performance. This in turn has led to improved loan growth, better margins from the increase in policy rates and net income growth, not just for the **IMUS RURAL BANK, INC**., but for the industry in general. The Bank continues to closely monitor developments in both the global and domestic markets. While the impact of the conflict has not been material so far, the Bank recognizes that a prolonged situation of high inflation and interest rates could eventually affect economic activity, resulting in slower growth and consumption. The Bank believes that its established business and strong financial condition will allow it to weather near-term risks arising from the conflict.

Continuing Impact of COVID-19 Pandemic on the Bank's Business

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. In 2022, the country's economic status improved with the reopening of local and international travel and the easing of health and safety protocols and restrictions. Demand and supply of products continued to slowly return to pre-pandemic levels.

As a result, the overall continuing impact of the COVID-19 pandemic to the **IMUS RURAL BANK, INC.** has considerably diminished and the Bank's operations have gone back to pre-pandemic levels. With the reduced impact of pandemic-related issues in 2023, the Bank saw more normalized operations and increasingly positive results as the economy continued with its recovery.

Management will continue to monitor any potential risks arising from the pandemic, and will institute measures to mitigate these, as needed. Based on recent developments, management is optimistic that the Bank will continue to post positive results consistent with the country's economic recovery, and will maintain sufficient liquidity to meet current obligations as they fall due. Accordingly, management has not determined any material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern due to the effects of the pandemic.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC in response to the COVID-19 pandemic, in relation to the staggered recognition of allowance for impairment losses over a maximum period of five years. The reliefs cover only current-year transactions or events and do not impact the comparative period. PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

Except for the modification described above, the financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, Presentation of Financial Statements. The Bank presents all items of income and expenses in a single statement of comprehensive income. The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated. Items included in the financial statements of the Bank are measured using its functional currency, the currency of the primary economic environment in which the Bank operates.

2.2 Changes in Accounting Policies and Disclosures

Adoption of Amended PFRS and Improvement

Effective Subsequent to 2023 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2023, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

(i) PAS 16 (Amendments), *Property, Plant and Equipment* – Proceeds Before Intended Use (effective from January 1, 2022)

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The application of these amendments had no significant impact on the Bank's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022)

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments resulted in a revision in the Bank's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the Bank's financial statements as a result of the change since none of the existing contracts as of January 1, 2023 would be identified as onerous after applying the amendments.

(iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Bank:

• PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*

The amendments clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

• Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*

The amendments remove potential for confusion regarding lease incentives by deleting from the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.

(iv) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)

(v) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)

(vi) PAS 8 *(Amendments), Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023) (vii) PAS 12 (Amendments), Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (effective from January 1, 2023)

2.3 Financial Instrument

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instrument.

(a) Financial Assets

At initial recognition, the Bank measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at FVPL are expensed outright in profit or loss. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

(i) *Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Currently, the relevant financial asset classification applicable to the Bank is financial assets at amortized cost.

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

• the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect" or "HTC"); and,

• the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal (SPPI) amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any allowance.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized as Interest income in the statement of comprehensive income.

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Investment Securities at Amortized Cost, Loans and Other Receivables and as part of Other Resources in respect of petty cash fund which is included in the account.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at fair value through profit or loss (FVTPL) if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

In 2023 and 2022, the Bank has not made such designation.

(ii) *Impairment of Financial Assets*

The Bank assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost.

The Bank considers a broad range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments which are measured as 12-month ECL:

• all current loan accounts, except restructured loans;
• debt securities that are identified to have 'low credit risk' at the reporting date; and,
• other financial instruments on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The key elements used in the calculation of ECL are as follows:

• Probability of default (PD) – it is an estimate of the likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

• Loss given default (LGD) – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD, or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- Exposure at default (EAD) – it represents the gross carrying amount of the financial instruments subject to the impairment calculation; hence, this is the amount that the Bank expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank calculates ECL either on an individual or a collective basis. For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, credit risk rating, collateral type, product type, historical net charge-offs, and industry type of the borrowers or counterparties.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(iii) ***Reclassification of Financial Assets***

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(iv) *Derecognition of Financial Assets*

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received

(i) *Modification of Loans*

When the Bank renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

• if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
• whether any substantial new terms are introduced that will affect the risk profile of the loan;
• significant extension of the loan term when the borrower is not in financial difficulty;
• significant change in the interest rate;
• change in the currency the loan is denominated in; and/or,
• insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized in profit or loss as either gain or loss on derecognition of financial assets.

As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss.

The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) *Derecognition of Financial Assets Other than Through Modification*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Current versus Non-current Classification

The Bank presents assets and liabilities in the statement of financial position based on liquidity. An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Bank classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

(b) *Financial Liabilities*

Financial liabilities include deposit liabilities, lease liabilities, accrued expenses and other liabilities (excluding tax-related payables) are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of comprehensive income.

Deposit liabilities are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments.

Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period of the borrowings.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized as gain or loss in profit or loss.

(c) *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.4 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less allowance for impairment losses, if any. All other bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

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

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

Buildings	20 years
Transportation equipment	5 to 8 years
Furniture, fixtures and equipment	5 years

Leasehold improvements are amortized using the estimated useful lives or the remaining term of the lease whichever is shorter.

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

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no future charge for depreciation is made in respect of these assets.

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

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is presented under Other Operating Income in the statement of comprehensive income in the year the item is derecognized.

2.5 Investment Properties

Investment properties pertain to parcels of land and improvements acquired by the Bank in settlement of loans from defaulting borrowers through foreclosure or dacion in payment which are held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses. The cost of an investment property comprises its acquisition price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

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

Investment properties, except land, are depreciated over a period of ten years. Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the disposal of an investment property is recognized in profit or loss and is presented as Gain on disposal of investment properties under Other Operating Income in the statement of comprehensive income in the year of disposal.

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

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

2.6 Other Resources

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

2.7 Equity

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

Surplus, the reserve portion of which is not available for distribution, includes all current and prior period results of operations as reported in the statement of comprehensive income, reduced by the amount of any dividends declared.

Re-measurements on post-employment defined benefit asset represent the cumulative amount of re-measurements on the Bank's post-employment defined benefit plan as reported in the other comprehensive income or loss section of the statement of comprehensive income.

2.8 Provisions and Contingencies

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

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

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

2.9 Income and Expense Recognition

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

The Bank also earns service charges and fees on various banking services, and gains on sale of non-financial assets, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:
• the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
• the Bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
• the Bank's performance does not create an asset with an alternative use to the Bank and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

For revenues arising from various banking services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

(a) Service Charges and Fees – service charges and fees are generally recognized at a point in time when the services have been performed. These include commissions and fees arising from loans, deposits and other banking transactions and are taken up as income based on agreed terms and conditions. This is included in profit or loss as part of Other Operating Income. For the income outside the scope of PFRS 15, the nature and the related recognition policy is discussed below.

(b) Gain on Sale of Non-financial Assets – gain from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income.

(c) Miscellaneuos income – include income from insurance claims, penalties on loans and loan application fees are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectability. This is included in profit or loss as part of Other Operating Income.

When payment has become due for completed performance obligations, any amounts that remain uncollected from customers as of the reporting date are recognized as part of Accounts receivable under Loans and Other Receivables account.

Costs and expenses are recognized in profit or loss upon utilization of the assets or services or at the date they are incurred.

2.10 Leases

The Bank accounts for its leases as follows:

(a) 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 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; and,
• 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.

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

The Bank amortizes the right-of-use asset on a straight-line basis from the lease commencement date over the useful life of the right-of-use asset or the term of the lease, whichever is shorter. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

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

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

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for any short-term leases (less than 12 months) using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the lease payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The right-of-use assets is presented net of corresponding depreciation as a separate line item while the lease liabilities is presented under Other Liabilities, in the statement of financial position.

(b) *Bank as Lessor*

Leases wherein the Bank substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Bank's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Bank's net investment outstanding in respect of the finance lease.
Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

2.11 Foreign Currency Translations and Transactions

The accounting records of the Bank's regular banking unit are maintained in Philippine pesos while the foreign currency denominated unit (FCDU) are maintained in US dollars. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.12 Impairment of Non-financial Assets

The Bank's premises, furniture, fixture and equipment, investment properties, right-of-use assets and other non-financial assets are subject to impairment testing. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts, which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's recoverable amount exceeds its carrying amount.

2.13 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan, defined contribution plans, and other employee benefits which are recognized and measured as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is noncontributory and administered by a trustee individual.

The liability recognized in the statement of financial position for a defined benefit plan 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 independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], 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 post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Re-measurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income (loss) in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions to the plan or benefit payments. Net interest is reported as part of Interest Income account in the statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of plan amendment and curtailment.

(b) Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g., Social Security System). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) Bonuses

The Bank recognizes a liability and an expense for accrual of bonuses. The Bank recognizes an accrual where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) Compensated Absences

Unavailed leaves, included in Accrued expenses and other liabilities account under Other Liabilities in the statement of financial position, are recognized as expense at the amount the Bank expects to pay at the end of reporting period. Each regular employee is entitled to 15 days vacation and sick leaves each year. Five of the vacation leaves are convertible into cash when unused and can be carried forward to the next taxable year. The maximum vacation leave that can be accumulated by each employee is 45 days. Sick leave, on the other hand, is non-convertible but cumulative.

2.14 Borrowing Costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.15 Income Taxes

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

The Bank establishes liabilities for probable and estimable assessments by the Bureau of Internal Revenue (BIR) resulting from any known tax exposures. Estimates represent a reasonable provision for taxes ultimately expected to be paid and may need to be adjusted overtime as more information becomes available.

2.16 Related Party Transactions and Relationships

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

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

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

2.17 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in accordance with PFRS requires management to make judgment, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and disclosure of contingent liabilities at reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

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

Revisions to accounting estimates are recognized in the period in which the estimate is revisited 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.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Evaluation of Business Model Applied in Managing Financial Instruments

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Bank developed business models which reflect how it manages its portfolio of financial instruments.

The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment and lending strategies.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

(b) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated.

Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

(c) Distinction Between Investment Properties and Owner-occupied Properties

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

The management has determined that the land and improvements acquired by the Bank from the defaulting borrowers are appropriately classified as investment properties.

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies.

