FIRST INTEGRITY BANK, INC.
(Rural Bank of Bailen)

ANNUAL REPORT 2023

HEAD OFFICE
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MICRO BANKING OFFICE
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4123
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COMPANY OVERVIEW

- First Integrity Bank, Inc. (Rural Bank of Bailen) (FIBI) was organized on Aug 31, 2010 under Securities and Exchange Commission (SEC) with SEC Registration No. CS201013448 and primary place of business at 1655 Real St., Poblacion I, Gen. Emilio Aguinaldo, Cavite. It was registered in the Bureau of Internal Revenue (BIR) last September 15, 2010 with Tax Identification Number (TIN) 007-854-139.

- Bangko Sentral ng Pilipinas (BSP) issued Certificate of Authority to FIBI on October 22, 2010 pursuant to Republic Act No. 7353.

- The bank was established primary to cater the needs of the community especially to uplift and support their financial needs through financial assistance programs of the bank.

- With the commitment to further improve its operations and serve more clients, the Bank decided to engage in micro banking operations. BSP approved the application last July 14, 2011. The MBO office is located at #02 Libertad St., Alfonso Cavite.

MISSION AND VISION

- To provide efficient and excellent banking and financing services to our clients.

- We envision being a leader in rural banking and financing industry in providing professional and quality services to the satisfaction of our clienteles.

MESSAGE FROM THE PRESIDENT

To our Shareholders, Clients, and Colleagues,

On behalf of the Board of Directors and Management, I'm pleased to report our annual progress for the year 2023.

First Integrity Bank Inc. (Rural Bank of Bailen) [FIBI], as one of the remaining rural banks in Cavite, continues in finding other ways to better serve our clients and to be a bank of choice. As we expand our horizon in terms of rural banking, FIBI is committed in providing best possible banking services to existing and prospective clients.

As reported, our loan portfolio increased significantly in 2023 as compared to the previous financial report; that resulted to improvements in our core income. This expansion of our loan portfolio is the result of our competitive rates being charged to our clients. The Bank continues to see great demand for MSME, housing and auto loans.

To the members of the Board and to the management team, thank you for the usual support, dedication, hard work, perseverance and commitment in providing best financial services possible to our dear clients.

Lastly, to our clients, I want to personally extend my gratitude for your continued trust and confidence. Expect a bigger and better FIBI as we grow to serve you better, we will open our new branch at ASEANA, Paranaque City; with this we will continue to improve our services to reach and to serve more clients.

Sincerely,

Catalina Manarin-Bagsic
President

MANAGEMENT STRUCTURE

Ms. Catalina Manarin-Bagsic
President/Chief Executive Officer

Mr. Vicente Resurreccion Romasanta
General Manager

Mr. Jervy Pamposa Canlas
Compliance Officer/Internal Auditor

Mr. Joseph Alvin Fajardo Isip
Loans and MIS Officer

Ms. Kristine Carla Ferre Macalanda
Treasurer

Atty. Rocherrie S. Bayot
Corporate Secretary

BASIC SERVICES OFFERED

PRODUCTS/SERVICES OFFERED

- **ATM CARD through POS**

The bank through Security Bank, Robinsons Bank and Land Bank of the Philippines offers ATM facilities using the POS machines.

Minimal fee is being charged to the cardholders unlike other rural banks.

- **Money Transfer and Bills Payment**

The bank through Union Bank, Security Bank and ExpressPay offers money transfer, bills payment, E-money top up.

Minimal fee is being charged to the clients unlike other companies and financial institutions.

- **Savings/Passbook**

The bank offers savings and special savings deposits that yield above market interest rates.

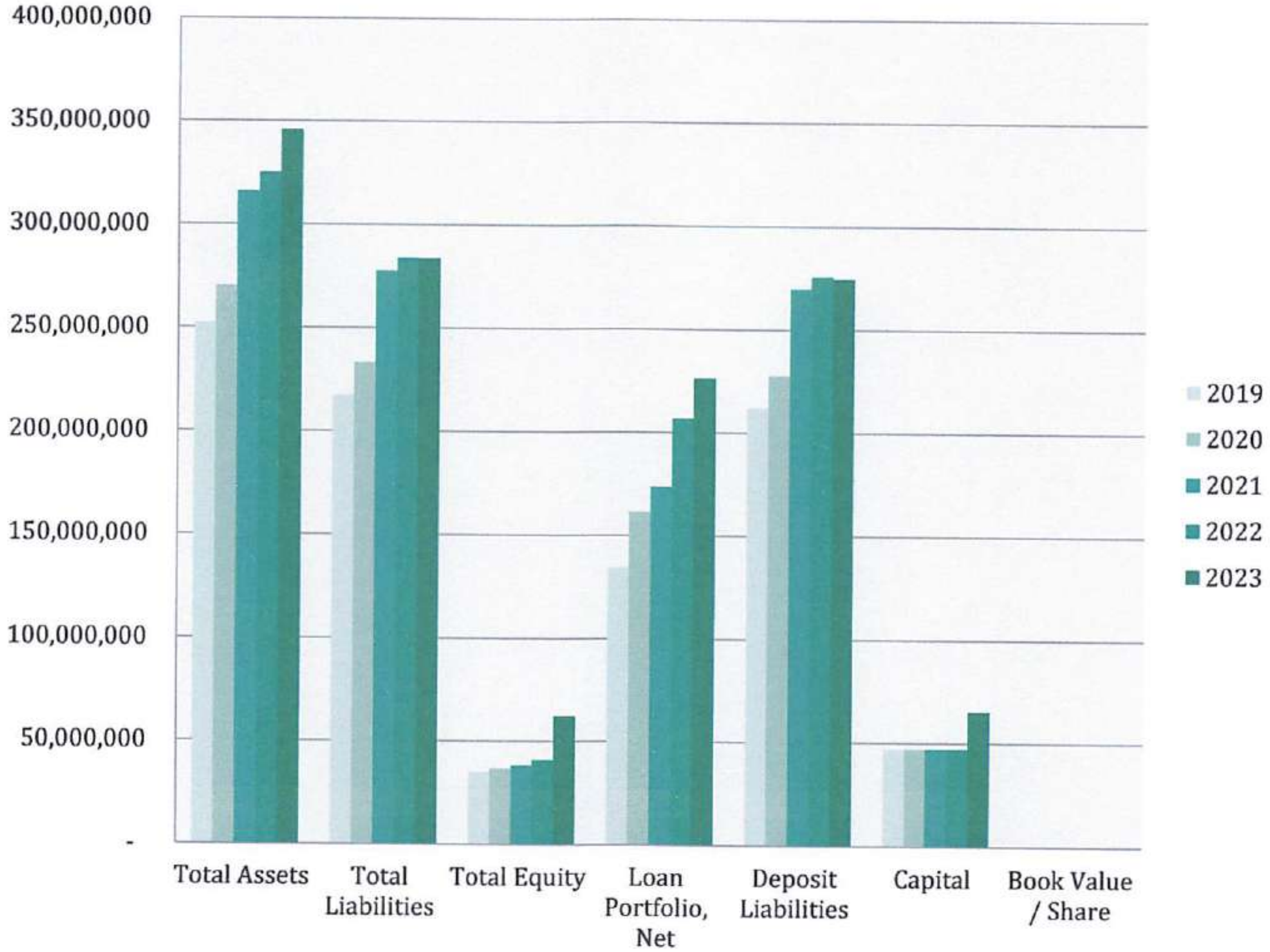
- **Credits/Loans**

The bank offers different kinds of loan to the community with competitive rates.

Statements of Financial Position

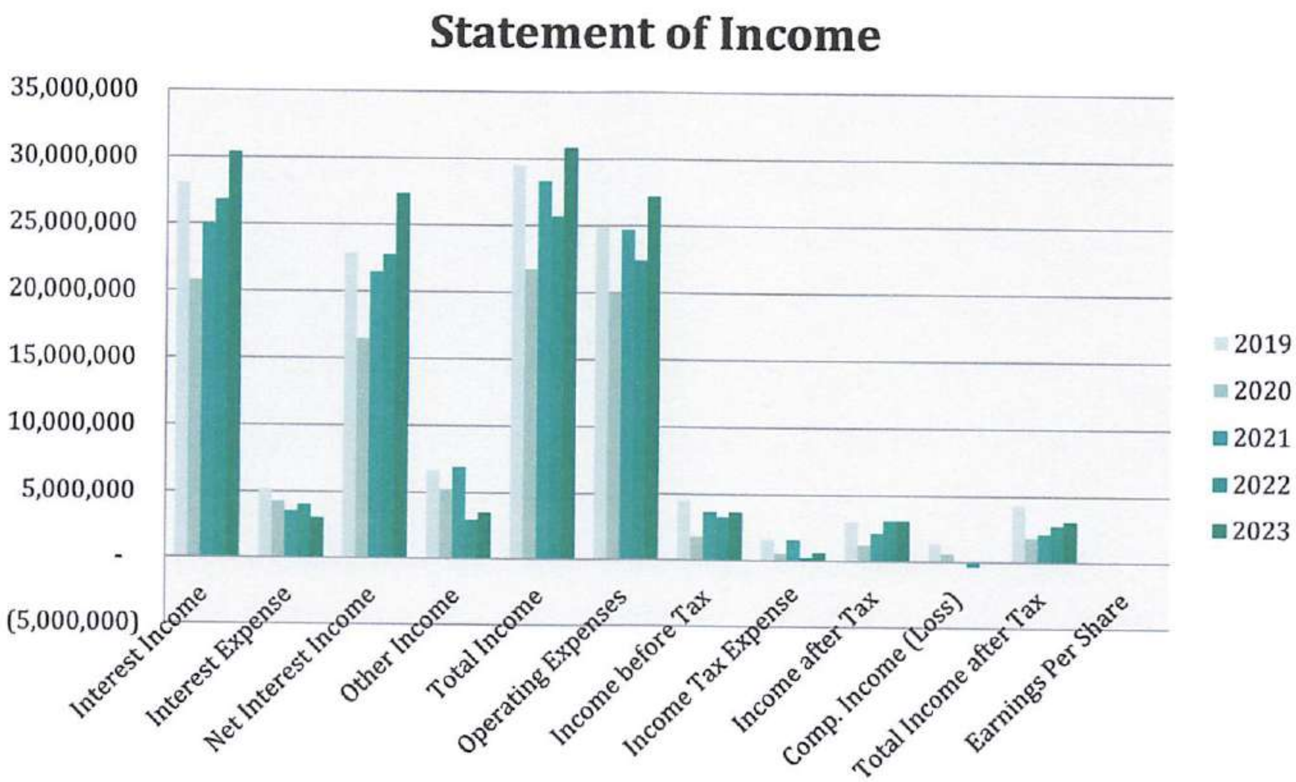
	2019	2020	2021	2022	2023
Total Assets	252,440,583	270,232,143	316,016,617	324,947,934	345,889,314
Total Liabilities	217,377,157	233,345,377	277,725,745	283,933,747	283,667,245
Total Equity	35,063,426	36,886,765	38,290,872	41,014,186	62,222,069
Loan Portfolio, Net	134,542,770	161,540,408	173,604,546	206,881,624	226,261,351
Deposit Liabilities	211,986,113	227,880,173	269,858,145	275,791,166	274,682,373
Capital	47,275,000	47,275,000	47,275,000	47,275,000	65,275,000
Book Value / Share	74.17	78.03	81.00	86.76	95.32

Statement Financial Position



Statements of Income

	2019	2020	2021	2022	2023
Interest Income	28,106,410	20,787,857	25,018,264	26,819,583	**30,393,970**
Interest Expense	5,236,920	4,286,799	3,567,120	4,043,419	**3,028,867**
Net Interest Income	22,869,490	16,501,058	21,451,144	22,776,164	**27,365,103**
Other Income	6,657,295	5,253,303	6,910,089	2,907,890	**3,473,741**
Total Income	29,526,784	21,754,361	28,361,233	25,684,054	**30,838,844**
Operating Expenses	24,962,294	19,981,004	24,709,963	22,417,332	**27,196,599**
Income before Tax	4,564,491	1,773,356	3,651,270	3,266,722	**3,642,245**
Income Tax	1,587,228	549,946	1,555,813	200,891	**590,373**
Income after Tax	2,977,263	1,223,411	2,095,458	3,065,831	**3,051,872**
Comp. Income (Loss	1,353,912	599,929	-	(345,928)	**-**
Total Income after Tax	4,331,175	1,823,339	2,095,458	2,719,903	**3,051,872**
Earnings/Share	9.92	4.08	4.43	6.49	**4.68**



FINANCIAL CONDITION AND RESULTS OF OPERATION

As of December 31, 2023, the Bank maintained its good financial performance and further improved its financial position.