3.2 ***Key Sources of Estimation Uncertainty***

Presented in the succeeding pages are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period.

a) Determination of Appropriate Discount Rate in Measuring Lease Liabilities

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) Impairment of Investment Securities at Amortized Cost and Loans and Other Receivables

The Bank reviews its investment securities at amortized cost and loans and other receivables portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Bank's relationship with the counterparties, the counterparties' current credit status, average age of accounts, collection experience and historical loss experience.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In 2022 and 2021, there was no impairment loss recognized on the Bank's investment securities at amortized cost.

(c) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets and Investment Properties

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

Based on management's assessment as at December 31, 2023 and 2022, there is no change in estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Determination of Fair Value of Investment Properties

Investment properties are measured using the cost model. The fair value disclosed in the financial statements as determined using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value. The Bank engages services of professional and independent appraisers applying the relevant valuation methodologies.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

(e) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2023 and 2022 will be fully utilized within the coming years.

(f) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

As of December 31, 2023 and 2022, the Bank has not recognized any impairment losses on its bank premises, furniture, fixtures and equipment and right-of-use assets.

(g) Valuation of Post-employment Defined Benefit Plan

The determination of the Bank's obligation and cost of post-employment defined benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income and the carrying amount of the retirement benefit asset in the next reporting period.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and financial risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risks are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate and other price risk. The bank is exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risks are credit risk, liquidity risk and market risk.

4.1 ***Risk Management Structure***

The following structure shows the Bank's overall approach to risk management:

(i) Board of Directors

The BOD has the ultimate responsibility for approving and periodically reviewing the risk strategies and significant policies of the Bank. It adopts policies and guidelines to govern the safe and prudent functioning of the Bank with the end in view of effectively managing all risks in its activities. The policies to be formulated include, but not limited to, lending, investing, fund sourcing, liquidity management, personnel administration, and internal control.

(ii) Risk Management Committee

Risk Management Committee is the board level committee responsible for the development and oversight of the risk management program of the Bank. It oversees the system of limits to discretionary authority that the BOD delegates to management, ensures that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

(iii) Senior Management

Senior management is responsible for the implementation of the strategies on risk control and makes adjustments to overall business strategy. They also ensure compliance with laws and regulations and create systems to measure and monitor performance.

(iv) Board Credit Committee

A board level committee responsible to oversee the credit risk-taking activities, quality and profitability of the credit portfolio, and credit evaluation process. All credit proposals beyond the credit approving limit of the Credit Committee passes through this committee for final approval. This committee also endorses credit proposals beyond its approving limit to the BOD for final approval.

(v) Asset-Liability Management Committee

A management level committee responsible for the overall management of the Bank's liquidity risks. It monitors the Bank's liquidity position and reviews the impact of strategic decisions on liquidity. It is responsible for managing liquidity risks and ensuring exposures remain within established tolerance levels.

(vi) Compliance Unit

This unit is responsible for reviewing any legal or regulatory matters that could have a significant impact on the Bank's financial statements and compliance with laws and regulations. It reviews the effectiveness and adequacy of the system for monitoring compliance with laws and regulations. The Chief Compliance Officer regularly reports to the BOD.

(vii) Internal Audit

Internal Audit (IA) provides an independent assessment of the Bank's management and effectiveness of existing internal control systems through adherence testing of processes and controls across the organization. The IA audits risk management processes throughout the Bank. It employs a risk-based audit approach that examines both the adequacy of the procedures and the Bank's compliance with the procedures. It discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee of the BOD.

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

4.2 Market Risk

The Bank is exposed to market risk through its use of financial instruments and specifically to interest rate risk and certain other price risk which resulted from its operating, investing and financing activities.

(a) Interest Rate Risk

The Bank follows a prudent policy on managing its resources and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. As a result of these, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly reduced. The Bank maintains 100% of its deposit base on short-term deposits. Rates on special savings account are usually priced according to the amount deposited. As of December 31, 2022 and 2021, the Bank's loans and other receivables have fixed interest rates.

(b) Foreign Currency Risk

The Bank has no exposure to foreign currency risk as transactions are denominated in Philippine peso, its functional currency.

(c) Other Price Risk

The Bank is not exposed to market price risk since it does not have investments carried at fair value.

4.3 Credit Risk

Credit risk refers to the potential loss of the Bank's earnings arising from the inability to review and analyze requests for credit to determine likelihood of repayment. This includes the failure to manage the risk that loss is incurred if counter party does not fulfill its financial obligations in a timely manner. Managing credit risk involves defining the principles and parameters governing credit activities at various levels, i.e., strategic level, portfolio level down to individual transaction or account level.

The following tools, among others, are used in identifying, assessing and managing credit risk:

- established credit policies, asset allocations and concentration limits, collateral acceptance criteria, target market and clearly defined approving authorities;
- defined documentation policies of approved credit lines;
- independence of credit control and monitoring functions from the credit risk-taking function;
- periodic monitoring of individual account performance;
- regular review of the adequacy of valuation reserves;
- active loan portfolio management to determine the quality of the loan portfolio, including risks associated with particular industry sectors, loan size and maturity; monitoring portfolio growth, collection performance and delinquency trends, trend of non-performing loans, concentration risk, and other performance indicators; and,
- close monitoring of remedial accounts.

(a) Exposure to Credit Risk and its Measurement

Past due accounts that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks, i.e., Especially Mentioned, Substandard, Doubtful or Loss.

For the Bank's debt securities, credit ratings published by reputable external rating agency are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

(b) Expected Credit Loss Measurement

These pronouncements from the BSP details the underlying assumptions which also include the criteria for assessing if there has been a significant increase in credit risk. As a general rule, especially mentioned and substandard – underperforming (e.g., substandard accounts that are unpaid or with missed payment of less than 90 days) shall be considered Stage 2 accounts, while substandard non-performing, doubtful and loss accounts shall be considered as Stage 3 accounts. The computation of the ECL also consider the use of reasonable and supportable forward-looking information, which is based on the BSP's requirement to look beyond the quantitative considerations (days past due or missed amortizations) in assessing borrower's capacity to pay.

In accordance with PFRS 9, the ECL will be measured on either a 12-month or lifetime basis depending on whether an SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the PD, EAD, and LGD. The ECL will be determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The 12-month and lifetime EADs will be determined based on the expected payment profiles, which would vary by loan product/portfolio. The incorporation of forward-looking information (FLI) in the assessment of SICR and calculation of ECL requires historical analysis and identification of key macroeconomic variables (MEVs) impacting credit risk associated with the Bank's borrowers and/or counterparties and the ECL for each portfolio of debt instruments.

PFRS 9 also requires modelling ECL parameters which should be carried out on a collective basis. The financial instruments should be grouped on the basis of shared credit risk characteristics, such as instrument type, credit risk rating, collateral type, repayment scheme, industry type, remaining life to maturity, and geographical locations of the borrowers and/or counterparties. The credit exposures within a particular group should remain appropriately homogenous.

(c) Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and advances to customers in the form of hold-out deposits, real estate mortgage, chattel mortgage and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally reviewed and updated annually. Collateral is not usually held against investment securities and no such collateral was held as of December 31, 2022 and 2021. For both reporting periods, the Bank has no significant changes as to its policies in obtaining collateral, and there has been no significant change in the overall quality of the collaterals held by the Bank since the prior period. The Bank's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

(d) Due from BSP and Other Banks

The credit risk for Due from BSP and other banks is considered negligible, since the counterparties are reputable banks. Due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.5 million per depositor per banking institution, as provided for under R.A. No. 9576, Amendment to Charter of PDIC.

(e) Loans and Receivables

In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Loans consist of a large number of customers in various geographical areas.

(f) Investment securities at amortized cost

The Bank's investment securities, which are composed of debt securities issued by the Republic of the Philippines, is not deemed significant given that counterparty is rated at BBB+, based on S&P ratings. The Bank's investment securities are considered to be at Stage 1.

(g) Write-offs

Similar with prior years, the Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

(h) Modifications of Financial Assets

In certain cases, the Bank modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Bank is owed to. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the performance of the financial asset subsequent to its modification. The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms), so that the assets are expected to move from Stage 3 or Stage 2 (wherein lifetime ECL is recognized) to Stage 1 (12-month ECL). There were no modified assets held by the Bank during the year.

i) *Credit Concentration*

Excessive concentration of lending poses undue risk on the Bank's asset quality. The Bank believes that good diversification across economic sectors and kinds of borrowers will lessen this risk. The credit review auditor reviews the Bank's loan portfolio monthly, in line with its policy of avoiding significant credit concentration to specific industry or group of borrowers. To maintain the quality of its loan portfolio, the Bank keeps its risk tolerance limits on asset quality lower than the industry ratio and enforce a stringent policy on credit evaluation, review and monitoring.

4.4 *Liquidity Risk*

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

7. CASH AND OTHER CASH ITEMS AND DUE FROM BANGKO SENTRAL NG PILIPINAS

This account includes the following:

		2023		2022
Cash and other cash items	P	12,681,847	P	15,119,852
Due from BSP		14,474,634		31,789,767
	P	27,156,481	P	46,909,619

Cash on hand and in vault consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers.

Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or other branches after the Bank's clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the balance of the deposit account maintained with the BSP to meet reserve requirements to serve as clearing account for interbank claims and to comply with existing trust regulations. No interest Income was recognized in 2023 and 2022 as the Due from BSP no longer bears interest.

8. DUE FROM OTHER BANKS

The breakdown as to type of deposit follow:

		2023		2022
Time	P	270,926,903	P	175,134,894
Current		95,678,521		110,044,621
Savings		4,004,249		5,660,419
	P	370,609,673	P	290,839,934

9. INVESTMENT SECURITIES AT AMORTIZED COST

The maturity profile of this account, which pertains mainly to investments in government securities, is presented below:

		2023		2022
Within one year	P	257,117,054	P	199,877,000
Beyond three years		99,070,125		185,919,179
		356,187,179		385,796,179
Unamortized premium		816,905		2,514,967
	P	357,004,084	P	388,311,146

Changes in the Bank's investment securities at amortized cost are summarized below.

		2023		2022
Balance at beginning of year	P	385,796,179	P	407,983,179
Additions		265,268,000		228,877,000
Maturities		(294,877,000)		(251,064,000)
		356,187,179		385,796,179
Unamortized Premium		816,905		2,514,967
Balance at end of year	P	357,004,084	P	388,311,146

The Bank has not recognized any impairment loss on its investment securities at amortized cost as management believes in the probability of its recovery.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

		2023		2022
Receivables from customers:				
Loans and receivables	P	512,278,147	P	581,845,112
Unearned interest and discount		(111,144)		(86,944)
		512,167,003		581,758,168
Other receivables:				
Sales contract receivable (SCR)		502,811		566,067
Accounts receivable		135,144		323,354
Accrued interest receivable		4,074,242		4,637,513
		4,712,197		5,526,934
		516,879,200		587,285,102
Allowance for Impairment		(30,073,593)		(26,769,696)
	P	486,805,608	P	560,515,406

Interest rates on receivables from customers range from 0.00% to 35.00% and 0.00% to 40.00% in 2023 and 2022, respectively. Interest rates on SCR is 12.00% and ranges from 12.00% to 15.00% in 2023 and 2022. All other receivables are non interest bearing, unsecured and are generally payable on demand.

Total interest income earned from loans and other receivables amounted to P54.20 million and P48.06 million in 2023 nd 2022, respectively. These are presented as Interest Income on Loans and Other Receivables in the Statements of Comprehensive Income.

The Classification of Loans and Receivables as to Status follows:

		2023	%		2022	%
Current	P	485,147,508	96.01%	P	558,602,532	96.01%
Past Due		10,890,275	3.80%		22,084,419	3.80%
Items in Litigation		16,129,220	0.20%		1,158,161	0.20%
TOTAL	P	512,167,003	100%	P	581,845,112	100%
PAST DUE AND ITEMS IN LITIGATION RATIO		5.28%			3.99%	

Loans and Receivables consist of the following as of December 31:

		2023		2022
Loans - Gross	P	512,278,147	P	581,845,112
Less: Allowance for Credit Losses		(28,432,849)		(21,609,238)
Unamortized Discount		(111,144)		(86,944)
Loans - Net of Allowance for Credit Losses and Unamortized Discount		483,734,155		564,821,710
Less: General Loan Loss Provision		(4,485,292)		(4,728,331)
NET CARRYING AMOUNT	P	479,248,862	P	560,093,380

Classification of Loans and Receivables as to Interest Rate follow:

		2023	%		2022	%
Below 5%	P	5,341,838	1.04%	P	18,620,187	3.20%
>5% to 10%		330,805,106	64.58%		392,600,576	67.48%
>10% to 15%		131,979,909	25.76%		125,970,971	21.65%
>15% to 20%		38,823,945	7.58%		38,381,691	6.60%
>20% to 25%		972,414	0.19%		1,302,294	0.22%
Over 25%		4,354,935	0.85%		4,969,394	0.85%
	P	512,278,146	100.00%	P	581,845,112	100.00%

Classification of Loans and Receivables as to Terms (net of UID) follow:

		2023	%		2022	%
Short - Term (One year or less)	P	2,804,830	0.55%	P	53,666,236	9.22%
Medium Term (Over 1 year to 5 years)		52,557,902	10.26%		23,830,505	4.10%
Long Term (Over 5 years)		456,804,271	89.19%		504,261,427	86.68%
	P	512,167,003	100.00%	P	581,758,168	100.00%

Credit Concentration by Industry (net of UID)

The Bank monitors concentration of credit by industry sector. An analysis of concentrations of credit by industry (net of UID) follows:

		2023	%		2022	%
Agriculture, Forestry & Fishing	P	86,722,791	16.93%	P	113,691,231	19.54%
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles		39,966,749	7.80%		24,196,060	4.16%
Transportation and Storage		15,681,245	3.06%		6,732,077	1.16%
Real Estate Activities		162,492,313	31.73%		177,788,741	30.56%
Other Service Activities		63,880,529	12.47%		144,967,432	24.92%
Manufacturing		3,664,889	0.72%		24,456,289	4.20%
Construction		29,301,366	5.72%		20,422,963	3.51%
Accommodation and Food Service Activities		98,684,971	19.27%		64,965,005	11.17%
Professional, Scientific & Technical Activities		7,984,958	1.56%		-	0.00%
Human Health and Social Work Activities		1,705,048	0.33%		1,996,303	0.34%
Education		2,082,142	0.41%		2,542,067	0.44%
	P	512,167,003	100.00%	P	581,758,168	100.00%

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

Breakdown of Loans per Product Line as to Performing and Non-Performing as of December 31, 2023

Particulars	Current	Past Due but Not Yet Non-Performing	Past Due and Already Non-Performing	Total
Agriculture, Forestry & Fishing	86,334,116		388,675	86,722,791
Wholesale and Retail Trade, Repair of Motor				-
Vehicles, Motorcycles	32,709,485	6,971,484	285,780	39,966,749
Transportation & Storage	15,612,006		69,240	15,681,245
Real Estate Activities	159,446,326		3,045,987	162,492,313
Financial & Insurance Activities				-
Information & Communication				-
Other Service Activities	63,880,529			63,880,529
Manufacturing	3,664,889			3,664,889
Construction	26,866,007		2,435,359	29,301,366
Accommodation and Food Service Activities	94,766,179	3,918,791	1	98,684,971
Professional, Scientific & Technical Activities			7,984,958	7,984,958
Human Health & Social Work Activities	1,697,626		7,422	1,705,048
Education	170,343		1,911,799	2,082,142
Total	485,147,508	10,890,275	16,129,220	512,167,003

A summary of the Bank's maximum exposure to credit risk on loans and other receivables is disclosed in Note 4.3. Receivables from customers (gross of allowance for impairment losses) have the following types and category:

		2023		2022
Current loans:				
Small and medium enterprises	P	261,109,049	P	254,897,831
Agra and other agri credits		86,414,888		139,055,530
Individuals for auto loans		13,869,075		16,218,300
Individuals for housing purposes		28,206,636		49,650,218
Individuals for consumption purposes		1,620,362		1,921,484
Individuals for other purposes		71,742,113		96,859,169
Corporation Non-Financial		22,267,613		-
		485,229,737		558,602,532
Past due loans:				
Individuals for consumption purposes		2,158,643		4,714,181
Individuals for housing purposes		2,970,918		-
Agra and other agri credits		491,735		476,370
Small and medium enterprises		7,030,802		28,060
Individuals for other purposes		14,396,312		18,023,968
		27,048,410		23,242,580
	P	512,278,146	P	581,845,112

All of the bank's loans and other receivables have been reviewed for indications of impairment. Certain loans and receivables were found to be impaired and provisions have been recorded accordingly. A reconciliation of allowance for at the beginning and end of 2023 and 2022 is as follow:

	2023	2022
Balance at beginning of year	26,796,916	19,112,304
Impairment losses	3,276,676	3,276,676
Additional Impairment	-	4,672,780
Reversal	-	(292,065)
Balance at end of year	**30,073,592**	26,769,696

Impairment losses is prsented as Impairment Losses in the Statement of Comprehensive Income.

Computation made by the Bank pertaining to allowance for impairment losses on loans and other receivables per BSP guidelines is shown below:

	2023							
	Especially Mentioned	**Substandard - Secured**	**Substandard - Unsecured**	**Substandard - Secured**	**Substandard - Unsecured**	**Doubtful**	**Loss**	**Total**
Regular loans	0	37,395,563	58,936	6,485,670	60,084	13,200,357	6,548,305	63,748,915
Impairment rate	5%	10%	10%	25%	25%	50%	100%	
Specific loan loss provision on regular loans	-	3,739,556	5,894	1,621,418	15,021	6,600,179	6,548,103	18,530,172
Total specific loan loss provision								18,530,172
Required general loan loss provision								4,485,292
Required loan loss provision for SCR								156,365
Total required loan loss provision								23,172,029
Loan loss provision booked								30,073,593
Loan loss not covered by provision booked*								(6,901,564)

*Loans were not fully covered due to the staggered booking of impairment loss (see Note 2.11)

In February 2021, the BSP has approved the Bank's request for staggered booking allowance for impairment over a maximum period of five years, specifically on every 31st of December for the years 2021 to 2025, for all types of credits extended to individuals and business directly affected by the COVID-19.

The impact on the affected financial statement line items as of and for the year ended December 31, 2023 and 2022 if the allowance was measured in accordance with PFRS, without modification for the application of financial reporting reliefs issued by the BSP (see Note 2.1 {a}) is presented below and in the succeeding page.

	Notes	As Reported	Changes	Under PFRS
31/12/2023				
Changes in resources:				
Loans and receivables - net		479,248,862	(3,276,677)	475,972,186
Deferred tax assets - net	20	3,905,006	(1,420,208)	2,484,798
Net decrease in equity			**(4,696,885)**	
Changes in profit or loss				
Impairment losses	18	3,276,676	3,276,677	6,553,353
Tax expense		6,144,272	1,420,209	7,564,480
Net decrease in net profit			**4,696,885**	

	Notes	As Reported	Changes	Under PFRS
31/12/2022				
Changes in resources:				
Loans and receivables - net		565,188,185	(6,553,353)	558,634,832
Deferred tax assets - net	20	2,884,090	1,587,415	4,471,505
Net decrease in equity			**(4,965,938)**	
Changes in profit or loss				
Impairment losses	18	2,984,612	6,553,353	9,537,965
Tax expense		(2,334,396)	(1,587,415)	(3,921,810)
Net decrease in net profit			**4,965,938**	

The balance of unamortized allowances as of December 31 is presented below:

	2023	2022
Additional allowance for impairment for staggered booking, beginning	6,553,353	9,830,029
Amortization for the year	(3,276,676)	(3,276,676)
Balance at end of year	3,276,677	6,553,353

General loan loss provision is computed at 1.0% of the outstanding loan portfolio of the Bank, net of non-risk receivables and classified loans subject to specific loan loss provision. Further, loan loss provision for SCR is computed at 10.0% of the outstanding

The Bank does not have any quoted and unquoted debt securities classified as loans and other receivables as of December 31, 2023 and 2022

As at December 31, non-performing loans (NPLs) not fully covered by allowance for credit losses follow:

	2023	2022
Gross NPLs	16,129,220	16,473,177
NPLs fully covered by allowance for impairment	(11,657,468)	(9,730,888)
	4,471,752	6,742,290

Collateral and Other Credit Enhancements

Collaterals are taken into consideration during the loan application process as collaterals offer an alternative way of collecting from the client if a default occurs. The percentage of loan value attached to the collateral offered is part of the Bank's lending guidelines. Such percentage takes into account safety margins for interest rate exposure and price volatility.

Collaterals are valued according to existing credit policy standards and following the latest appraisal report, serves as the basis for the amount of the secured loan facility. The Bank is not permitted to sell the collateral in the absence of default by the owner of the collateral. It is the Bank's policy to dispose foreclosed assets in an orderly manner. The proceeds of the sale of the foreclosed assets included under Investment Properties are used to reduce or repay the outstanding claim. As part of the Bank's risk control on security/collateral documentation, standard documents are made for each security type and deviation from the pro-forma documents are subject to Legal Counsel's approval prior to acceptance.