Profitability
The Bank's net income after tax for 2023 is 3.05 million resulted in a Return on Equity (ROE) of .07% and Return on Assets (ROA) of 0.01%. Net interest margin was stable at .09% due to improvements in collections of interest income during the current period.

Liquidity
Liquid assets comprised 28.00% of the Bank's total assets, which is lower as compared to previous period of 29.70%. Loans (net)-to deposit ratio was higher by 7.36% from 75.01% to 82.37%. Asset Quality Past Due ratio increased to 20.85% from 15.94% in 2022.

Solvency
Debt-to-equity ratio for the year was computed at 455.89% lower than 692.28% in 2022 due to good financial performance of the bank and infusion of fresh capital of existing shareholders during the period. Due to significant increase in share capital, asset-to-equity ratio also decreased to 555.89% from 792.28% in 2022. Interest rate coverage ratio was computed at 212.04% from 175.57% in 2022, the increase is due to decrease in interest expense.

Capitalization
The Bank has CET 1/ Tier 1 and Total CAR ratio of 16.07% and 16.55%, respectively. In addition, the Bank has complied with the new minimum capitalization requirement under Rural Bank Strengthening Program (RBSP) as of the end of the reporting period. The Bank's board and management are committed to further improve the financial performance of the bank.

Results of Operations 2023 vs 2022

For the year ended December 31, 2023, the Bank registered a net income after tax of Php3.05 million which is Php .01 million lower compared to the Php3.07 million for the same period last year. The minimal decrease was mainly due to increase in provision for probable loss.

Net interest income amounting to Php 27.37 million is higher by 20.15% or Php4.59 million for the same period last year. The improvement was mainly due to increase in loan interest income of Php 2.94 million.

Net service fees, commission and other income increased from Php2.91 million registered last year to Php3.47 million this year.

Administrative and other operating expenses for the year 2023 amounted to Php27.20 million. This is Php4.78 million higher compared last year as a result of significant increase in provision for probable loss by Php3.54 million compared to last year.

The Bank posted a total comprehensive income of Php3.05million for the year ended December 31, 2023, from a total comprehensive income of Php2.72 million registered last year, mainly due to improvements in core income and decrease in interest expense.

Financial Position 2023 vs. 2022

The Bank's total assets registered significant increased by 6.44% or Php20.94 million versus to last year' figure. The Bank was able to post a 9.37% increase in total loan portfolio-net or Php19.38 million from Php206.88 million in 2022 to Php226.26 million in 2023.

Deposit liabilities posted slight decreased by Php1.11 million, from Php275.79 registered last year to Php274.68 million in 2023. With this, the bank experienced decrease in interest expense.

CORPORATE POLICY

The Bank has adopted different kinds of policies and manual to each of its activity, which are designed to be consistent with sound and prudent bank lending, deposit taking and other practices in use elsewhere in the world. The manual's purpose is to provide all personnel with a comprehensive understanding of how bank activities of any nature are to be extended by the Bank. It is expected that there may need to be periodic exceptions to the policies contained herein, and prior written approval must be obtained from the Bank's Board of Directors before any commitments or advances may be made pursuant to an exception.

The manuals have been developed from existing policy and procedural instructions as well as external sources. Manual and subsequent updates issued by the Bank will help further define the bank's activities and serve as a primary reference source for all activities. Any proposed changes must first have the approval of the Bank's Board of Directors.

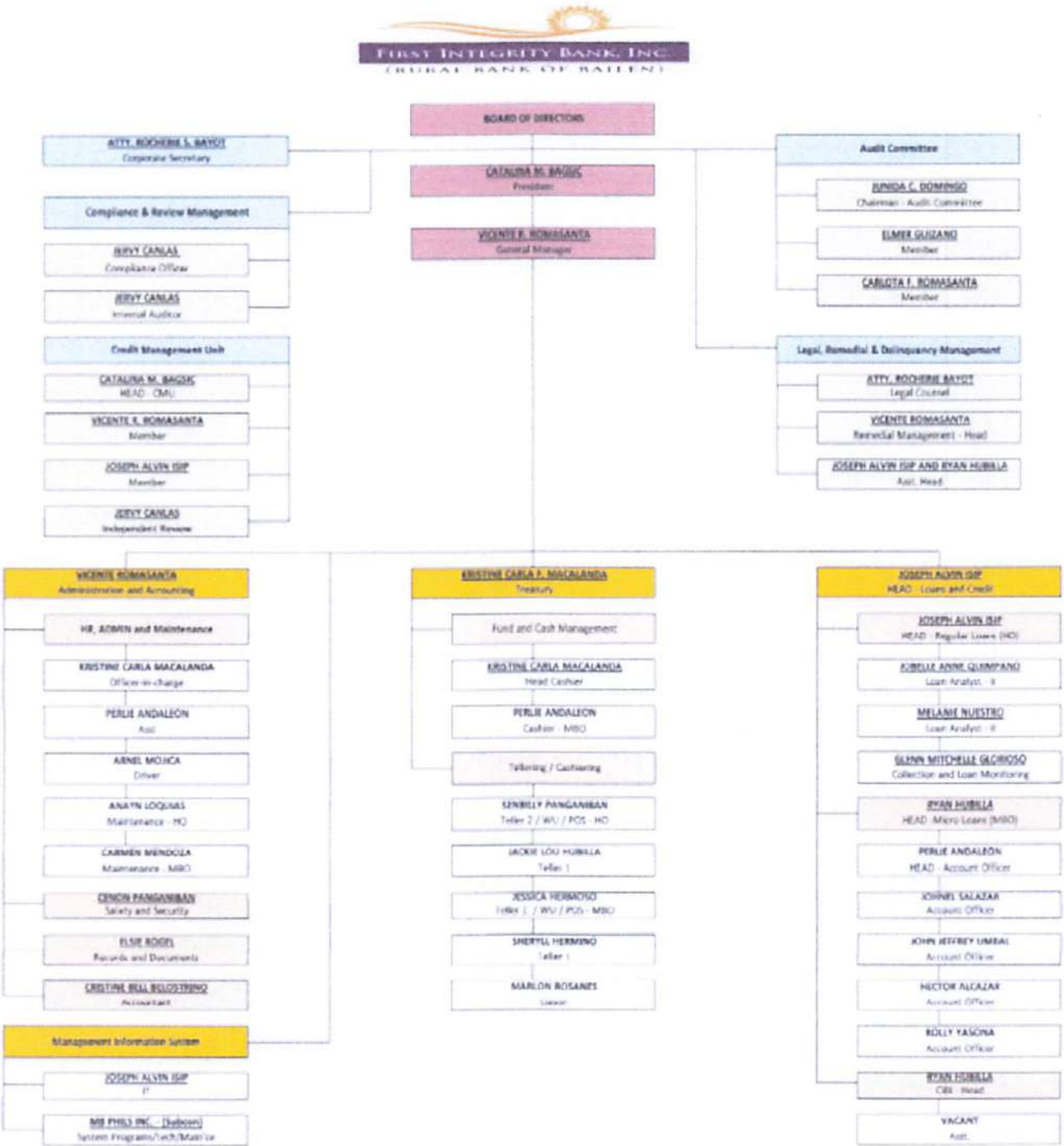
The policies outlined are intended to be general in nature and will be supplemented by various procedures, which will contain implementing details. Furthermore, they are supplementary to requirements outlined in various BSP Circulars and other internal policy documents.

Policies are intended to be both a sound and practical manual. It is also instructional. However, no manual can replace prudent business judgment, sound assessment of the borrower's ability, capacity, integrity, and wise structuring of a credit facility that is appropriate to the needs of both a borrower and the Bank.

Manuals are also a living document and will be periodically reviewed and updated. Manuals are strictly an internal document and intended for guidance in the activity processes by branch managers, officers, credit department managers, committee members, other members of bank management and directors.

CORPORATE GOVERNANCE

Organization Structure



Board of Directors

1. **Elmer M. Guizano –** Chairman of the Board
2. **Catalina M. Bagsic –** Director
3. **Carlota F. Romasanta –** Director
4. **Joseph Alvin F. Isip –** Director
5. **Imelda S. Glorioso –** Director
6. **Doris Minda M. Poblete –** Director
7. **Junida C. Domingo –** Independent Director

INTEGRITY is a word that is associated with good repute, uncompromised, truthfulness, above board, beyond reproach that by such a prudent and regulated course of discipline enables one to be exemplary in the discharge of domestic and public virtues.

First Integrity Bank, Inc. believes that the key to long-term sustainability and success largely depends on having a good name and solid reputation in the market place and that integrity is a value that must co-exist between the clients and the bank.

The Board of Directors and its management team of officers and staff have committed to engage in responsible business practice, best principles and to conduct themselves accordingly that promotes good corporate governance in accordance with SEC and BSP Circulars. The Board aims to promote adherence and further strengthen the FIBI's commitment to good corporate governance.

An effective board and senior management creates a culture that will give the actions and guide of the management, members of the board, officers and staff accountability both individually and collectively their respective roles and authorities to the company and its stakeholders.

In November 2012, the Board of Directors produced and adopted a Manual on Good Corporate Governance so as to provide for an enhancement of corporate accountability, integrity preservation, decision making and transparency which embodies a corporate governance framework and standards consistent with national regulations and applicable laws aligned with best practices.

The FIBI Board is composed of seven (7) directors with a combination of executive and non-executive directors which includes independent directors. All are professionals with competencies and experience in the fields of banking, accounting and business management. Members of the Board are elected during the annual stockholders meeting and each will hold office for one (1) year, subject to the approved qualification and disqualification criteria established under the Manual on Good Corporate Governance, BSP's fit and proper rule and other existing laws and regulations.

In adopting the Manual, the Board and Management sets out the following objectives:

1. The Board of Directors ("BOD") is primarily responsible for the governance and success of the Bank. It must ensure that the Bank is properly and effectively managed and supervised. It must be able to oversee the implementation of the Bank's strategic objective and risk strategy. It maximizes the growth in a sensible and coherent manner.
2. Identify the respective roles, responsibilities and authorities of the Board of Directors (both individually and collectively) and of management.
3. While management of the day- to-day affairs of the Bank is the responsibility of Management, the Board is responsible for monitoring and overseeing management actions.
4. Management actively manages and operates the Bank in a sound and prudent manner under the direction of the Board.
5. Provide for the employment and personal growth of the people at the Bank.
6. Internal control features are in place for monitoring the adequacy and effectiveness of the Bank's governance, operations, information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, the safeguarding of assets and compliance with laws, rules regulations and contracts.

The Board and management must exercise sound judgment in reviewing and directing how the Bank implements the requirements of the Governance Code through the aforementioned control features.
Selection Process for the Board and Senior Management

The Bank is committed to select and hire directors and officers that are proven with integrity and probity, physically and mentally fit, competent that has relevant educations and trainings, diligent, knowledgeable and experienced. All qualifications in the corporate governance manual of the Bank must be possessed to be directors and officers.

Qualifications of Directors

1. Holder of at least one (1) share of stock of the Bank;
2. He shall be at least a college graduate or have at least five (5) years experience in business to substitute for such formal education;
3. He shall be at least twenty-five (25) years old at the time of his election or appointment;
4. He must have attended a special seminar on corporate governance for board of Directors conducted or accredited by the BSP and SEC: Provided, That incumbent Directors must attend said seminar within a period of six (6) months from date of election;

5. He shall have proven to possess integrity and probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience ;
6. He shall be assiduous in his work habits;
7. Previous business experience; and
8. Membership in good standing in relevant industry, business or professional organizations

Qualifications of Senior Management

1. He must possess a Bachelor's degree;
2. He must have banking or audit experience;
3. He shall work on a full-time basis;
4. He shall have proven to possess integrity and probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience ;
5. He must have appropriate technical skills and expertise;
6. He must have leadership skills;
7. He can provide directions and maintenance;
8. He has no "conflict of interest" issues-business and personal.

Specific Duties and Responsibilities

Board of Directors

1. To approve and monitor the implementation of strategic objectives.
2. To approve and oversee the implementation of policies governing major areas of banking operations.
3. To approve and oversee the implementation of risk management policies.
4. Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Bank, including its trust operations to anticipate and prepare for possible threats to its operational and financial viability.
5. Adopt and maintain adequate risk management policy.
6. To oversee selection and performance of senior management.
7. To consistently conduct the affairs of the bank with a high degree of integrity.
8. To define appropriate governance policies and practices for the bank and for its own work and to establish means to ensure that such are followed and periodically reviewed for ongoing improvement.
9. To constitute committees to increase efficiency and allow deeper focus in specific areas. The board of directors shall create committees, the number and nature of which would depend on the size of the bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the bank.

10. To effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors. The board of directors shall recognize and acknowledge the importance of the assessment of the independent, competent and qualified internal and external auditors as well as the risk and compliance officers in ensuring the safety and soundness of the operations of a bank on a going-concern basis and communicate the same through-out the bank. Further, non-executive board members shall meet regularly, other than in meetings of the audit and risk oversight committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.

Chairman of the Board of Directors

1. Provide leadership in the board of directors. The chairperson of the board shall ensure effective functioning of the board, including maintaining a relationship of trust with board members.
2. Ensure that the board takes an informed decision. The chairperson of the board shall ensure a sound decision making process and he should encourage and promote critical discussions and ensure that dissenting views can be expressed and discussed within the decision-making process.
3. To call meetings of Stockholders and ensure that meetings of the Board are held in accordance with the by-laws or as the Chair may deem necessary; Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the COO, Management and the Directors; Maintain open and timely lines of communication and information between the Board and Management.

Senior Management/Officers

1. To set the tone of good governance from the top. Senior Management/ Bank officers shall promote the good governance practices within the bank by ensuring that policies on governance as approved by the board of directors are consistently adopted across the bank.
2. To oversee the day-to-day management of the bank. Senior Management/Bank officers shall ensure that bank's activities and operations are consistent with the bank's strategic objectives, risk strategy, corporate values and policies as approved by the board of directors. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.
3. To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency. Senior Management/Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each bank personnel. Bank officers shall oversee the performance of these delegated

duties and responsibilities and shall ultimately be responsible to the board of directors for the performance of the bank.

4. To promote and strengthen checks and balances systems in the bank. Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

Directors Attendance – Board Meetings 2023

Name	Position	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	P-%
Elmer M. Guizano	Chairman	P	P	P	P	P	P	P	P	P	P	P	P	100%
Catalina M. Bagsic	Director	P	P	P	P	P	P	P	P	P	P	P	P	100%
Doris Minda M. Poblete	Director	P	P	P	P	P	P	P	P	P	P	P	P	100%
Carlota F.Romasanta	Director	P	P	P	P	P	P	P	P	P	P	P	P	100%
Imelda S.Glorioso	Director	P	P	P	P	P	P	P	P	P	P	P	P	100%
Joeph Alvin F.Isip	Director	P	P	P	P	P	P	P	P	P	P	P	P	100%
Junida C. Domingo	Ind. Director	P	P	P	P	P	P	P	P	P	P	P	P	100%

Directors Attendance – Audit Committee Meetings 2023

Name	Position	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	P-%
Elmer M. Guizano	Member	NA	P	NA	NA	NA	P	NA	NA	P	NA	NA	P	100%
Carlota F. Romasanta	Member	NA	P	NA	NA	NA	P	NA	NA	P	NA	NA	P	100%
Junida C. Domingo	Head	NA	P	NA	NA	NA	P	NA	NA	P	NA	NA	P	100%

BOARD OF DIRECTORS/COMMITTEES

NAME	AGE	NATIONALITY	NO. OF YEARS	% Direct Shares out of 47.25M	% Indirect Shares out of 47.25M	POSITION	EDUCATIONAL ATTAINMENT
BOD MEMBERS:							
1. Elmer Mojica Guizano	49	FILIPINO	9 years and 5 mos.	1.39%	-	Chairman of the Board	BA Communication Arts; Master of Science in Global IT Studies
2. Catalina Manarin Bagsic	63	FILIPINO	11 years and 2 mos.	26.09%	-	Director/President	BS Medical Technology; MA Public Administration
3. Doris Minda Mojica Poblete	50	FILIPINO	4 years	3.96%	-	Director	AB Communication Arts
4. Carlota Fajardo Romasanta	62	FILIPINO	11 years and 2 mos.	6.34%	-	Director	BS Accounting; CPA; Master of Business Administration
5. Imelda Sisante Glorioso	83	FILIPINO	10 years	4.96%	-	Director	BS Elementary Education; MA.ED.D
6. Joeph Alvin Fajardo Isip	53	FILIPINO	8 years	9.62%	-	Director	BS Computer Engineering; Master of Engineering Management
7. Junida Cuevas Domingo	55	FILIPINO	5 years and 9 mos.	4.78%	-	Independent Director	BS Zoology
AUDIT COMMITTEE							
1. Junida Cuevas Domingo	55	FILIPINO				Independent Director	BS Zoology
2. Elmer Mojica Guizano	49	FILIPINO				Chairman of the Board	BA Communication Arts; Master of Science in Global IT Studies
3. Carlota Fajardo Romasanta	62	FILIPINO				Director	BS Accounting; CPA; Master of Business Administration
CREDIT MANAGEMENT UNIT:							
1. Vicente Resurreccion Romasanta	54	FILIPINO				General Manager	BS Commerce; CPA
2. Catalina Manarin Bagsic	63	FILIPINO				President	BS Medical Technology; MA Public Administration
3. Joeph Alvin Fajardo Isip	53	FILIPINO				Loan Officer/IT Officer	BS Computer Engineering; Master of Engineering Management
EXECUTIVE OFFICERS:							
1. Catalina Manarin Bagsic	63	FILIPINO				President	BS Medical Technology; MA Public Administration
2. Vicente Resurreccion Romasanta	54	FILIPINO				General Manager	BS Commerce; CPA
3. Jervy Pamposa Canlas	34	FILIPINO				Conpliance Officer and Internal Auditor	BS BA; BS Accountancy; CPA; Master of Management
4. Atty. Rocherrie S. Bayot	41	FILIPINO				Corporate Secretary/Legal	AB Political Science; Bachelor of Laws; Lawyer
MAJOR STOCKHOLDER:							
1. Catalina Manarin Bagsic	Director/President			26.09%			

CURRENT DIRECTORSHIP AND OFFICERSHIP

1. Catalina Manarin Bagsic	Chairman of the Board - MTHIRAYA Corp.
2. Joeph Alvin Fajardo Isip	Director - Azienda Verde Development Corporation
3. Carlota Fajardo Romasanta	Director - Azienda Verde Development Corporation

BOD MEMBERS:	DIRECTORS' EXPERIENCES	
	Company	**Position**
1. Elmer Mojica Guizano	Optimus Innovative Tech. Corp.	Senior Marketing Manager
	Department of Education	Supervising Admin Officer
	Department of Education	Admin Officer IV
	Department of Education	Information Officer II
	Department of Education	Scriptwriter I
	DZRV Radyo Veritas	News Editor
	ABS-CBN Channel 2	Musical Researcher and Production Assistant
	DWRR Radio ABS-CBN	Field Reporter
2. Catalina Manarin Bagsic	First Integrity Bank, Inc. (Rural Bank of Bailen)	President
	Zonta Club of Makati	President
	Magen Peak Realty Corp.	President
	Magen Peak Realty Corp.	Treasurer
	Magen Peak Realty Corp.	Corporate Secretary
	Philippine Association for Renal Health	President
	Kiwanis Club of Carmona Cavite	Member
	Municipal Government of Carmona Cavite	Sanggunian Secretary
3. Doris Minda Mojica Poblete	Manulife Philippines	Financial Advisor
	First Integrity Bank, Inc. (Rural Bank of Bailen)	HRD and Admin Officer
	First Integrity Bank, Inc. (Rural Bank of Bailen)	Corporate Secretary
	First Integrity Bank, Inc. (Rural Bank of Bailen)	HR Consultant
	Gawad Kalinga - South B Sector	PMG/Full Time Worker
	SGV & Co.	Marketing & HR Staff
	Phil. Survey Research Center	Research Executive
	Prime Cable Inc.	Programming Supervisor
4. Carlota Fajardo Romasanta	First Integrity Bank, Inc. (Rural Bank of Bailen)	Treasurer
	Cultural Center of the Philippines	Division Chief III - Budget
	Cultural Center of the Philippines	Accountant/Local Budget Officer
	Cultural Center of the Philippines	Chief Cashier
	Cultural Center of the Philippines	Accountant IV
	Cultural Center of the Philippines	Accountant III
	Cultural Center of the Philippines	Budget Analyst
	Cultural Center of the Philippines	Bookkeeper
5. Imelda Sisante Glorioso	Principal IV	
	Principal II	
	Principal I	
	Head Teacher	
6. Joeph Alvin Fajardo Isip	First Integrity Bank, Inc. (Rural Bank of Bailen)	Loan Officer/IT Officer
	Community Bank (Rural Bank of Alfonso, Cavite)	Marketing Assistant
	Community Bank (Rural Bank of Alfonso, Cavite)	Teller
	Community Bank (Rural Bank of Alfonso, Cavite)	Loan Collector
	Community Bank (Rural Bank of Alfonso, Cavite)	Computer Operator
7. Junida Cuevas Domingo	Public View Publication	Publisher

COMMITTEES

The Board has established 1 committee to which it can delegate its functions but not its responsibilities. These committees derive their authority from and report directly to the Board. Their mandates and scope of responsibilities are set forth in their respective charters which are subject to review and update annually or when there are significant changes therein.

AUDIT COMMITTEE

Members:
Junida C. Domingo – Independent Director
Elmer M. Guizano
Carlota F. Romasanta

Functions:
Internal Audit Division.

- It shall be responsible for organizing the Internal Audit Department, as well as appointing or removing the head of Internal Audit and key internal auditors.
- It shall perform oversight function over the Internal Audit.
- It shall review the annual internal audit plan to ensure its conformity with the objectives of the Bank. The plan shall include audit scope, resources and budget necessary and timetable for its implementation.
- It shall ensure that Internal Audit Department examines, evaluates and improves the effectiveness of risk management, internal control and governance processes of the organization.
- It shall review the internal audit reports, report major issues to the Board and ensure that management is taking corrective actions in a timely manner to address weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.
- It shall Conduct Discussion with Management on the effectiveness of the internal control system
- Shall ensure that internal audit function maintains an open communication with senior management, the audit committee, external auditors and supervisory authority.
- It shall ensure that the internal audit function maintains an open communication with senior management, the Audit Committee, external auditors and supervisory authority.
- It shall report to the Board of Directors the annual performance appraisal of the head of Internal Audit and key audit officers.
- It shall recommend for approval of the Board of Directors the remuneration of the head of Internal Audit as well as the key audit officers.

External Audit

- It shall recommend to the BOD the appointment, re-appointment and/or change of external auditor.
- It shall review the engagement letter and discuss with the external auditor the nature, scope and expenses of the audit prior to the commencement of audit work.
- It shall review the management letter submitted by the external auditor as well as management's response to the external auditor's findings and recommendations before endorsing the same to the BOD for its approval.
- It shall evaluate non-audit work if any is done by the external auditors and disallow it, if it will conflict with their duties as external auditors.
- It shall review the management representation letter stating management's responsibility over the financial statements and financial reporting process.