The table below provides the collateral profile of the outstanding loan portfolio of the Bank (net of UID):

		2023	%		2022	%
Secured by Real Estate Mortgage - Residential	P	948,602,532	82.15%	P	1,140,987,326	85.70%
Secured by Real Estate Mortgage - Commercial		84,687,263	7.33%		61,222,336	4.60%
Secured by Real Estate Mortgage - Agricultural		85,970,429	7.45%		55,935,829	4.20%
Secured by Chattel Mortgage		25,878,560	2.24%		40,280,060	3.03%
Secured by Hold-on-deposit		9,521,580	0.82%		32,878,000	2.47%
TOTAL	P	1,154,660,364	100.00%	P	1,331,303,550	100.00%

The movements of Allowance for Credit Losses including general loan loss provision follows:

		2023		2022
Opening balance	P	21,664,788	P	18,388,112
Add: Provision during the year		3,276,676		3,276,676
Add: Adjustments		4,700,000		-
Closing balance	P	29,641,464	P	21,664,788

The maturity profile of the Bank's receivables from customers follows.

		2023		2022
One year and below	P	2,804,830	P	53,672,269
Beyond one year		509,473,317		528,172,844
	P	512,278,147	P	581,845,112

11. Bank Premises, Furniture, Fixtures and Equipment - Net

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

2023

	LAND	BUILDING	TRANSPORTATIO EQUIPMENT	FURNITURE, FIXTURES & EQUIPMENT	LEASEHOLD MPROVEMENT:	TOTAL
01/01/2023						
Balance, beginning - net of accumulated depreciation and amortization	6,252,600	8,431,403	416,165	730,876	1,158,940	16,989,984
Additions				494,373		494,373
Adjustments			(5)	(288)		(293)
Depreciation and amortization						-
charges for the year		(1,063,190)	(289,800)	(453,747)	(536,424)	(2,343,161)
12/31/2023						
Balance, end - net of accumulated depreciation & allowance for probable losses	**6,252,600**	**7,368,213**	**126,360**	**771,214**	**622,516**	**15,140,903**
01/01/2023						
Cost	6,252,600	25,971,493	10,165,650	14,481,926	5,544,977	62,416,646
Accumulated depreciation and amortization	-	(17,540,090)	(9,749,485)	(13,751,050)	(4,386,037)	(45,426,662)
Net carrying amount	**6,252,600**	**8,431,403**	**416,165**	**730,876**	**1,158,940**	**16,989,984**
12/31/2023						
Cost	6,252,600	25,971,493	6,165,650	11,481,600	5,544,977	55,416,320
Accumulated depreciation and amortization	-	(18,603,280)	(6,039,290)	(10,710,386)	(4,922,461)	(40,275,417)
Net carrying amount	**6,252,600**	**7,368,213**	**126,360**	**771,214**	**622,516**	**15,140,903**

2022

	LAND	BUILDING	TRANSPORTATIO EQUIPMENT	FURNITURE, FIXTURES & EQUIPMENT	LEASEHOLD MPROVEMENT:	TOTAL
01/01/2022						
Balance, beginning - net of accumulated depreciation and amortization	6,252,600	9,494,593	705,967	707,082	1,713,438	18,873,680
Additions				545,610		545,610
Adjustments			(2)			(2)
Depreciation and amortization charges for the year		(1,063,190)	(289,800)	(521,816)	(554,498)	(2,429,304)
12/31/2022						
Balance, end - net of accumulated depreciation & allowance for probable losses	**6,252,600**	**8,431,403**	**416,165**	**730,876**	**1,158,940**	**16,989,984**
11/01/2022						
'ost	6,252,600	25,971,493	11,162,819	13,936,316	5,544,977	62,868,205
\ccumulated depreciation and amortization	-	(16,476,900)	(10,456,852)	(13,229,234)	(3,831,539)	(43,994,525)
\et carrying amount	**6,252,600**	**9,494,593**	**705,967**	**707,082**	**1,713,438**	**18,873,680**
2/31/2022						
'ost	6,252,600	25,971,493	10,165,650	14,481,926	5,544,977	62,416,646
\ccumulated depreciation and amortization	-	(17,540,090)	(9,749,485)	(13,751,050)	(4,386,037)	(45,426,662)
\et carrying amount	**6,252,600**		**416,165**	**730,876**	**1,158,940**	**16,989,984**

Under BSP regulations, investment 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 provision.

No assets are pledged as collaterals.

12. INVESTMENT PROPERTIES (ROPA)- Net

This account represents parcels of land and buildings and related improvements, which are held for capital appreciation, acquired in settlement of loans. Investment properties are carried at cost less allowance for impairment and accumulated depreciation.

This account consist of:

		Land		Building		Total
31-Dec-23						
Cost	P	10,854,102	P	4,600,505	P	15,454,607
Allowance for impairment		(300,001)				(300,001)
Accumulated depreciation		-		(4,600,504)		(4,600,504)
Net carrying amount	**P**	**10,854,102**	**P**	**1**	**P**	**10,554,102**
31-Dec-22						
Cost	P	11,932,109	P	4,600,505	P	16,532,614
Allowance for impairment		(300,001)				(300,001)
Accumulated depreciation		-		(4,600,504)		(4,600,504)
Net carrying amount	**P**	**11,632,108**	**P**	**1**	**P**	**11,632,109**

Aging of ROPA Accounts as of December 31, 2023:

ROPA	≤3 years	>3 years but ≤ 5years	>5 years but ≤ 10 years	>10 years	TOTAL
Land	-	-	-	10,554,101	10,554,101
Buildings	-	-	-	1	1
TOTAL				**10,554,102**	**10,554,102**

RECONCILIATION OF CARRYING AMOUNTS OF ROPA ACCOUNTS

	LAND	BUILDING AND IMPROVEMENTS	ALLOWANCE FOR PROBABLE LOSSES	TOTAL
Balance, beginning - net of accumulated depreciation and amortization	11,932,109	1	(300,001)	11,632,109
Disposals	(1,078,077)		-	
Adjustments	-	-	-	-
Adjustment on Depreciation	-	-	-	-
Depreciation and amortization charges for the year	-	-	-	-
Balance, end - net of accumulated depreciation & amortization	10,854,032	1	(300,001)	11,632,109

Balance, beginning				
Cost	11,932,109	4,600,505	(300,001)	16,232,613
Accumulated depreciation and amortization		(4,600,504)		(4,600,504)
Balance, end - net carrying amount	**11,932,109**	**1**	**(300,001)**	**11,632,109**
Balance,Ending				
Cost	10,854,102	4,600,505	(300,001)	15,154,606
Accumulated depreciation and amortization		(4,600,504)		(4,600,504)
Balance, end - net carrying amount	**10,854,102**	**1**	**(300,001)**	**10,554,102**

Depreciation on investment properties are presented as part of Depreciationa and Amortization under Other Operating Expenses in the Statements of Comprehensive Income.

The recoverbale amounts of the Bank's investment properties used in determining the impairment losses to be recognized as of December 31, 2023 and 2022 were based on the appraised values of such properties.

In 2023, there was a gain on disposal of investment properties amounting to Php866,993.

13. OTHER ASSETS

As of December 31, this account consists of:

		2023		2022
Stationery and supplies on hand	P	**742,233**	P	837,300
Prepaid Insurance		**307,732**		316,373
Documentary stamps		**274,584**		274,585
Prepaid taxes and licenses		**85,795**		85,795
Petty cash fund		**70,000**		80,000
Prepaid expense-others		**126,255**		110,677
	P	**1,606,600**	P	1,704,730

Other Assets as at December 31, 2023 and 2022 will mature within one year from the end of each reporting period.

14. DEPOSIT LIABILITIES

As of December 31, 2023, classification of deposit liabilities as to Source follows:

	NUMBER OF ACCOUNTS		AMOUNT
Savings	7,367	P	606,259,441
Demand	747		18,104,294
Special Savings Deposit	400		407,542,810
Deposit liabilities - FCDU	20		5,638,834
	8,534	P	**1,037,545,378**

Deposit liabilities are in the form of savings and demand deposits. Savings deposits have annual interest rates ranging from 0.125% to 2.00% per annum in 2023 and 0.125% to 1.00% in 2022.

Demand deposits, on the other hand, do not bear interest.

Interest expense incurred on deposit liabilities amounted to P7.6 million and P4.7million in 2023 and 2022, respectively.

Under existing BSP regulations, deposit liabilities are subject to regular and liquidity reserve of 2% and 4%, respectively, for demand and 2% and 3%, respectively, for savings in 2023 and 2022. The Bank is in compliance with These BSP regulations as of the end of each reporting period.

All deposit liabilities have maturity profile of within one year as of December 31, 2023 and 2022.

As of December 31, 2023, deposit liabilities by Size of Accounts follow:

DEPOSIT SIZE	NUMBER OF ACCOUNTS		AMOUNT
P5,000 and below	4,267	P	5,626,198
P5,000.01 - P10,000	805		5,371,548
P10,000.01 - P15,000	459		5,498,593
P 15,000.01 - P20,000	244		4,181,150
P20,000.01 - P30,000	389		9,316,272
P30,000.01-P40,000	248		8,473,254
P40,000.01 - P50,000	202		8,894,789
P50,000.01-P60,000	180		9,657,341
P60,000.01 - P80,000	222		15,075,854
P80,000.01 - P100,000	161		14,225,448
P100,000.01 - P150,000	310		37,091,447
P150,000.01 - P200,000	170		29,297,952
P200,000.01 - P250,000	122		26,880,326
P250,000.01 - P300,000	83		22,789,954
P300,000.01 - P400,000	138		47,536,078
P400,000.01 - P500,000	91		40,204,918
P500,000.01 - P750,000	174		101,226,399
P750,000.01 - P1,000,000	66		56,763,071
P1,000,000.01 - P1,500,000	93		111,040,445
P1,500,000.01 - P2,000,000	22		38,482,299
P2,000,000.01-P3,000,000	31		74,192,228
P3,000,000.01-P4,000,000	17		55,656,959
P4,000,000.01-P5,000,000	10		44,039,374
Over P5,000,000	30		266,023,481
	8,534	P	1,037,545,378

15. ACCRUED EXPENSES AND OTHER LIABILITIES

This accouont consists of:

		2023		2022
Due to government agencies	P	484,453	P	402,733
Accounts payable		1,462,564		1,458,849
Accrued interest payable		267,624		170,552
Deposit of key for safety deposit boxes		67,000		67,000
Accrued expenses and other payables		1,169,401		2,964,811
	P	3,451,042	P	5,063,945

Deposit of key for safety deposit boxes will mature upon termination of the lease contract for a property being leased out by the Bank. All other accrued expenses and other liabilities as at December 31, 2023 and 2022 will mature within one year from the end of each reporting period.