Operational, Financial and Anti-Money Laundering Compliance

- It shall review and approve the annual plan of the Compliance and Anti-Money Laundering Office.
- It shall review the quarterly, half-year and annual financial statements before their submission to the BOD
- It shall review the reports of BSP and other regulatory bodies as well as notices on financial or administrative penalties incurred due to delayed/non-submission/ erroneous submission of required regulatory reports.

CREDIT MANAGEMENT UNIT

Members:
Catalina M. Bagsic - Chairperson
Joseph Alvin F.Isip
Vicente R. Romsanta

Functions:

- It is responsible over the approval processes of the Bank's loans and investments as well as other credit-related issues up to a prescribed amount, which may change subject to Board approval, such as: pre- clearance of new credits, additional credit facilities for existing accounts, and proposals for existing problem/remedial accounts.
- It shall approve property-related proposals.
- It shall endorse to the Board of Directors for approval credit and investment proposals that are beyond its authority.
- It shall have the authority to approve technology-related projects or such other initiatives as may be recommended by management for the purpose of enhancing the Bank's operating and service delivery capabilities. Provided

further, that it shall have the authority to approve the capital expenditures for such projects/initiatives not to exceed P50 million or its equivalent.

- It shall delegate its authority to approve for implementation operating policies and/or manuals and amendments thereto to the President and/or to the Central Operations Group Head.
- As appropriate, it shall endorse for approval of the Board of Directors, recommendations of management:
    - To establish domestic branch offices and/or extension offices at such places as will serve the public interest as well as the interest of the Bank.
    - On any amendments to the Bank's Articles of Incorporation and/or By-laws.

Independent Functions

Compliance

In accordance with the rules and regulations of the BSP, the FIBI Compliance Office has established a Compliance System to specifically identify and mitigate business risks. This is an integral part of the Bank's internal control ensuring that the Bank's undertakings are conducted in accordance with all applicable banking laws and regulations.

FIBI's Compliance Office, through the Chief Compliance Officer (CCO), oversees the design of the Bank's Compliance System, the overall compliance framework of the Bank executed through a Compliance Program, and promotes their effective implementation.

Moreover, under the FIBI Compliance Office, an Anti-Money Laundering Unit has been established in compliance with the mandate of the BSP. This unit shall be responsible for the management of FIBI's Money Laundering & Terrorist Financing Prevention Program (MLPP) and oversight of its implementation and conduct of AML Compliance Checking for Bank proper, independent from that performed by Internal Audit.

The Compliance Office reports to and is under the direct supervision of the Board Audit Committee.

Internal Audit

The IinternalAauditdapartment is responsible for the implementation, direction, and accomplishment of the internal audit program for the Bank. The Bank will:

- Institute special investigations, reviews, audits, or studies of any matter at the direction of the Board of Directors, Audit Committee, Executive Director, or its own volition and make a complete report thereof inform, on an immediate basis and in writing, the Executive Director, Audit Committee, and the Board of Directors of the results of any audit that identifies unusual losses, potential losses, management deficiencies, control deficiencies, or other matters that may lead to significant harm or embarrassment to the Bank
- Inform executive management and the audit committee of new audit concepts and regulatory developments and report significant risks related to proposed actual changes in the activities, initiatives, and processes of the Bank
- Budget sufficient resources to discharge the responsibilities of the Internal Audit Department.
- Support management as it monitors the implementation of actions to respond to the result of regulatory reports, external financial statement auditors, or consultants to ensure that appropriate corrective action is taken and to report at each scheduled audit committee meeting (or more frequently, if necessary) the progress of the action taken• maintain an informative contact and a cooperative working relationship with the external financial statement auditors
- With the assistance of management, develop and present an annual internal audit plan to the audit committee for its approval
- Monitor and report to the executive director and the audit committee on the adequacy and timeliness of management response and the corrective action taken on all significant weaknesses reported by internal audit department or identified by BSP regulatory authorities

Training Process for the Board of Directors and Senior Management

- Funds shall be allocated by the Treasurer for the purpose of conducting an orientation program or workshop to effectively implement the Bank's manual. The Bank shall include in its annual budget the cost of conducting such orientation or workshop for this purpose.
- The training program for the Board of Directors and Senior Management shall cover the pre-requisite seminar before assumption of BOD office/function and continuing education and developmental training conducted by qualified professionals.
- Senior Management shall provide training support to the BOD thru regular briefings on new regulatory issuances and updates on status of compliance program and other business initiatives.

Assessment of Board and Senior Management

- The Compliance Officer was designated to establish an evaluation system to determine and measure compliance with this manual.
- The Bank on a periodic basis, the Board of Directors conducts a self-assessment of its performance against established criteria, for purposes of assessing its effectiveness and as a tool in its efforts to improve its corporate governance practices and procedures. The assessment focuses on the performance of the Board, Directors, Committees and Senior Management.
- Each director is required to complete the questionnaire explaining the objectives of the performance evaluation. The ratings and responses will be tabulated and consolidated
- The Compliance Officer prepares the overall report and presents this to the Board for discussion, including the recommended actions and focus areas to improve effectiveness.

Retirement and Succession

- Succession planning for the Board and senior management is an important part of the governance process.

- The primary objective is to ensure that the organization continues to operate effectively when individuals occupying critical positions are rendered unavailable for more than a passing period of time.
-
- The secondary objective is to assure that appropriate required training is in place for replacing critical positions. Bench strength is an assessment of the organization's preparedness to replace departing staff in critical positions. This shall refer to having other staff who are ready (i.e., possess the requisite competencies) to assume the responsibilities of critical positions at the appropriate time under the appropriate circumstances with a virtually seamless transition.
-
- The components of the program shall be based largely from the company's strategic plan and from the organizational direction. It should be part of the overall Business Continuity Plan of the organization.

  The following are part of the succession planning:

  1. Criteria in identifying key positions must be set
  2. Talent Management - The program shall be a systematic effort and process of identifying and developing candidates for key managerial or professional leadership positions over time in order to ensure the continuity of management and leadership in an organization.

3. Performance Review - A periodic performance review of each individual shall be used to identify both the performance and the potential of the employee.

4. Management Development - The Plan shall be a platform for effective employee development plans.

   Each head of department shall have the responsibility to annually review and update information, needs and action plans in his or her own area and the senior management team shall have joint responsibility for implementing the Plan.

- Retirement Age of Board
  As long as the members of the board are capable of doing their duties and responsibilities
- Retirement Age of Senior Management
  65 years old

Board of Directors

- The Bank ensures that all directors are physically and mentally fit to perform their duties and responsibilities. The continuing service of directors shall be determined on the basis of each director's ability to perform his/her functions and duties effectively and willingness to serve and effectively participate in achieving Bank's goals and objectives. Further, the Bank reserves the right to determine the continuing fitness of directors to serve but will comply with the request of a director, if he/ she wishes not to serve anymore for whatever reason.
- It has also adopted the policy on the Term Limit of Independent Director, wherein, an independent director of the bank may only serve as such for a total cumulative tenure of nine (9) years, after which the independent director shall be perpetually barred from re-election as such in the Bank, but may continue to qualify for nomination and re-election as a non-independent director.

Senior Management

- The succession plan for senior management shall be adopted and implemented to ensure that the loss of key officers and personnel will not result in an unmanageable disruption to bank operations and consequently to severe prejudice to depositors' interests.
- The Bank ensures that all senior management are physically and mentally fit to perform their duties and responsibilities. The continuing service of senior management shall be determined on the basis of each director's ability to perform his/her functions and duties effectively and willingness to serve and effectively participate in achieving Bank's goals and objectives. Further, the Bank reserves the right to determine the continuing fitness of directors and senior

management to serve but will comply with the request of a senior management, if he/ she wishes not to serve anymore for whatever reason.

- The Bank assures that appropriate required training is in place for replacing critical positions. Bench strength is an assessment of the organization's preparedness to replace departing staff in critical positions. This shall refer to having other staff who are ready (i.e., possess the requisite competencies) to assume the responsibilities of critical positions at the appropriate time under the appropriate circumstances with a virtually seamless transition
- The Bank has a systematic effort and process of identifying and developing candidates for key managerial or professional leadership positions over time in order to ensure the continuity of management and leadership in an organization.
- A periodic performance review of each individual shall be used to identify both the performance and the potential of the employee.

Remuneration and Dividends

- All members of the Board received monthly per diem amounting to ten thousand pesos (P10,000) net of tax.
- During the year, no dividends were declared by the Bank.
- In case of dividend declaration, the Bank will comply with the requirements of BSP and other regulatory agency to ensure that the dividend declaration is legitimate.

Remuneration and Retirement Policy of Senior Management

- The remuneration of senior management includes fixed pay, rice allowance, communication allowance and bonus.
- All qualified employees including senior management are entitled to the required retirement benefits of R.A. 7641 upon retirement.
- However, the Bank has separation benefits for those employees who will resign depending on the number of years they served the bank, ranging from 50% to 200% of monthly salary.
- All qualified employees may be entitled to annual merit increase in salary, based on their performance for the immediately preceding year. This has a long-term and compounding effect to the fixed pay, which serves as basis for their retirement benefits.

Financial Consumer Protection

- The Bank recognizes the importance of customer protection in its financial dealings with clients.
- The Board of Directors as mandated by BSP is ultimately responsible in ensuring that consumer protection practices are embedded in the business operations. The Bank adheres to the highest service standards and embraces a culture of fair and responsible dealings in conduct of Bank' business.
- The Bank's paramount goal is to provide excellent, committed, transparent, fair, honest and dedicated services to its clients that will translate into prestige profitability and stability of the Bank. The Bank is committed to give good quality services to clients and adheres to protect the welfare of consumers' clients.
- The Bank follows key protection principles in building up its good relations to its clients. Each principle is embedded in its operations, such as; credit extension, deposit taking and other banking activities involving the participation of its clients. The Bank ensures that the principles are carried out effectively and efficiently by its employees though proper and regular orientation of bank products and services and training on policies and procedures.
- Financial customers should be provided efficient means for resolving complaints with their financial transactions. Hence, the Bank should have in place mechanisms for complaint handling and redress.
- To have effective recourse, the Bank ensures the following:
  - Establishing effective Customer Assistance Management System (CAMS)
  - Ensuring that information on how to make a complaint is clearly visible in Bank's premises.
  - Maintaining an up-to-date log and records of all complaints from all customers subject to complaints procedure. Contents of the logbook includes the following (details of each complaint, date of complaints was received, details of any relevant correspondence or records, actions taken to each complaint, date of complaint was resolved).
- Undertake an analysis of patterns of complaints from customers on a regular basis including investigating whether complaints indicate and isolated issue or widespread issue for customers. The analysis of customer complaints should be escalated to the Bank's compliance or senior management.
- Providing for adequate resources to handle financial customer complaints should have appropriate experience, knowledge and expertise. The Bank may designate a Senior Officer to handle customer service.
- The Bank measures and evaluates customer risks based on the frequency and severity of the risks. In compliance to consumer protection, the Bank ensures that rights of clients are protected. The client must have the right to information, right to choose, right to redress and right to education.

  - **Right to information.** The Bank provides clear and honest advertisement or promotion of its products and services. Bank personnel explains their features, terms and conditions, benefits that can be derived and even disadvantages so that they can decide based on informed personal choice and guide them in their dealings with the Bank.

- **Right to choose.** The Bank allows its clients to choose the type of deposits, loans and other services at competitive rates with an assurance of providing superb services.

- **Right to redress.** The Bank acknowledges few instances of poor services extended to customers, such as; errors or mistakes committed by its personnel. In this regard, the Bank rectifies them and extends sincere apologies to the clients and refunds, under payment of interest on deposits, among others.

- **Right to education.** The Bank adequately educates its customers pertaining to features, terms, systems and procedures, and inherent risks of bank products and services, and his responsibilities as well.

- The Board has appointed the Audit Committee to supervise the consumer protection risk management system and senior management to report on any complaints by consumer. The Compliance Officer and Internal Auditor is likewise mandated to report on the assessment of the status of client complaints and the effectiveness and efficiency of the current policies and procedures.

Related Party Transactions

- Transactions of the Bank with a Related Party shall be allowed. However, business units shall ensure that such transactions are conducted on an arm's length basis, or in the ordinary course of business.
- The Board has determined that the materiality threshold for RPTs is three percent (3%) of total capital. This may be revised from time to time as borne out by events e.g., if shown to be too low such that undue burden is posed on the approving authority, or too high such that no transactions are captured. Transactions over the threshold shall be subject for Board/Audit Committee review and approval.
- RPTs exceeding the threshold shall be reviewed by the Audit Committee and approved by the Board. The Bank shall require directors and key management personnel to abstain and/or inhibit themselves from participating in discussions on a particular agenda when they are conflicted.
- RPTs that are required to be disclosed and reported in the Company's filings with the Securities and Exchange Commission (SEC) shall be disclosed in accordance with the laws, regulations and Philippine Financial Reporting Standards (PFRS).
- The Bank has entered into lease agreements with stockholder of the Bank namely, Maximino D. Baustista Jr.. Total rent expense incurred for the foregoing leases amounted to P1,007,066 for the year ended December 31, 2023.
- The total gross compensation of the key management personnel for the year 2023 amounted to P3,716,334. While director's fee for the year amounted to P944,444.

Risk Management Framework

Financial institutions release loans, collection or default is always considered. Banks put risk on client's savings when these are lend out or makes investments. Any new banks or financial institutions can never avoid risk (thus limiting their scope and impact) nor ignore risk. Like all financial institutions, FIBI face risks that they must manage efficiently and effectively to be successful. If the Bank does not manage its risks well, it will likely fail to meet its social and financial objectives. FIBI realizes that when risk is not properly managed, financial losses will certainly occur and stockholders tend to lose confidence in the management team as funds begin to dry up. When funds dry up, the Bank would not be able to meet its social objective of providing services to the poor and quickly goes out of business.

It is worth mentioning that an effective risk management identify the risks facing the institution and assess their severity (either frequency or potential negative consequences). Measure the risks appropriately and evaluate the acceptable limits for that risk; Monitor the risks on a routine basis, ensuring that the right people receive accurate and relevant information; and manage the risks through close oversight and evaluation of performance. Managing risk is a continual process of systematically assessing, measuring, monitoring, and managing risks in the organization. Effective risk management ensures that the "big picture" is not lost to the urgent demands of day to day management.

Risk Appetite

Risk appetite is set by the board, who defines the level of risk the bank is willing to assume, in terms of what activities it will or will not engage in, and the extent to which it will engage in the activities it has defined as permissible, for example:

1. The bank will not engage in contract to sell financing
2. The bank will not lend to borrowers who are engaged in businesses with significant environmental impact, such as mining companies and businesses engaged in extractive activities
3. The bank will not lend to borrowers who have detrimental impact on social responsibility, such as hate groups and hate advocates whether online (virtual) or actual, borrowers engaged in exploitative practices (failure to observe minimum labor standards, outright unfair labor practices)

4. The board believes out of territory lending is a profitable opportunity if managed properly, thus it has set a ceiling of 60% of gross loans in 2019 on such exposures
5. The board believes collateral is merely a secondary source of repayment, thus, it has set a ceiling on maximum exposure to a single unsecured borrower who has sufficient capacity to pay, and an aggregate limit of 45% of gross loan portfolio on unsecured exposures

As with most banks, significant risk areas are in credit risk and liquidity risk. These arise out of the very nature of financial intermediation. As mentioned, credit risk appetite is moderate in terms of out of territory and unsecured loans provided they are properly selected, adequately monitored and prudently managed. Liquidity risk is moderate, with most of the bank's term deposits being provided by stockholders and other stable sources.

Risk Management Structure

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

a) 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. The BOD is also 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.

b) 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.

c) Credit Management Unit

CMU is 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 CMU will be subjected to Board approval.

d) Compliance Officer

The compliance officer 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 regulatory reports to the Board.

e) Audit Committee

Audit committee provides and 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 audit committee audit 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 recommendation to the BOD.

Overall Risk Management Culture and Philosophy

In terms of a philosophy statement, the bank has adopted the principle that "***Risks well studied are worth taking. Looking before you leap sometimes means you look too long and the opportunity to leap passes.***"

The Bank's Board of Directors have established a moderate appetite for risk.

A bank cannot operate a profitable business without the assumption of some level of risk. For the bank, there is no undue emphasis on security and collateral values if an exposure is justified by the inherent financial strength of the counterparty. Compliance and operational risk practices are applied with due regard to the realities of a specific situation. Liquidity positions are monitored and maintained at adequate levels but are not the overriding consideration in making business decisions. And it means above all, having the agility to address changes in the m
arket and the regulatory environment.

Risk strategy, policies and appetite are approved, reviewed, and under the oversight of the Board.

Effective Risk Management

Identify the risks facing the bank and assess their severity (either frequency or potential negative consequences)

Measure the risks appropriately and evaluate the acceptable limits for that risk;

Monitor the risks on a routine basis, ensuring that the right people receive accurate and relevant information; and

Manage the risks through close oversight and evaluation of performance.

Managing risk is a continual process of systematically assessing, measuring, monitoring, and managing risks in the organization. Effective risk management ensures that the "big picture" is not lost to the urgent demands of day to day management.

Anti-Money Laundering

The Board of Directors, Management and Staff of FIBI commit themselves to establish ways and means to detect and prevent the commission of money laundering activities prohibited under the Anti-Money Laundering Act of 2002 (Republic Act No. 9160), as amended by R.A. No. 9194.

The Bank adopted AMLA manual to support governments, law enforcement agencies and international bodies in their efforts to combat the use of the financial system for the laundering of the proceeds of crime.

In pursuing its commitment to assist in the detection, prevention, and reporting of money laundering activities, the Bank is guided by the following principles:

1. **Know Your Customer.** It shall know its customers by obtaining satisfactory evidence of their identity and having effective procedures to verify the authenticity of the information furnished by new customers. The Company shall also maintain the Information Sheet required to be filled up by clients and have it updated on a regular basis.

2. **Compliance with laws.** It shall ensure that its business is conducted in conformity with high ethical standards, that laws and regulations are adhered to, and that service is not provided where there is good reason to believe that transactions are associated with money laundering activities.

3. **Cooperation with law enforcement agencies.** Subject to the legal constraints relating to customer confidentiality, it shall cooperate fully with law enforcement agencies by, among others, taking appropriate measures allowed by law if there are reasonable grounds for suspecting money laundering.

4. **Policies, procedures and training.** It shall adopt policies consistent with the principles set out in the AMLA manual, and ensure that its staff, wherever located, are informed of these policies and adequately trained in matters covered herein.

5. **Record Keeping.** To enable compliance with requests for information from competent authorities' business units must retain records of all transactions. As a minimum, account ledger entries and the records supporting them must be kept for five (5) years.

6. **Business Units** should give special attention to business relations and transactions with persons, companies, and financial institutions from countries which do not apply sufficient controls against money laundering

7. **Business units must not warn** their customers when information relating to them is being reported to the competent authorities.

8. **When a business unit reports its suspicions to the competent authorities** it must comply with their instructions, as provided or allowed by law.

9. **When a business unit develops strong suspicions** about operations of a customer, this should be reported immediately to the Head of Investigations and to the Head of Compliance. A copy of the report should be given to the Head of Operations of the reporting unit.

10. **The programme against money laundering** are based on these guidelines:

- the development of internal controls, policies and procedures;
- adequate screening procedures to ensure high standards when recruiting employees;
- an on-going employee training programme; and
- an internal control function to test the system.

Corporate Social Responsibility

The Bank is committed in contributing to the well-being of communities it served. Various charity works were performed during Brigada Eskwela, fiesta and Christmas season.

Sustainability Framework

The Bank is one with BSP and the Philippine Government in supporting the call for businesses to integrate sustainability principles, including environmental and social risk areas, in the corporate governance and risk management as well as in the strategic objectives and operations of banks.

Duties and Responsibilities of the Board of Directors
Consistent with the expectation under Section 132 to promote the long-term financial interest of the bank and ensure it has beneficial influence on the economy, the board shall

1. Institutionalize the adoption of sustainability principles, including those covering E&S risk areas in the bank, by incorporating the same in the corporate governance and risk management frameworks as well as in the bank's strategic objectives and operations, taking into account the bank's risk appetite and ability to manage risk.
2. Promote a culture that fosters environmentally and socially responsible business decisions. The Board of Directors shall ensure that sustainability implications are considered in the overall decision making process.
3. Approve the bank's ESRMS that is commensurate with the bank's size, nature and complexity of its operations, and oversee its implementation. The board shall also ensure that ESRMS is aligned with internationally-recognized principles, standards and global practices, and forms part of the enterprise-wide risk management system.
4. Ensure that sustainability objectives and policies are clearly communicated across the institution, investors, clients and other stakeholders.
5. Adopt an effective organizational structure to ensure attainment and continuing relevance of the bank's sustainability objectives. The board of directors or the designated board or management committee shall monitor the bank's progress in attaining sustainability objectives.
6. Ensure that adequate resources are available to attain the bank's sustainability objectives. The board of directors shall ensure that members of the board, senior management and personnel are regularly appraised of the developments on sustainability standards and practices; and
7. Ensure that the sustainability agenda is integrated in the bank's performance appraisal system.

Duties and Responsibilities of Senior Management

Senior Management shall be responsible for overall implementation of board-approved strategies and policies in relation to the sustainability objectives of the Bank. It shall:

1. Assess on periodic basis the continuing relevance of said policies considering the developments in the business environment.

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7. Ensure that the sustainability agenda is integrated in the bank's performance appraisal system.

Duties and Responsibilities of Senior Management

Senior Management shall be responsible for overall implementation of board-approved strategies and policies in relation to the sustainability objectives of the Bank. It shall:

1. Assess on periodic basis the continuing relevance of said policies considering the developments in the business environment.

2. Facilitate the identification, assessment, monitoring and mitigation of E&S risks. The senior management shall ensure that the bank takes a holistic approach in managing these risks aligned with the strategic objectives set by the board of directors.
3. Assess consistency of operations and performance of personnel with the bank's sustainability objectives; and
4. Apprise the board of directors on a regular basis on the bank's exposure to E&S risk which shall include potential issues associated with both internal and external activities of the bank and its clients that may have material impact on the bank's portfolio or reputation. Moreover, senior management shall report its progress in implementing the bank's sustainability policies and ESRMS.

Duties and Responsibilities of the Key Self-Assessment Functions
Compliance Function

1. to monitor compliance with the bank's E&S RMS policies, particularly:
   a. Accomplishment of quantitative and subjective annual targets, including identification of corrective action if necessary; and
   b. Review of bank's self-rating/E&S self-assessment

2. To come up with a quarterly risk profile for the bank's E&S RMS, showing:
   a. Quantity of E&S risk, including identification of risk drivers
   b. Quality of risk management systems based on previous reporting cycle's findings, and
   c. Overall profile including level of E&S risk
3. Brief the board regularly on regulatory updates for E&S RMS.

Internal Audit

1. to test check compliance with BSP regulations on sustainable finance and environmentally and socially responsible risk management practices;
2. to test check compliance with bank policies on negative and positive list.

Important Points:

1. Identify business lines that have negative social or environmental impact and have policies accordingly. See Negative List

2. Identify business lines that have positive social or environmental impact and have policies accordingly. See Positive List

3. Be socially and environmentally responsible and have policies accordingly. See Bank as Socially Responsible Entity.

The Negative List
Businesses with Environmentally- or Socially-Harmful Impact

The Bank's board has identified business lines or activities that pose a high risk to the environment and to the well-being of local communities. In this regard, the bank will not lend out to these industries unless they have compelling proof of measures taken to address environmental and social risks. These industries or business activities are:

- Modern slavery and harmful child labor. These include any clients or activities in which we become aware of evidence indicating forced labor, child labor, human trafficking, or any other type of modern slavery. This includes:

- Overseas Filipino worker labor agencies that are not licensed or even if licensed, are subject to litigation involving allegations of maltreatment of Filipino workers deployed abroad.