16. EQUITY

16.1 Capital Management Objectives, Policies and Procedures

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

The Bank manages its capital structure, which is 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 on capital structure or issue capital securities.

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

(a) Unimpaired Capital

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 assets;
(d) Goodwill, if any
(e) Sinking fund for redemption of redeemable preferred stock; and,
(f) Other regulatory deductions.

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

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

Under the relevant BSP regulations, the regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tiers 1 and Tiers 2 capital.

Tier 1 and Tier 2 capital are defined as follows:

(a) Tier 1 Capital includes the following:

a. Paid-up common stock;
b. Surplus and surplus reserves; and,
c. Undivided profits (for domestic banks only).

Subject to deductions for:

a. Treasury shares (if any)
b. Unrealized losses on underwritten listed equity securities purchased;
c. Unbooked valuation reserves, and other capital adjustments based on the latest BSP report of examination;
d. Outstanding unsecured credit acommodations, both direct and indirect, to DOSRI;
e. Goodwill; and.
f. Deferred Income Tax

(b) Tier 2 Capital includes:

a. Appraisal increment reserve - bank premises if any, as authorized by the Monetary Board of the BSP; and,

b. General loan loss provision, limited to a maximum of 1.0% of credit risk-weighted assets.

As of December 31, 2023 and 2022, the Bank was in compliance with the minimum ratio of which net worth of the Bank must bear to its total risk assets pursuant to Section 34 of the General Banking Law of 2000. The risk-based capital adequacy ratio of the Bank was **25.63%** in **2023** and 31.11% in 2022. Under the existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the

Computation of Risk-Based Capital Adequacy Ratio

On January 1, 2012, BSP Circular 688, dated May 26, 2010, took effect containing the revised risk-based adequacy framework for stand-alone thrift banks, rural banks and cooperative banks which is based on Basel 1.5 wherein CAR shall not be less than 10% of the qualifying capital to risk-weighted assets.

In computing the CAR, the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital, and (ii) Tier 2 Capital; less deductions from the Total Tier 1 and Tier 2, as provided in BSP Circular 688.

The Bank's regulatory capital position as at December 31, 2023 is presented below.

Calculation of Qualifying Capital			
Net Tier 1 Capital			231,243,753
Net Tier 2 Capital			4,485,292
Total Qualifying Capital			235,729,045
Total Credit Risk Weighted Assets			838,055,959
Risk-Weighted On-Balance Sheet Assets	838,055,959		
Risk-Weighted Off-Balance Sheet Assets	-		
Total Credit Risk Weighted Assets	838,055,959		
General Loan Loss Provision	-		
Total Deductions	-		
Total Operational Risk-Weighted Assets			81,841,373
Total Risk-Weighted Assets			919,897,332
Risk-Based Capital Adequacy Ratio (CAR)			**25.63**
Common Equity Tier 1 Ratio			**25.14**
Capital Conservation Buffer			**19.14**
Total 1 Capital Ratio			**25.14**
TIER 1 CAPITAL			235,148,759
Common Equity Tier 1			
Paid Up Capital Stock		99,950,200	
Retained Earnings		110,054,017	
Undivided Profits		25,144,543	
Deductions from CET 1 Capital - Deferred tax assets			3,905,006
NET TIER 1 CAPITAL			**231,243,753**

Total TIER 1 Capital	231,243,753
TIER 2 Capital	4,485,292
General loan loss provision	4,485,292
TOTAL QUALIFYING CAPITAL	**235,729,045**

Capital for the reporting periods under review is summarized below:

	2023	2022
Total liabilities	P 1,044,420,652	P 1,118,536,353
Total equity	235,231,507	213,026,423
Debt-to-equity ratio	4.44:1	5.39 : 1

The following is the computation of risk assets ratio as of December 31, 2023 and 2022:

	2023	2022
Total Assets	1,279,652,159	1,331,562,776
Less: Non-risk assets:		
Cash on Hand	12,681,847	15,119,852
Due from BSP	14,474,634	31,789,767
Fixed Assets (Net)	15,140,903	20,071,748
Investment Securities at Amortized Cost	357,004,084	388,311,146
Total Non-risk assets	399,301,468	455,292,513
Risk Assets	880,350,691	876,270,263
Net Worth	235,231,507	213,026,423
Divided by Risk Assets	880,350,691	876,270,263
RISK ASSETS RATIO	26.72%	24.31%

(b) Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degrees of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles allocation of capital to subject to the overall level of capital to support a particular operation or activity. The process of specific operations and activities is undertaken independently of those responsible for the operation, and is subject to review by the Bank's BOD.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account profitability is also taken, and synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives.

(c) Minimum Capital Requirement

The Monetary Board, in its Resolution No. 1145 dated 4 August 2022, approved the amendments to the relevant provisions of the Manual of Regulations for Banks (MORB) aimed at increasing the minimum capital requirements for rural banks. The new minimum capitalization of banks shall be as follows:

BANK CATEGORY	REQUIRED MINIMUM CAPITALIZATION
Rural Bank - Head Office Only	P50 million
Up to 5 branches	P50 million
6 to 10 branches	P120 million
More than 10 branches	P200 million

For purposes of compliance with Section 1, the term branch shall exclude the branch-lite units of banks.

(d) Minimum Liquidity Ratio

BSP Memorandum No. M-2022-004, Section 2 states the Amendment to the Relief Measure on the Reduction in the Minimum Liquidity Ratio (MLR) of Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks. Memorandum No. M-2020-020 dated 7 April 2020, as amended by Memorandum No. M-2020-085 dated 1 December 2020, is hereby further amended to read as follows:

The reduction in the MLR and the arrangements set forth in this memorandum shall be effective until 31 December 2022, unless otherwise revoked by the BSP.

The Bank's MLR as of December 31, are analyzed below:

		2023		2022
Eligible stock of liquid assets	P	754,770,238	P	726,060,699
Total qualifying liabilities		914,650,938		975,936,995
		82.52%		74.40%

16.2 Capital Stock

Capital stock consists of:

	SHARES			
		2023		2022
Common shares -P100 par value Authorized		1,000,000		1,000,000
Issued and outstanding		999,502		999,502
Authorized Capital	P	100,000,000	P	100,000,000
Subscribed Capital	P	999,950,200	P	999,950,200

16.3 Surplus Free

There was no dividend declaration in 2024.

16.4 Surplus Reserves

The components of this account as of December 31, 2023 and 2022 follows:

		2023		2022
Reserve for bank infrastructure	P	**37,163,711**	P	37,163,711
Reserve for human resource and branch banking		**11,801,601**		11,801,601
Reserve for management information upgrade, IT development, and purchase of bank premises, furniture, fixtures and equipment		**8,500,000**		8,500,000
	P	**57,465,312**	P	57,465,312

Management's assessment on these reserves are summarized below:

(a) Bank infrastructure – the BOD has reviewed and revised the construction plans of new building to refurbish the existing main structure and addition of a wing for meeting area and IT center adjacent to the old building.

(b) Human resource and branch banking – the BOD retained the appropriation in line with its ongoing plan of branching to other locations.

(c) Management information upgrade, IT development and purchase of bank premises, furniture, fixtures and equipment – in view of the stringent security features proposed for ATM cards, the BOD put on hold the implementation of this project.

17. INTEREST INCOME AND INTEREST EXPENSE

INTEREST INCOME		
Agri/Agra Current		
Agrarian Reform Loans	4,122,002	
Other Agricultural Credit Loans	6,955,415	11,077,418
Small and Medium Enterprise Loans-Current		
Small Enterprises	11,380,510	
Medium Enterprises	10,567,714	21,948,225
Loans to Private Corporations-Current		805,082
Loans to Individuals for Housing Purposes - Current		4,614,317
Loans to Individuals for Personal Use Purposes - Current		
Auto Loans	1,781,454	
Salary Loans	309,232	2,090,686
Loans to Individuals for Other Purposes - Current		10,855,859
Past Due Loans and Items in Litigation		
Agrarian Reform Loans	-	
Other Agricultural Credit Loans	16,860	
Small Enterprises	543,626	
Medium Enterprises		
Auto Loans	186,295	
Salary Loans	39,450	
Loans to Individuals for Housing Purposes	5,366	
Loans to Individuals for Other Purposes	1,956,759	2,748,355
Sales Contract Receivable		
Performing		
Non-Performing	65,656	65,656
Other Banks		10,880,958
Resident Held to Maturity Financial Assets		18,056,881

TOTAL INTEREST INCOME	**83,143,436**
INTEREST EXPENSE	
Savings	
Taxable	7,617,331
Lease Liabilities	291,311
TOTAL INTEREST EXPENSE	**7,908,642**
NET INTEREST INCOME	**75,234,794**

18. OTHER INCOME

Details of this account are presented below.

		2023		2022
Rent income	P	1,342,835	P	1,427,179
Gain on disposal of bank premises		499		49,682
Rent income - safety deposit box		86,050		81,317
Retirement benefit assets		-		
Miscellaneous		3,137,610		2,352,828
	P	4,566,994	P	3,911,006

Miscellaneous include income from insurance claims, penalties on loans, and loan application fees.