- KTVs, spas, massage parlors and other analogous businesses that are reliably reputed to be used as fronts for prostitution

- Micro and small businesses that employ laborers paid on less than minimum wages or under hazardous working conditions in violation of labor laws

- Mountain top removal (MTR), e.g., coal extraction, including allied industries, e.g., transportation, manpower.

- Other environmentally-destructive businesses. Mining companies, logging companies, fishing fleet operators, and other extractive industries that do not comply with environmental health and safety standards provided by the government, or comply but engage in environmentally-destructive business practices (e.g., deforestation, use of uncontrolled fire to clear forests for planting, fish trap users, fishing during banned months or within marine sanctuaries, using fertilizers that result in poisonous run-off or other forms of groundwater deterioration) shall not be eligible for bank services.

- Illegal fishing, poaching and other analogous activities. Self-explanatory.

- Violators of indigenous peoples' rights. Persons or entities charged in court with violating the rights of indigenous peoples shall not be eligible for bank services.
- Internet gaming or gambling. The association of Philippine Offshore Gaming Operations or POGOs with crimes such as human trafficking (prostitution), tax evasion and money laundering, coupled with potential national security issues, make them an undesirable business activity. We shall lend neither to POGOs nor to any employee thereof, nor to lessors or lessees who are dependent for a significant portion of their business on POGOs.

- Hate groups or advocates. Persons or entities that promote hate, violence, harassment, or abuse are not qualified to receive services from the bank. This also applies to any entities found to be sponsoring hate, violence or harassment. This applies to real-world as well as virtual world (online media) use, such as persons advocating rape or murder of persons with politically-opposed views.

- Governments or government instrumentalities that are known violators of human rights. We shall not do any form of business with governments such as North Korea, who are internationally known for repression and human rights abuses.

The Loan Officer shall determine if a loan applicant is engaged in any of the foregoing, and accordingly inform the Manager. The Manager may request the borrower (through the Loan Officer) for additional documents to prove or disprove a conclusion. The Manager shall recommend to the President for the ultimate decision on whether to reject a loan application to an entity suspected to be on the negative list.

The Positive List –

Environmentally- and/or Socially-Responsible Businesses

The board recognizes the need to support entities, individuals and businesses that are engaged in environmental and social advocacies. Toward this end, credits to the following entities, individuals or business lines shall be granted at one percent lower interest rate than the assessed borrower risk (based on credit scoring method):

- Entities or individuals focused on environmental sustainability and education, the development and commercialization of clean technologies, and development of community resilience.

- Entities or individuals engaged in recycling, repurposing or reusing waste to produce commercial goods. Not all recyclers are considered for the privilege, only those who follow environmentally sound recycling practices, since the act of recycling itself may pose environmental hazards (e.g., disposal of hazardous byproducts)

- Advocacy groups and persons publicly known to be working for protection of vulnerable groups such as indigenous peoples, minors, urban poor, migrant workers, household workers

- Entities or individuals engaged in renewable energy and allied technologies, including the sale of renewable energy consumer products (solar panels, batteries)

- Manufacturing, distributing or selling products or services that contribute to the conservation of the environment, e.g., makers of reusable containers and packaging materials, manufacturers or sellers of detergents and household cleaners that are organic and bio-degradable.

Financial services to support customers in putting energy efficiency measures in place or accessing markets for sustainable products shall also be considered eligible for the positive list, e.g., a garments manufacturer applying for a loan to purchase more energy-efficient machinery or investing in new processes that produce significantly less environmental impact.

SECURITIES AND EXCHANGE COMMISSION

THE SEC HEADQUARTERS 7907 Makati Avenue, Salcedo Village, Bel-Air, Makati City
1209 Trunk Line No:02-5322-7696 Email us:www.sec.gov.ph/messagemo@sec.gov.ph

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To: "vicromasanta_fib@yahoo.com" <vicromasanta_fib@yahoo.com>
Cc: "vicromasanta_fib@yahoo.com" <vicromasanta_fib@yahoo.com>
Sent: Wednesday, May 1, 2024 at 09:01:14 AM GMT+8
Subject: Your BIR AFS eSubmission uploads were received

Hi FIRST INTEGRITY BANK, INC. RURAL BANK OF BAILEN,

Valid files

- EAFS007854139AFSTY122023.pdf
- EAFS007854139ITRTY122023.pdf

Invalid file

- <None>

Transaction Code: **AFS-0-MZWZQPX09F9H9GL8QRXRXXRN0P3XWSWTM**
Submission Date/Time: **May 01, 2024 09:00 AM**
Company TIN: **007-854-139**

Please be reminded that you accepted the terms and conditions for the use of this portal and expressly agree, warrant and certify that:

- The submitted forms, documents and attachments are complete, truthful and correct based on the personal knowledge and the same are from authentic records;
- The submission is without prejudice to the right of the BIR to require additional document, if any, for completion and verification purposes;
- The hard copies of the documents submitted through this facility shall be submitted when required by the BIR in the event of audit/investigation and/or for any other legal purpose.

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COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

2 0 1 0 1 3 4 4 8

COMPANY NAME

FIRST INTEGRITY BANK, INC.
(RURAL BANK OF BAILEN)

1655 REAL ST. POBLACION 1
GEN. E. AGUINALDO, CAVITE

Form Type	Department requiring the report	Secondary License Type, if applicable
AFS	CRMD	

COMPANY INFORMATION

Company's E-mail Address	Company's Telephone Number	Mobile Number
firstintegritybank@yahoo.com	(02) 861-6053	09171509989
No. of Shareholders	**Annual Meeting (Month/Day)**	**Fiscal Year (Month/Day)**
24	15-Dec	December 31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person	E-mail Address	Telephone Number	Mobile Number
Vicente Romasanta	vic_romasanta@yahoo.com.ph	(02) 861-6053	09171509989

CONTACT PERSON's ADDRESS

Alfonso, Cavite

Note 1: In case of death, resignation or cessation of office of the officer designated as a contact person, such incident shall be reported to the Commission within thirty (30) calendar days from occurrence thereof with information and complete contact details of the new contact person designated.

2: All boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

FIRST INTEGRITY BANK, INC.
(Rural Bank of Bailen)

Statement of Management's Responsibility for Financial Statements

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

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

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

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

Velasco, Punzalan & Co., CPAs, the independent auditors appointed by the stockholders has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

ELMER M. GUIZANO
Chairman of the Board

CATALINA M. BAGSIC
President

KRISTINE CARLA F. MACALANDA
Treasurer

Signed this _ day of April, 2024

HEAD OFFICE:

BRANCH - LITE

ASEANA BRANCH:

Independent Auditor's Report

To the Shareholders and Board of Directors
FIRST INTEGRITY BANK, INC.
(RURAL BANK OF BAILEN)
1655 Real St., Poblacion I,
Gen. Emilio Aguinaldo, Cavite

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **FIRST INTEGRITY BANK, INC. (RURAL BANK of BAILEN) (the Bank)**, which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also provide those charged with governance with a statement that we 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 our independence, and where applicable, related safeguards.

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

Report on the Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP) and Bureau of Internal Revenue (BIR)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information under BSP Circular No. 1074 in Notes 28 and BIR Revenue Regulation No. 15-2010 and 34-2020 in Note 22 to the financial statements, is presented for purposes of filing with the BSP and BIR and is not a required part of the basic financial statements. Such information is the responsibility of the management of **FIRST INTEGRITY BANK, INC. (RURAL BANK of BAILEN).** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is **Nestor C. Velasco.**

VELASCO PUNZALAN & CO. CPAs
SEC AN (Firm) 3390-SEC, Group C, valid to audit 2022 to 2026 Financial Statements
BSP AN (Firm) 3390-BSP, Group C, valid to audit 2020 to 2024 Financial Statements
BIR AN: 08-004563-000-2024, issued on March 15, 2024, valid until March 14, 2027
BOA AN: 3390, issued on January 25, 2024, valid until January 10, 2027 with Serial no. 27370
CDA CEA AN: 019-AF, valid from April 12, 2023 to April 11, 2026

NESTOR C. VELASCO
Partner
CPA Cert. No. 078924, effective until October 8, 2024
PTR No. 0008705 issued on January 5, 2024, Makati City
TIN 110-157-770
BIR AN 08-004563-001-2024, valid until March 14, 2027
SEC AN: 78924-SEC, Group C, valid to audit 2022 to 2026 Financial Statements
BSP AN: 78924-BSP, Group C, valid to audit 2020 to 2024 Financial Statements
BOA AN: 3390 P-001, issued on January 25, 2024, valid until January 10, 2027 with Serial no. 27371

April 8, 2024
Makati City

FIRST INTEGRITY BANK, INC. (RURAL BANK of BAILEN)
STATEMENTS of FINANCIAL POSITION
(Amounts in Philippine Pesos)

	Notes		December 31, 2023		2022
ASSETS					
Cash and cash equivalents	2,3,5	P	71,109,024	P	64,821,333
Loans receivable - net	2,3,6		226,261,351		206,881,624
Investments - Fair value through OCI (FVOCI)	2,3,7		25,713,875		31,653,912
Bank premises, furniture and equipment - net	2,3,8		5,193,800		5,966,473
Investment property (ROPA)	2,3,9		3,665,052		3,911,066
Deferred tax assets	2,3,10		10,312,839		8,576,076
Other assets - net	2,3,11		3,633,373		3,137,450
TOTAL ASSETS		P	345,889,314	P	324,947,934
LIABILITIES and SHAREHOLDERS' EQUITY					
Liabilities					
Deposit liabilities	2,3,12	P	274,682,373	P	275,791,166
Income tax payable	2,3,21		991,554		454,049
Retirement benefits obligation	2,3,14		2,316,553		1,876,243
Lease liability	2,3,15		3,066,832		3,676,934
Other current liabilities	2,3,13		2,609,933		2,135,356
Total liabilities			283,667,245		283,933,747
Shareholders' equity					
Share capital	2,3,16		65,275,000		47,275,000
Deficit	2,3		(3,052,931)		(6,104,803)
Other comprehensive income	2,3		-		(156,011)
Total shareholders' equity			62,222,069		41,014,186
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY		P	345,889,314	P	324,947,934

See accompanying Notes to Financial Statements

FIRST INTEGRITY BANK, INC. (RURAL BANK of BAILEN)

STATEMENTS of COMPREHENSIVE INCOME

(Amounts in Philippine Pesos)

	Notes	For the years ended December 31, 2023	2022
REVENUES	2,3,17	P 29,588,242	P 26,539,703
DIRECT COSTS	2,3,18	11,475,897	13,073,211
GROSS PROFIT		18,112,345	13,466,492
OPERATING EXPENSES	2,3,19	18,527,641	13,108,270
FINANCE COST	2,3	221,928	279,270
INCOME (LOSS) FROM OPERATIONS		(637,224)	78,953
OTHER INCOME	2,3,20	4,279,469	3,187,769
INCOME BEFORE INCOME TAXES		3,642,245	3,266,722
PROVISION FOR INCOME TAX	2,3,21		
Current		2,327,136	1,335,939
Deferred		(1,736,763)	(1,135,048)
		590,373	200,891
NET INCOME		3,051,872	3,065,831
OTHER COMPREHENSIVE INCOME	2,3,7	-	(345,928)
TOTAL COMPREHENSIVE INCOME		P 3,051,872	P 2,719,903
EARNINGS PER SHARE	2,3,26	P 4.68	P 6.49

See accompanying Notes to Financial Statements

FIRST INTEGRITY BANK, INC. (RURAL BANK of BAILEN)

STATEMENTS of CHANGES in SHAREHOLDERS' EQUITY

(Amounts in Philippine Pesos)

	Notes		For the years ended December 31, 2023		2022
SHARE CAPITAL	2,3,16	₱	65,275,000	₱	47,275,000
DEFICIT	2,3,16				
Beginning balance			(6,104,803)		(9,174,046)
Prior period adjustments			-		3,412
Net income			3,051,872		3,065,831
Ending balance			(3,052,931)		(6,104,804)
OTHER COMPREHENSIVE INCOME	2,3,7				
Beginning balance			(156,011)		189,917
Unrealized gain for the period			156,011		(345,928)
Ending balance			0		(156,011)
TOTAL SHAREHOLDERS' EQUITY		₱	62,222,069	₱	41,014,186
BOOK VALUE PER SHARE	2,3,26	₱	95.32	₱	86.76

See accompanying Notes to Financial Statements

FIRST INTEGRITY BANK, INC. (RURAL BANK of BAILEN)

STATEMENTS of CASH FLOWS

(Amounts in Philippine Pesos)

	Notes	For the years ended December 31, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income taxes		₱ 3,642,245	₱ 3,266,722
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Prior period adjustment		-	3,412
Other comprehensive income	2,3	156,011	-
Depreciation of bank premises, furniture and fixture	2,3,8	1,779,288	2,209,671
Depreciation of ROPA	2,3,9	246,014	-
Provision for probable losses - loans	2,3,6	6,042,937	2,532,641
Provision for probable losses - other receivables	2,3,11	316,992	287,281
Provision for retirement	2,3,14	904,019	565,302
Interest income	2,3	(30,393,970)	(26,819,583)
Gain on sale of investment property (ROPA)	2,3,9	-	(527,588)
Interest expense	2,3	221,928	279,270
Accounts written off	2,3,6	-	174,891
Decrease (increase) in			
Loans receivable	2,3,6	(25,422,664)	(35,984,610)
Other assets	2,3,11	(812,915)	(737,162)
Increase (decrease) in			
Deposit liabilities	2,3,12	(1,108,793)	5,933,021
Other current liabilities	2,3,13	474,577	365,692
Cash used in operations		(43,954,332)	(48,451,041)
Income taxes paid	2,3,21	(1,789,631)	(1,196,783)
Interest income received	2,3	30,393,970	26,819,583
Net used in operating activities		(15,349,993)	(22,828,241)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investments - fair value through OCI (FVOCI)	2,3,7	5,940,037	(9,999,840)
Proceeds from investments - fair value through OCI (FVOCI)	2,3,7	-	34,987,480
Acquisitions of bank premises, furniture & equipment	2,3,8	(1,006,615)	(2,886,882)
Acquisitions of investment property (ROPA)	2,3,9	-	(603,491)
Proceeds from disposal of investment property (ROPA)	2,3,9	-	699,997
Net prvoded by investing activities		4,933,422	22,197,264
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceed from (payment for)			
Paid up capital	2,3,16	18,000,000	-
Retirement benefit obligation	2,3,14	(463,709)	(215,550)
Lease liability	2,3,15	(832,030)	(858,888)
Net cash provided by (used in) financing activities		16,704,261	(1,074,438)
NET INCREASE (DECREASE) in CASH		6,287,691	(1,705,415)
CASH and CASH EQUIVALENTS	2,3,5		
Beginning		64,821,333	66,526,748
as at December 31		₱ 71,109,024	₱ 64,821,333

See accompanying Notes to Financial Statements

FIRST INTEGRITY BANK, INC. (RURAL BANK OF BAILEN)
NOTES TO FINANCIAL STATEMENTS
As at and For the Years Ended December 31, 2023 and 2022

1. CORPORATE INFORMATION

First Integrity Bank, Inc. (Rural Bank of Bailen) (hereinafter referred to as the Bank) was registered with the Securities and Exchange Commission (SEC) on August 31, 2010 with SEC Registration No. CS201013448.

The purposes for which the Bank was incorporated are as follows: to carry and engage in the business in extending rural credit to small farmers and tenants and to deserving rural industries or enterprises; to sell, solicit or market micro insurance products and render services as an insurance agent, provided that such products are issued by life and non-life insurance companies authorized by the Insurance Commission, in accordance with the Bangko Sentral ng Pilipinas (BSP) rules and regulations; to have and exercise all authority and powers, to do and perform all acts, and to transact business which may be legally be had or done by rural banks organized under and in accordance with Republic Act No. 7353 (Rural Bank Act of 1992) as it exists or may be amended and to do all things incident thereto and necessary and proper in connection with the said purposes within such territory, as may be determined by the Monetary Board of the BSP.

The Bank's registered office address and primary place of business is located at 1655 Real St., Poblacion I, Gen. Emilio Aguinaldo, Cavite, Philippines.

The financial statements of the Bank for the year ended December 31, 2023 were approved and authorized for issue by the Bank's Board of Directors (BOD) on April 08, 2024. The Board of Directors is still empowered to make amendments even after the date of issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

Basis of Preparation

The financial statements of the bank have been prepared on a historical cost basis, except for cash and cash equivalents which are measured at fair value, loans receivable which have been measured at amortized cost and investments which are measured at FVOCI. The financial statements are presented in Philippine Peso, which is the Bank's functional and presentation currency. All amounts are rounded to the nearest thousand peso unless otherwise indicated.

The accompanying financial statements have been prepared on a going concern basis, which contemplate the realization of assets and settlement of liabilities in the normal course of business.

Statement of Compliance

The financial statements of the Bank were prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures

Standards, Amendments and Interpretations Issued and Effective as at Reporting Period

The following are new and revised standards, amendments to PFRS and interpretations which became effective for the comparative reporting period.

- **Onerous Contracts – Costs of Fulfilling a Contract – Amendments to PAS 37**

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Company cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

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 including both incremental costs (e.g., the costs of direct labor and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.
The Company applied the amendments to the contracts for which it had not fulfilled all of its obligations at the beginning of the reporting period.

Prior to the application of the amendments, the Company had not identified any contracts as being onerous as the unavoidable costs under the contracts, which were the costs of fulfilling them, comprised only incremental costs directly related to the contracts. As a result of the amendments, certain other directly related costs have been included by the Company in determining the costs of fulfilling the contracts. The Company, therefore, recognized an onerous contract provision as at January 1, 2023, which increased as of December 31, 2023.

In accordance with the transitional provisions, the Company applies the amendments to contracts for which it has not yet fulfilled all of its obligations, at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application) and has not restated its comparative information.
The management believes that the application of the said revisions to PFRS have no material impact on its financial statements.

- **Reference to the Conceptual Framework – Amendments to PFRS 3**

The amendments replace a reference to a previous version of the PAS B's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of PFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in PAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.
In accordance with the transitional provisions, the Company applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the financial statements of the Company as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

- **Property, Plant and Equipment: Proceeds before Intended Use – Amendments to PAS 16 Leases**

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of 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 costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Company applies the amendments retrospectively only to items of PPE made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the financial statements of the Company as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

- **PFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as first-time adopter**

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported in the parent's financial statements, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

These amendments had no impact on the financial statements of the Company as it is not a first-time adopter.

- **PFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities**

The amendment clarifies 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. There is no similar amendment proposed for PAS 39

Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Company applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Company as there were no modifications of the Company's financial instruments during the period.

Standards, Amendments and Interpretations Issued but Not Yet Effective as at Reporting Period

The following are new and revised standards, amendments to PFRS, and interpretations which have been issued but not yet effective as of reporting period.

- **PFRS 17 *Insurance Contracts***

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes PFRS 4 *Insurance Contracts*.

PFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the PAS B issued Amendments to PFRS 17 to address concerns and implementation challenges that were identified after PFRS 17 was published. The amendments defer the date of initial application of PFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after January 1, 2023. At the same time, the PAS B issued *Extension of the Temporary Exemption from Applying PFRS 9 (Amendments to PFRS 4)* that extends the fixed expiry date of the temporary exemption from applying PFRS 9 in PFRS 4 to annual reporting periods beginning on or after January 1, 2023.

PFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The management believes that the application in the future of the said revisions to PFRS will have no material impact on its financial statements.

- **Amendments to PFRS 10 *Financial statements* and PAS 28 *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

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

The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

- **Amendments to PAS 1 *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current***

The amendments to PAS 1 published in January 2020 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

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

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted. The PAS B is currently considering further amendments to the requirements in PAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.

The directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods.

- **Amendments to PAS 1 *Presentation of Financial Statements* and PFRS Practice Statement 2 *Making Materiality Judgements – Disclosure of Accounting Policies***

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

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

The PAS B has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in PFRS Practice Statement 2.

The amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted and are applied prospectively. The amendments to PFRS Practice Statement 2 do not contain an effective date or transition requirements.

The management believes that the application in the future of the said revisions to PFRS will have no material impact on its financial statements.

- **Amendments to PAS 8** ***Accounting Policies, Changes in Accounting Estimates and Error – Definition of Accounting Estimates***

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

The definition of a change in accounting estimates was deleted. However, the PAS B retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

The PAS B added two examples (Examples 4-5) to the Guidance on implementing PAS 8, which accompanies the Standard. The PAS B has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after January 1, 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

The management believes that the application in the future of the said revisions to PFRS will have no material impact on its financial statements.

- **Amendments to PAS 12** ***Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction***

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying PFRS 16 at the commencement date of a lease.

Following the amendments to PAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in PAS 12.

The PAS B also adds an illustrative example to PAS 12 that explains how the amendments are applied. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of cost of the related asset
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date

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

The directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

Summary of Significant Accounting Policies

The significant accounting policies and practices of the Bank are set forth to facilitate the understanding of the financial statements.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient, the Bank initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient are measured at the transaction price determined under PFRS 15. Refer to the accounting policies in section (e) Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI (FVOCI), it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments) –The Bank measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Bank's loans receivable and portion of other assets are classified under this category.

Financial assets at fair value through OCI (debt instruments) – The Bank measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of financial performance and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Bank's investments – fair value through OCI is classified under this category.

Financial assets designated at fair value through OCI (equity instruments) – Upon initial recognition, the Bank can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of financial performance when the right of payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Bank has no financial asset under this category.

Financial assets at fair value through profit or loss – include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of financial performance.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

The amendments defer the effective date of the September 2014 amendments to these standards indefinitely until the research project on the equity method has been concluded.

The Bank's cash and cash equivalents is classified under this category.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Bank's statement of financial position) when:

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

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Impairment of financial assets

The Bank recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Bank applies a simplified approach in calculating ECLs. Therefore, the Bank does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime of ECLs at each reporting date. The Bank has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Bank considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Considering that the Bank is regulated by the Bangko Sentral ng Pilipinas (BSP) which requires a distinct provisioning as well as default provision pursuant to Circular 855 and 941, then in case of conflict between the standard (PFRS) and special law (which is enacted by the BSP such as MORB), then the latter will prevail.

Financial Assets

This category includes cash and cash equivalents, loans receivable, investments - fair value through OCI and portion of other assets.

Cash and Cash Equivalents

Cash includes cash on hand, check and other cash items, due from BSP, due from other banks. Cash on hand represents cash collections and other cash items awaiting deposit and cash inside the Bank's vault. Check and other cash items represent checks collected waiting for deposit. Due from BSP account represents savings account by the Bangko Sentral ng Pilipinas which earns interest at the respective deposit rates and these deposits are held at call with the BSP. Due from other banks account represents savings and checking accounts by the Bank in various commercial banks. These earn interest at the respective banks' deposit rates. These deposits are held at call with the bank.

Cash equivalents comprises of time deposits purchased under resale agreements with original maturities of three months or less dates of placements and that are subject to insignificant risk of changes in value.

Loans Receivables

This account includes current loans, past due loans and discounts, and loans considered as items in litigation. Loans and other receivables is recognized initially at fair value plus transaction costs that are directly attributable to the receivable. These are subsequently measured at amortized costs using effective interest method less provision for impairment.

Section 305 of MORB (2020) provides method of computing interest. Banks may only charge interest based on the outstanding balance of the loan at the beginning of an interest period. For a loan where principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

A provision for impairment of receivables is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statements of income within operating expenses. When a receivable remains uncollectible after the Bank has exerted all legal remedies, it is written-off against the allowance account for receivables. The Bank first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant of not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. Subsequent recoveries of amounts previously written-off are credited against operating expenses in the statements of income. Reversals of previously recorded impairment provision are credited in the statements of income based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period.