19. COMPENSATION AND FRINGE BENEFITS

This account consists of:

		2023		2022
Salaries and Wages	P	14,027,662	P	13,458,267
Officers and Employees Benefits		4,082,138		3,295,874
Directors Fees		1,619,000		1,552,000
SSS, HDMF, Philhealth Premium Expense		1,265,906		1,042,823
Medical, Dental and Hospitalization		128,174		250,000
	P	21,122,879	P	19,598,964

The Bank has a total number of 19 **officers, 35 rank and file employees** and **54 total number of** employees as of December 31, 2023. *(Based on latest submitted General Information Sheet)*

20. TAXES AND LICENSES

This account consists of:

		2023		2022
Annual Registration Fees - BIR	P	3,500	P	3,500
Municipal Licenses and Business Permits		724,140		569,231
Gross Receipts Tax		3,293,796		3,777,234
Real Estate Tax		141,723		110,154
Registration/Renewal of Motor Vehicles		11,122		9,830
	P	4,174,282	P	4,469,949

21. OTHER ADMINISTRATIVE EXPENSES

This account includes the following:

		2023		2022
Insurance Expenses *(see Note 21.a)*	P	**3,834,197**	P	4,479,304
Security, Clerical, Messengerial & Janitorial Services *(see Note 21.b)*		**2,816,000**		2,456,000
Power, Light and Water		**1,562,033**		1,371,700
Stationery & Supplies Used		**344,279**		1,019,874
Management & Other Professional Fees		**975,987**		1,012,716
Fuel and Lubricants		**982,414**		1,007,511
Repairs and Maintenance		**1,218,591**		612,121
Postage, Telephone, Cables and Telegrams		**626,771**		560,071
Litigation Expenses		**232,999**		247,472
Fines and Penalties		**80,465**		360,578
Representation and Entertainment		**272,000**		278,000
Banking Fees		**235,891**		197,088
Advertising and Publicity		**169,966**		163,296
Travelling Expenses		**167,078**		157,971
Donations & Charitable Contributions		**2,000**		80,000
Membership Fees and Dues		**44,622**		77,240
Periodicals and Magazines		**440**		19,920
Other Expenses *(see Note 21.c)*		**4,391,015**		3,517,373
	P	**17,956,746**	P	17,618,235

21. a **Insurance Expenses** as of December 31, 2023 consists of **Insurance -PDIC P2,230,505** and **Insurance - Others P1,603,692.**

21.b **Security, Clerical, Messengerial & Janitorial Services** as of December 31, 2023 consists of **Salaries - P2,530,308** and **Agency Fee - P285,692.**

21.c **Breakdown of Other Expenses as of December 31, 2023 follows:**

Miscellaneous Expense	P	1,017,516
Miscellaneous Expense Non Capitalized		3,976
Seminar, Training		143,685
Meetings		18,737
Bereavement Expenses		66,210
Rice Allowance		595,320
Laundry Allowance		147,600
Food And Meal		1,821,754
Emergency Allowane		146,150
Unconsumed Leaves		364,485
Cash Gift		46,800
Loyalty Award		17,500
Misc Expense - FCDU		1,283
TOTAL	P	**4,391,015**

22. DEPRECIATION/AMORTIZATION EXPENSE

This account consists of:

		2023		2022
Building	P	1,063,190	P	1,063,190
Right of Used Assets		1,230,086		1,232,639
Transportation Equipment		289,800		289,800
Furniture, Fixtures and Equipment		453,747		521,816
Leasehold Improvements		536,424		554,498
ROPA-Building		-		-
	P	3,573,248	P	3,661,943

23. EMPLOYEE BENEFITS

23.1 Salaries and Other Benefits

Details of this account are presented below.

	2023	2022
Short-term employee benefits	21,122,879	19,598,964
Post-employment defined benefit	626,453	626,453
	21,749,332	20,225,417

23.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, noncontributory post-employment defined benefit plan that is being administered by trustee individual that is legally separated from the Bank. The post employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is an amount equivalent to 100% to 125% of the final monthly covered compensation for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2021.

The amounts of retirement benefit asset recognized in the statements of financial position are determined as follows:

		2023
Fair value of plan assets	P	13,099,871
Present value of the obligation		(6,127,374)
		6,972,497
Unrecognized asset due to effect of asset ceiling limit		(1,780,981)
	P	5,191,516

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

		2023
Cash and cash equivalents	P	2,434,272
Loans		8,617,318
Investments		2,048,281
	P	13,099,871

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

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

		2023
Balance at beginning of year	P	6,614,350
Current service cost		626,453
Interest cost		-
Actuarial losses due to:		
Changes in financial assumptions		
Adjustments		(1,113,429)
Changes in demographic assumptions		
Benefits paid		-
Balance at end of year	P	6,127,374

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

		2023
Reported in profit or loss:		
Current service cost	P	626,453
Interest income – net		(212,545)
	P	413,908

Reported in other comprehensive loss (income):		
Actuarial losses arising from changes in:		
Financial assumptions	P	-
Experience adjustments		-
Changes in demographic assumptions		-
Return on plan assets		-
Changes on the effect of asset ceiling		-
	P	-

Current service costs form part of the Salaries and Other Benefits under Other Operating Expenses account, while net interest expense (income) is presented as part of Interest Income in the statements of comprehensive income.

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

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

	2023
Discount rates	5.08%
Expected rate of salary increases	2.00%

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

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

Currently, the plan assets are mainly cash and cash equivalents. Due to the long-term nature of the plan obligation, a level of continuing debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

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

24. TAXES

DOCUMENTARY STAMPS TAX - HEAD OFFICE	P	1,270,919
BIR ANNUAL REGISTRATION FEE		
Head Office	P	500
Market branch		500
Molino branch		500
Salawag - branch		500
Mauban - branch lite		500
Balayan - branch lite		500
Candelaria - branch lite		500
	P	3,500
REAL ESTATE TAX		
Head Office	P	18,321
Market branch		67,474
Molino branch		52,211
Balayan - branch lite		3,717
	P	141,723
PERCENTAGE TAXES	P	3,293,796
LICENSES AND PERMIT FEES		
Head Office	P	384,087
Market branch		169,656
Molino branch		85,856
Salawag branch		84,541
	P	724,140
WITHHOLDING TAXES AT SOURCE		
Head Office	P	295,193
Market branch		1,428
Molino branch		41,718
Salawag branch		41,641
	P	379,981
WITHHOLDING TAXES ON COMPENSATION		
Head Office	P	649,438
Market branch		6,041
Molino branch		34,018
Salawag branch		30,945
	P	720,442
FINAL TAXES - OTHERS		
Head Office	P	1,025,474
Market branch		354,720
Molino branch		121,020
Salawag branch		21,752
	P	1,522,967
FINAL TAXES -ESTATE		
Head Office	P	835
Market branch		7,130
Molino branch		19,826
Salawag branch		-
	P	27,791

INCOME TAX

Annual - 2022	P	126,054
1st Quarter - 2023		24,974
2nd Quarter - 2023		96,411
3rd Quarter - 2023		250,968
	P	498,406

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented "Taxes and Licenses" in the Statement of Income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST). Income taxes include the corporate income tax and final taxes paid at the rate of 20%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Taxes and licenses incurred by the Bank amounted to P4,174,282 and P4,466,949 in 2023 and 2022, respectively.

Republic Act (RA) No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, provides that the RCIT rate shall be 25% staring July 1, 2020. Where the corporation's net income does not exceed PHP 5 million and its total assets do not exceed PHP 100 million (excluding land where the business is situated), the tax rate shall be 20%. In addition, interest expense allowed as a deductible expense shall be reduced by 20% of interest income subjected to starting final tax.

The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Bank:

- regular corporate income tax (RCIT) rate was reduced from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate was reduced from 2% to 1% starting July 1, 2020 until June 30, 2023, for July 2023 onwards the rate is back at 2%; and,
- the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

Current Tax Expense
Regular Income Tax Computation - Grossed Up

Income tax due for the year ended December 31, 2023 is computed as follows:

Income before Tax	P	30,694,996
Non-deductible Provision for Credit Losses		3,276,676
Total Non-taxable Interest Income subject to Final Tax		(28,937,839)
Total Non-deductible Interest Expense - 20% of Interest Income Subject to Final Tax		5,787,568
Other Recon		2,147,850
Rental payment		(1,554,036)
NOLCO 2020		(11,415,216)
Taxable Income		-
Multiply by Tax Rate		25%
Regular Corporate Income Tax - RCIT	P	-

NON-TAXABLE INCOME SUBJECT TO FINAL TAX

Interest Income - HTM Financial Assets	P	18,056,881
Interest Income - Deposits in Bank		10,880,958
	P	28,937,839

NON-DEDUCTIBLE INTEREST EXPENSE

Total Non-taxable Income Subject to Final Tax	P	28,937,839
Multiply by		20%
	P	5,787,568

RECONCILIATION OF NET INCOME PER BOOK AND NET INCOME PER TAX PURPOSES

Net Income per Book	P	30,694,996
Add: Non-deductible expense/other taxable income		
Non-deductible interest expense		5,787,568
Non-deductible Provision for Credit Losses		3,276,676
Other Recon		2,147,850
Less: Non taxable income		
Rental payment		(1,554,036)
Non-taxable interest income subject to final tax		(28,937,839)
NOLCO		(11,415,216)
NET TAXABLE INCOME	P	-

Minimum Corporate Tax Computation

				2023
Gross Income			P	89,698,909
Total Non-Taxable Interest Income Subject to Final Tax				(28,937,839)
Total Non-Deductible Interest Expense - 20% of Interest Income Subject to Final Tax				5,787,568
Gross Income Subject to MCIT				66,548,638
Allowable Deductions: (Based on B.I.R. - Revenue Memo Circular No. 4-2003 (i):				
Compensation and Fringe Benefits	P	21,122,879		
Interest Expense		7,617,331		
Insurance		2,230,505		
Bank Supervisory Fees		235,891		31,206,606
Net Taxable Gross Income Subject to MCIT				35,342,032
Multiply by MCIT Rate				1.5%
Minimum Corporate Income Tax			P	530,130

GROSS INCOME:

Interest Income	P	83,143,436
Fees and Commission		1,121,486
Gain from Sale of ROPA		866,993
Other Income		4,566,994
	P	89,698,909

INCOME TAX PAYABLE		
Tax Due	P	530,130
Less: Tax Credits		
Prior Year Excess		-
1st to 3rd quarters		372,352
Income Tax Payable, end of year	P	157,778

Computation of Income Tax Expense:

		2023		2022
MCIT	P	530,130	P	297,997
Final Tax- Interest Income		5,592,559		3,623,813
Adjustments				
total		6,122,689		3,921,810
Changes Deferred Tax-AL		1,595,935		
Deferred Tax Income		1,364,384		(1,587,415)
Income Tax Expense	P	9,083,007	P	2,334,396

Details of NOLCO are as follows:

Year Incurred	Amount	Applied	Balance	Expired
2020	14,882,797	11,415,216	3,467,581	2025
	14,882,797	11,415,216	3,467,581	

25 Supplementary Information under Revenue Regulations 19-2011

RR No. 19-2011 that prescribes the use of new income tax forms starting with calendar year 2013 became effective on December 9, 2012. Companies are now required to include; as part of the notes to the financial statements, the schedules and information on taxable income and deductions.

Below is the additional information required by RR 19-2011. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

Interest Income

The breakdown of the Bank's Interest Income consists of:

		Financial Statement		Income Tax Return
Loans and receivables, current	P	51,391,586	P	51,391,586
Loans and receivables, PD, LI		2,814,011		2,814,011
Bank deposits		10,880,958		-
Held-to-maturity financial assets		18,056,881		-
	P	83,143,436	P	54,205,597

Cost of Services

The breakdown of the Bank's deductible cost of services consists of:

		Financial Statement		Income Tax Return
Interest expense	P	7,908,642	P	1,829,763

Other Operating Income

Details of the Other Operating Income of the Bank for 2023 are as follows:

		Financial Statement		Income Tax Return
Fees and commissions income	P	1,121,486	P	1,121,486
Gain from Sale of Non-financial		866,993		866,993
Other Income		4,566,994		4,566,994
	P	6,555,473	P	6,555,473

Operating Expenses

Details of the Bank's deductible expenses for 2023 are as follows:

		Financial Statement		Income Tax Return
Compensation/fringe benefits	P	21,749,332	P	21,122,879
Taxes and licenses		4,174,282		4,174,282
Depreciation		3,573,248		2,343,161
Insurance Expenses		3,834,197		3,834,197
Security, Clerical, Messengerial & Janitorial Services		2,816,000		2,816,000
Provision for probable losses		3,276,676		-
Rent		-		1,554,036
Litigation Expenses		232,999		232,999
Power, Light and Water		1,562,033		1,562,033
Repairs and Maintenance		1,218,591		1,218,591
Representation and Entertainment		272,000		272,000
Stationery & Supplies Used		344,279		344,279
Fuel and Lubricants		982,414		982,414
Postage, Telephone, Cables and Telegrams		626,771		626,771
Supervision Fees		235,891		235,891
Management & Other Professional Fees		975,987		975,987
Donations & Charitable Contributions		2,000		2,000
Travelling Expenses		167,078		167,078
Membership Fees and Dues		44,622		44,622
Advertising and Publicity		169,966		169,966
Fees and Commission		364,986		364,986
Fines, Penalties and Other Charges		80,465		80,465
Other Expenses		4,391,015		4,391,015
Periodicals and Magazines		440		440
NOLCO		-		11,415,216
	P	51,095,271	P	58,931,307

Deficiency Tax Assessments and Tax Cases

The Bank has received a Letter of Authority from the Bureau of Internal Revenue for the continuation of audit of the Bank's tax liabilities for the taxable period from 01/01/2018 to 12/31/2018 because of reassignment of the case due to:Protested cases/cases for reinvestigation.

The case was referred to Revenue Officer Hannah Marie A. Magsino under Group Supervisor Chona D. De Ramos pursuant to Letter of Authority No. 054A-2023-000000126 dated February 3, 2023.

The Bank ensures compliance with the required submissions and replies to assessment notices for proper disposition of assessment cases. The Bank has paid the deficiency tax for income tax amounting to Php1,397,245, gross receipt tax amounting to Php64,834 and documentary stamps tax amounting to Php135,000.

As of December 31, 2023, the company has no outstanding tax cases.

26. RELATED PARTY TRANSACTIONS

The summary of the Bank's transactions and the related outstanding balances with DOSRI and other related parties as of and for the years ended December 31, 2023 and 2022 are as follows:

	Amounts of Transaction		Outstanding Balance	
Related Party Category	**2023**	**2022**	**2023**	**2022**
Key Management Personnel-				
Compensation	1,619,000	1,552,000	-	-
DOSRI:				
Loans and Receivables	-	-		
Interest Income	-	6,509		

26.1 Key Management Personnel Compensation

Short-term benefits paid to key management employees amounted to P1.6 million in 2023 and P1.5 million in in 2022 ,which are presented as part of Salaries and other benefits under Other Operating Expenses in the statements of comprehensive income.

26.2 Directors, Officers, Stockholders and Related Interests

In 2020, the Bank approved one DOSRI loan with an interest rate of 3.50% amounting to P856,000 which had no outstanding balance as of December 31, 2022. The loan was fully paid in June 21, 2022.

Related Party Loans:

Date of loan release	06/01/2022
Principal amount	P500,000
Interest rate	3.75%
Term	6/1/2022 to 6/2/25
Outstanding balance as of 12/31/2023	P201,241
Interest paid as of 2023	P25,077

Date of loan release	04/19/2023
Principal amount	P350,000
Interest rate	4.50%
Term	4/19/2023 to 4/20/2026
Outstanding balance as of 12/31/2023	P238,623
Interest paid as of 2023	P13,701

Date of loan release	03/03/2023
Principal amount	P500,000
Interest rate	3.125%
Term	03/03/2023 to 03/03/2026
Outstanding balance as of 12/31/2023	P324,932
Interest paid as of 2023	P14,477

27. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Bank:

27.1 Claims and Litigations

The Bank is a defendant in various cases pending in courts for alleged claims against the Bank, the outcome of which are not fully determinable at present.

27.2 Others

There are other commitments and contingent liabilities that arise in the normal course of the Bank's operations that are not reflected in the financial statements. As of December 31, 2023 and 2022, management is of the opinion that losses, if any, from these items will not have a material effect on the Bank's financial statements.

28. EARNINGS PER SHARE

Basic earnings per common share were computed as follows:

		2023		2022
Net Income	P	21,611,989	P	9,238,282
Divided by the weighted average number of outstanding common shares		999,502		999,502
c. EARNINGS PER SHARE (a/b)	P	21.62	P	9.24

29. BOOK VALUE PER SHARE

Book value per share were computed as follows:

		2023		2022
a. Equity	P	235,231,507	P	213,619,518
b. Divided by number of outstanding common shares		999,502		999,502
c. BOOK VALUE PER SHARE (a/b)	P	235.35	P	213.73

30. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below and in the succeeding pages are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements.

(a) Selected Financial Performance Indicators

The following formula was used to compute for Return on Equity (ROE):

ROE = Net Income after Tax / Average Capital

		2023		2022
Net Income	P	21,611,989	P	9,238,282
Divided by Average Capital		224,425,513		206,133,096
Return on Equity (ROE)		9.63%		4.48%

The following formula was used to compute for Return on Average Assets (ROA):

ROA = Net Income after Tax / Average of Total Assets

		2023		2022
Net Income	P	21,611,989	P	9,238,282
Divided by Average of Total Assets		1,305,904,015		1,335,188,405
Return on Assets (ROA)		1.65%		0.69%

Computation of Net Interest Margin Ratio

The following formula was used to compute for Net Interest Margin Ratio:

Net Interest Margin Ratio = Net Interest Income/ Average Earning Assets

		2023		2022
Total Interest Income	P	83,143,436	P	66,178,264
Less: Interest Expense		7,908,642		5,065,905
Net Interest Income		75,234,794		61,112,359
Average Earning Assets:				
Due from BSP		14,474,634		31,789,767
Due from Other Banks		370,609,673		290,839,934
Loans (Gross)		512,278,146		581,845,112
Investment Securities at amortized cost		357,004,084		388,311,146
Total Average Earning Assets	P	1,254,366,537	P	1,292,785,959
NET INTEREST MARGIN RATIO		6.00%		4.73%

The following formula was used to compute for Leverage Ratio:

LEVERAGE RATIO= Teir 1 Capital/Total Assets

	2023	2022
Tier I Capital	231,243,753	197,278,611
Total Assets	1,279,652,159	1,332,155,871
LEVERAGE RATIO	**18.07%**	14.81%

The following formula was used to compute for Debt to Equity Ratio:

DEBT TO EQUITY RATIO= Total Liabilities / Total Equity

	2023	2022
Total Liabilities	1,044,420,652	1,118,536,353
Total Equity	235,231,507	213,619,518
DEBT TO EQUITY RATIO	**444.00%**	523.61%

The following formula was used to compute for Debt to Capital Ratio:

DEBT TO CAPITAL RATIO= Total Liabilities / Total Assets

	2023	2022
Total Liabilities	1,044,420,652	1,118,536,353
Total Assets	1,279,652,159	1,332,155,871
DEBT TO CAPITAL RATIO	**81.62%**	84.16%

(b) Capital Instruments Issued

As of December 31, 2023, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which may include, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

(c) Significant Credit Exposures for Loans

As at December 31, 2023 and 2022, information on the concentration of credit as to industry of receivables from customers is as follows:

	2023		2022	
	AMOUNT	%	AMOUNT	%
Agriculture, forestry and fishing	86,722,791	17	113,691,583	20
Real estate activities	162,492,313	32	177,788,741	31
Accommodation and food service activ	98,684,971	19	64,965,005	11
Construction	29,301,366	6	20,422,963	4
Manufacturing	3,664,889	1	24,495,976	4
Wholesale and retail trade	39,966,749	8	24,237,286	4
Transportation and storage				-
and communication	15,681,245	3	6,732,077	1
Education	2,082,142	-	2,542,067	-
Human health and social				-
work activities	1,705,048	-	1,996,303	-
Professional, Scientific & Technical Ac	7,984,958	2		-
Others service activities	63,880,529	12	144,973,112	25
	512,167,003	100	581,845,112	100

(d) Credit Status of Loans

The breakdown of loans and receivables (gross of unearned interests, discounts and other charges) as to status is shown below.

	Performing	Non-performing	Total Loan Portfolio
2023			
Gross carrying amount:	**500,247,169**	**16,632,031**	**516,879,200**
Allowance for ECL	**17,051,144**	**11,813,833**	**28,864,977**
Net carrying amount	**483,196,025**	**4,818,198**	**488,014,223**

	Performing	Non-performing	Total Loan Portfolio
2022			
Gross carrying amount:	570,245,245	17,039,797	587,285,042
Allowance for ECL	15,471,741	9,903,042	25,374,783
Net carrying amount	554,773,504	7,136,755	561,910,259

(e) Analysis of Loan Portfolio as to Type of Security

As to security, receivables from customers (gross of allowance for impairment losses) are classified into the following:

	2023	2022
Secured:		
Real estate mortgage	P **483,338,289**	P 533,336,075
Chattel mortgage	**15,226,661**	19,819,068
Deposit hold-out	**5,294,753**	18,573,102
	503,859,703	571,728,245
Unsecured	**8,307,300**	10,116,867
TOTAL	P **512,167,003**	P 581,845,112

31 Status Report on Past Due Accounts and Valuation Reserves
For The Quarter Ended December 31, 2023

	This Quarter	Percent to Total	Previous Quarter	Percent to Total	Increase (Decrease)
A. Loans & Discount (per GL)					
1. Current	485,147,508	94.72%	558,602,532	96.01%	
Past Due & Loans in Litigation	27,019,495	5.28%	23,242,580	3.99%	
Total Loans & Discount	512,167,003	88.02%	581,845,112	100.00%	
PAST DUE & ITEMS IN LITIGATION RATIO:					
Total Past Due Loans & Items in Litigation / Total Loans and Discount		5.28%		3.99%	
B. Collection of Past Due Loans & Items in Litigation					
1. Past Due Loans, Beginning (Previous Quarter)	25,407,022				
2. Transfer to Past Due	2,970,918				
3. Total Past Due	28,377,940				
4. Transfer to ROPA	-				
5. Past Due Loans, End	27,051,250				
6. Collections	708,987				
C. Past Due Collection Ratio	2.79%				

	PASS	LOANS SPECIALLY MENTIONED	SUBSTANDARD SECURED	SUBSTANDARD UNSECURED	DOUBTFUL	LOSS
D. Qualitative Appraisal of Loans & Other Risk Assets						
1. Current Loans	448,146,102		42,890,927	119,019	417,414	
Past Due Loans						
On Demand						
1 to 30 days	383,130				2,831,620	
31 to 90 days						
91 to 120 days						
121 to 180 days			990,306			
181 to 1 year						284,256
Over 1 year to 5 years					9,951,323	2,289,443
Over 5 years						2,897,649
Loans in Litigation						1,076,957
TOTAL	448,529,232	-	43,881,233	119,019	13,200,357	6,548,305
2. Other Risk Assets						
ROPA						
0 to 5 years						
More than 5 years	10,854,103				600,000	1
TOTAL	10,854,103	-	-	-	600,000	1
GRAND TOTAL	459,383,335	-	43,881,233	119,019	13,800,357	6,548,306

COMPLIANCE WITH REQUIRED VALUATION RESERVE

REQUIRED VALUATION RESERVE:	
I. CLASSIFIED LOANS	
Pass	
Sub-standard	4,485,292
Secured	
Secured	5,360,974
Unsecured	-
Unsecured	20,914
Doubtful	-
Loss	6,600,179
	6,548,305
ALLOWANCE FOR PROBABLE LOSSES: (Per Books)	23,015,664
Specific Loan Loss Provision	
General Loan Loss Provision	25,156,172
ROPA	4,485,292
	300,001
	29,941,466
EXCESS OF ALLOWANCE OVER REQUIRED	(6,925,802)

Schedule 1

IMUS RURAL BANK, INC.
Schedule of Net Deferred Taxes
For the years Ended December 31, 2023 and 2022

	Statement of Financial Position		Statements of Comprehesive Income			
			Profit of Loss		Other Comprehensive Income (Loss)	
	2023	2022	2023	2022	2023	2022
Deferred Tax Assets:						
Impairment allowance for:						
Loans and receivables	7,518,398	6,692,424	825,974	1,904,509	-	-
Investment properties	75,000	75,000	-	-	-	-
Lease liabilities	816,613	1,132,294	(315,681)	300,869	-	-
Acturial gain (Loss)	(278,357)	-	(278,357)	-	-	-
	8,131,654	7,899,718	231,936	2,205,378	-	-
Deferred Tax Assets:						
Retirement benefit assets	(3,853,697)	(2,087,674)	(1,766,023)	-	-	-
Accrued interest receivables	(1,018,561)	(881,127)	(137,433)	(306,283)	-	-
ROU	(774,599)	(1,082,120)	307,522	(311,680)	-	-
	(5,646,856)	(4,050,922)	(1,595,934)	(617,964)	-	-
Net deferred Tax Assets	2,484,798	3,905,006				
Deferred Tax Income (Expense)			(1,363,999)	1,587,415	-	-

Schedule 2

IMUS RURAL BANK, INC.

Right of Use Assets and Lease Liabilities

For the year ended December 31, 2023

RIGHT OF USE ASSETS:

Beginning Balance			P	4,328,481
Less: Amortization Expense				
SALAWAG	P	628,143		
MAUBAN		495,871		
CANDELARIA		106,073		1,230,086
ROUA, END			P	3,098,394

LEASE LIABILITIES:

Beginning Balance			P	4,529,177
Less: Payments net of Interest Expense				
SALAWAG	P	670,915		
MAUBAN		431,076		
CANDELARIA		160,734		1,262,724
LEASE LIABILITIES END			P	3,266,453

INTEREST EXPENSE LEASE LIABILITIES:

SALAWAG	P	133,338
MAUBAN		135,924
CANDELARIA		22,049
	P	291,311

8. **Information on sustainable finance as required under Sec. 153 of the Manual of Regulations for Banks (MORB)**

a. Sustainability strategic objectives and risk appetite

The Bank aims to find a way to balance economic growth with environmental and social responsibility and ensures that the sustainability strategy is compliant with all applicable laws, rules and regulations.

Our risk appetite is to minimize our risks exposures to our employees and shareholders and their safety, our reputation and corporate governance while accepting an increased degree of risk in pursuit of our key strategic objectives.

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

The Bank is aware that climate change and other environmental and social risks could pose financial difficulties on the Bank's operations. The bank stands by its commitment to protect the well-being of its employees by implementing policies that provide for a flexible and safe working environment. For our clients and communities, we continued to provide uninterrupted, safe and secure banking services while providing good governance, sound risk management and environmental and social responsibility.

To this end, we aim to embed our sustainability policies including environment and social risk areas into our corporate governance framework, risk management system, and strategic objectives in consonance with the size and risk profile of our operation.

c. Breakdown of E&S risk exposures of the bank per industry

The Bank caters to the following industries which are vulnerable to E&S risk.

Total credit exposure by industry	Amount (in PHP)	% of share
Accommodation and food service activities	98,684,971	19.27
Agriculture, forestry and fishing	86,722,791	16.93
Construction	29,301,366	5.72
Education	2,082,142	0.41
Electric, gas, steam and water	-	-
Financial and insurance activities	-	-
Human health and social work activities	1,705,048	0.33
Manufacturing	3,664,889	0.72

Others service activities	63,880,529	12.47
Real estate activities	162,492,313	31.73
Transportation and storage and communication	15,681,245	3.06
Wholesale and retail trade	39,966,749	7.80
Professional, Scientific & Technical Activities	7,984,958	1.56

d. Managing the E&S risks and their impact on the bank

With our Sustainable Finance Framework already in place, the bank can now use it to identify, assess, and manage our environmental and social risks and impacts associated with financing particular business activities or industry sectors.

The bank will continue to avoid businesses and activities that have adverse environment and social impacts.

e. Initiatives to promote adherence to internationally-recognized Sustainability Standards and Practices

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

1. Continuing to offer loan products and services that provide beneficial contributions to the society and its environment;

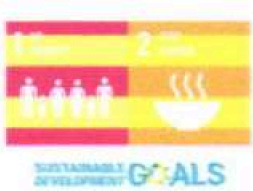
2. Ensuring that operations are compliant with applicable laws, rules and regulations; and aligned with the local best practices and international standards on Environmental, Social and Corporate Governance (ESG).

3. Ensuring that employees are provided with the right competencies and learning opportunities that can enhance their productivity and level of self-sufficiency.

Our journey towards sustainability

As we built our commitment to sustainability, below are some of the sustainable development goals we have done so far to address various social, economic, and environmental challenges:

1. Alleviate poverty and hunger



SDG 1 No Poverty: IRB aims to end poverty through its Kiddie Savings campaign. We believe teaching financial literacy at a younger age helps children develop good savings habits.

SDG 2 Zero Hunger: To free more Filipinos from hunger the bank is extending loans to market vendors, fisherfolks, farmers, hog and poultry raisers, our borrowers, who put food in every home.

2. Positive company culture

SDG 3 Good health and well being; SDG 4 Quality Education; SDG 8 Decent work and Economic growth: The bank aims to promote good health, and well-being for growth and success among everyone in the organization.

The bank through its HR department organizes training for employees both from internal and external sources such as face-to face seminar or webinars for in-house or those seminars conducted by Rural Bankers Associations and the likes. To boost camaraderie and team work, the bank is holding annual Team building for its employees; every summer our male employees join Liga ng Basketball in the community, and the bank's yearly Christmas party are among the activities supported by our organization.

3. Embracing Diversity in the workplace

SDG 5 Gender Equality; SDG 10 Reduced Inequalities: In this ever-changing world, the banking industry is also moving forward. As we work towards creating a thriving future, we welcome challenges, opportunities, and a diverse workplace. The bank supports the UNSDG goals in promoting gender equality and diversity. It creates a culture of belongingness where employees feel comfortable and valued, thus they are empowered to do their best and contribute more for the benefit of all.

a. Population

29	14% Directors	38% Supervisory	48% Rank & File
29	17% Directors	24% Supervisory	59% Rank & File

b. Age

7 20-30 y.o	7 31-40 y.o	8 41-50 y.o	5 51-60 y.o
1 61-70 y.o	1 71-80 y.o	0 80-90 y.o	0 91-100 y.o
10 20-30 y.o	7 31-40 y.o	3 41-50 y.o	5 51-60 y.o
2 61-70 y.o	1 71-80 y.o	0 80-90 y.o	1 91-100 y.o

II. Compliance with Appendix 62 of the MORB – Disclosures in the Annual Report and Published Statement of Condition

A. Capital structure and capital adequacy:

		2023 (In ₱ Millions)	2022 (In ₱ Millions)
1	Tier 1 Capital		
	Paid-up common stock	99.950	99.950
	Retained earnings	110.054	88.091
	Undivided Profit	25.144	9.238
	Total Tier 1 Capital	231.244	197.279
2	Tier 2 Capital		
	General Loan Loss Provision	4.485	4.784
3	Deductions from Tier 1 and Tier 2 Capital		
	Deferred tax asset	2.485	3.905
4	Total Qualifying Capital	235.729	202.063
5	Total Risk Weighted Assets	919.897	649.439
6	Total Credit Risk Weighted Assets	838.056	571.249
7	Total Operational Risk Weighted Assets	81.841	78.190
8	Total Market Risk Weighted Assets	-	-
9	Total Capital Adequacy Ratio	25.63%	31.11%
	Tier 1 Capital Adequacy Ratio	25.14%	30.38%