Other Assets

Accounts Receivable

This refers to the receivables from various individuals, from BIR due to erroneous payment, from express payment and other receivables.

Accrued Interest Receivable

This refers to accrual of interest earned from various loan accounts and in due from banks.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss – include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Bank that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of financial performance.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Bank has not designated any financial liability as at fair value through profit or loss.

The Bank's has no financial liabilities under this category.

Financial liabilities at amortized cost –After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of financial performance.

The Bank's deposit liabilities, lease liability and portion of other current liabilities are classified under this category.

Derecognition of financial liabilities

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

Financial liabilities

The Bank's financial liabilities include deposit liabilities, lease liability and portion of other current liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Deposit Liabilities

Deposit liabilities represents the Bank's time and savings deposit account from its various depositors which are interest-bearing that can be withdrawn through the issue order of withdrawal. Deposits are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These are measured initially at their fair values and subsequently recognized at amortized costs less settlement payments.

Lease liability

In the context of PFRS 16 on leases, lease liability was recognized. However, the Bank decided not to apply the new guidance to leases whose term will end within twelve months on the date of application. In such case, the leases are accounted for as short-term leases and the lease payments associated with them are recognized as an expense from short term leases, instead of recognizing a lease liability. Lease liability is measured using the present value of the lease payments, discounted at the discount rate for the lease. The rate is the rate implicit in the lease when that rate is readily determinable. If not, the lessee instead uses its incremental borrowing rate.

Other Current Liabilities

Accounts Payable

This represents deposits represents partial payments received from sale of ROPA claims of various buyers of the Bank's investment property. These are stated initially at fair value and subsequently measured at amortized cost.

Accrued Expenses

Accrued expenses are recognized in the period in which the money or services are received or when a legally enforceable claim against the Bank is established or when the corresponding assets and expenses are recognized/incurred.

Accrued Interest Expense

This account refers to the accrual of interest earned by the depositors on their deposits with the Bank at the end of the reporting period.

Offsetting of financial instruments

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

Non-Financial Assets

This category includes bank premises, furniture, and equipment, as well as investment property (ROPA), deferred tax assets and portion of other assets.

Bank Premises, Furniture and Equipment

The cost of an item of Bank premises, furniture and equipment shall be recognized as an asset if, and only if: (a) it is probable that future economic benefits associated with the item will flow to the entity; and (b) the cost of the item can be measured reliably.

Bank premises, furniture and equipment are carried at acquisition cost less accumulated depreciation and amortization and impairment in value.

An item of Bank premises, furniture and equipment is initially recognized at cost. 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; expenditures for repairs and maintenance are charged to expense as incurred.

When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Land is stated at cost less any impairment in value while depreciable properties including buildings, leasehold improvements, and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs.

An item of Bank premises, furniture and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in the statements of comprehensive income in the year the asset is derecognized.

Investment Property (ROPA)

Investment property shall be recognized as an asset when and only when: (a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and (b) the cost of the investment property can be measured reliably.

Investment property includes Real and Other Properties Acquired (ROPA) acquired by the Bank from defaulting borrowers in settlement of their loans and receivable through foreclosure or dacion en pago as payment and shall be booked under ROPA account as follows: a) on the date of the entry of judgment in case of judicial foreclosure b) on the date of notarization of the Sheriffs Certificate in case of extra-judicial foreclosure c) and the date of notarization of the Deed of Dacion in case of dation in payment (dacion en pago). ROPA acquired shall be booked initially at the carrying amount of the loan (i.e. outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses which take into account the fair value of the collateral determined based on BSP provisioning requirement) plus booked accrued interest less allowance for credit losses plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property). Investment properties except land are depreciated over a period of ten years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of comprehensive income in 'Profit from assets sold' in the year of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred. Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Subsequently, ROPA shall be accounted for as follows:
(a) Land and buildings shall be accounted for using the cost model under PAS 40 "Investment Property";
(b) Other non-financial assets shall be accounted for using the cost model under PAS 16 "Property Plant and Equipment";
(c) Buildings and other non-financial assets shall be depreciated over a period not exceeding ten years and three years, respectively;
(d) Land, buildings and other non-financial assets shall be subject to the impairment provisions of PAS 36 "Impairment";
(e) Financial assets shall be initially booked and classified according to intention (i.e., Amortized cost, FVPL, OCI, Unquoted Debt Securities Classified as Loans or Loans and Receivable) and accounted for in accordance with the provisions of PFRS 9; and
(f) ROPAs that comply with the provisions of PFRS 5 "Non-Current Assets Held for Sale" shall be reclassified and accounted for as such.

Financial institutions that accept non-cash payments for interest on their borrowers' loans shall book the acquired assets as ROPA. The amount to be booked as ROPA shall be the booked accrued interest less allowance for probable losses: Provided, That where the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up: Provided, further, that if the carrying amount of ROPA exceeds ₱5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP. The carrying amount of ROPA shall be allocated in accordance with Item (c) and shall be subsequently accounted for in accordance with item (c) of this Section.

Provision for Probable Losses - the Bank provides an allowance for probable losses for assets acquired (ROPA) based on the following schedule:

End of Year After Expiry of Redemption Period	Annual Provision (% of Cost of Acquisition)	Accumulated Allowance for Probable Losses
6th year	10%	10%
7th year	10%	20%
8th year	10%	30%
9th year	10%	40%
10th year	10%	50%

Any real property acquired in settlement of loans which is classified as "Loss" shall be written-off by the Bank following the same procedures on the write-off of loans under Circular No. 358 or a 100% allowance for probable losses shall be set up therefore. Provided, that a nominal value of one peso (₱1.00) shall be retained in the books for each asset account.

As at December 31, 2023 and 2022, the Bank has investment property amounting to ₱3,665,052 and ₱3,911,066, respectively.

Other Assets

The Bank's other assets include prepaid income tax, prepaid expenses, stationery and supplies, and petty cash fund.

Prepaid Income Tax

This refer to income tax payment that can be deducted in future income tax.

Prepaid Expenses

Prepaid expenses refer to amounts paid by the Bank in advance for future expenses.

Stationery and supplies

This refers to the Bank office supplies inventory used in Bank daily operation

Petty Cash Fund

Petty cash fund is used as a working fund for small expenses being disbursed on a daily basis.

Impairment of Non-Financial Assets

At each reporting date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's (or cash-generating units) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

Except for goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Non-Financial Liabilities

This category includes are retirement benefit obligation, income tax payable and other current liabilities

Retirement Benefit Obligation

This account represents liability recognized by the Bank for the benefit of its officers and employees, upon reaching their retirement age.

Income Tax Payable

This represents corporate income tax due for the period after deducting related applicable creditable withholding taxes and prepaid income taxes.

Other Current Liabilities

This includes withholding taxes payable, SSS, Pag-ibig, Philhealth premium and loan payables,

Withholding Taxes Payable

These represent taxes withheld by the Bank from employees' salaries, payments to suppliers and provider of services subject to expanded creditable withholding taxes which are remitted 10 days following the end of the month. These are interest-bearing if not paid on time.

SSS, Pag-ibig and Philhealth Premium Payable

These represent employer's and employees' share on social security and other contributions which are mandated by law. These are interest-bearing if not paid on time.

Borrowings and Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the year, less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalizable rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during the year shall not exceed the amount of borrowing costs incurred during that year.

Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred in the year in which they occur.

Employee Benefits

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

(a) Retirement Benefits

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of pension 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 pension plan covers all regular full-time employees.

Under the Bank's existing retirement package, approved by the Board on January 10, 2011, all employees are entitled to monetary benefits when they retire or depart from the Bank in compliance with R.A. 7641, otherwise known as "The Retirement Pay Law". Factors considered in computing for the retirement benefits are the amount of monthly compensation upon retiring and years of service as further illustrated below:

Years of service	Consideration
5 – 10	50% of monthly salary
11 – 15	75% of monthly salary
16 – 20	full amount of monthly salary
21 – 30	150% of monthly salary
31 and above	200% of monthly salary

The Bank's retirement benefit obligation as at December 2023 and 2022 amounted to ₱2,316,553 and ₱1,876,243, respectively.

(b) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

(c) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. These are included in other liabilities account at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

Short-Term Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Short-term benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and other non-monetary benefits.

Equity

Share Capital

Ordinary shares are determined using the nominal value of shares that have been issued. Preferred shares, if any, are also being valued using the nominal value of shares that have been issued.

Additional paid-in capital, if any, includes any premiums received on the issuance of share capital. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Deposit for Future Subscriptions

Deposit for future subscription refer to the payments made by stockholders of the subsidiary companies on subscription to the increase in the authorized capital which cannot directly credited to capital stock issued due to insufficiency of the subsidiary companies' unissued authorized capital stock pending application by the Securities and Exchange Commission (SEC). Under Financial Reporting Bulletin 006 issued in 2012, an entity should not consider a deposit for future subscription as an equity instrument unless all of the following elements are present:

- There is a lack or insufficiency of authorized unissued shares of stocks to cover the deposit:
- The Entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and

- An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC.

Retained Earnings (Deficit)

This account represents the cumulative balance of periodic net income or loss, dividend distribution, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When retained earnings account has a debit balance, it is called "deficit", and presented as deduction from equity.

Basic and Diluted Earnings per Share

Basic earnings per share is calculated by dividing the income attributable to equity holders of the Bank for the year over weighted average number of common shares outstanding during the period.

Diluted EPS amounts are computed in the same manner, adjusted for the dilutive effect of any potential common shares. As the Bank has no dilutive potential common shares outstanding, basic and diluted EPS are stated at the same amount.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and that revenue can be reliably measured. The following specific recognition criteria of income and expenses must also be met before revenue is recognized:

(a) *Interest* – Interest income and expenses are recognized in the statements of comprehensive income for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Under BSP MORB (2020) Section 305, it states that Banks may only charge interest based on the outstanding balance of a loan at the beginning of an interest period. For a loan where principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period. Towards this end, all loan-related documents shall show repayment schedules in a manner consistent with this provision. Marketing materials and presentations shall likewise be consistent with this provision.

To enhance loan transaction transparency, Effective Interest Rate (EIR) calculation models illustrative of common loan features were also presented as an Appendix to the said MORB (2020) for the Bank's guidance. It is understood, however, that an EIR calculation model, founded on established principles of discounted cash flow analysis, for a loan should be based on the actual features thereof. A bank shall be solely responsible for the propriety and accuracy of its EIR calculation model. However, for purposes of determining compliance with this Section, the Bangko Sentral's determination of the reasonableness and accuracy of an EIR calculation model prevails.

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

(b) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on the completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period the service is provided.

The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(c) *Profit from assets sold or exchanged* – Profits from assets sold or exchanged are recognized when the title to the assets is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in the other income account in the statements of comprehensive income.

(d) *Miscellaneous income* – Miscellaneous income are recognized when earned.

Cost and Expenses Recognition

Cost of services and general and administrative expenses, including borrowing costs, are recognized in the period in which they are incurred.

Cost and expenses are recognized in the statement of financial performance when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the statement of financial performance: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

Costs and expenses in the statement of financial performance are presented using the function of expense method. Cost of sales and services are expenses incurred that are associated with the goods sold and services rendered. General and administrative expenses are costs attributable to the administrative, marketing and other business activities of the Bank.

Leases

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

Company as a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. The discount rate applied was 6.0%, based on Circular No. 799 of the BSP.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Comprehensive Income

Comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with members in their capacity as owners.

Related Party Transactions

Two or more parties are related parties when at any time during the financial period: (a) one party has direct or indirect control of the other party; or (b) the parties are subject to common control from the same source; or (c) one party has influence over the financial and operating policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or the parties, in entering a transaction, are subject to influence from the same sources to such an extent that one of the parties to the transaction has subordinated its own separate interests.

BSP MORB (2020) Section 136, recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institutions and to the entire group where said institutions belong. In this regard, related party transactions are generally allowed: Provided that, these are done on an arm's length basis. The Bangko Sentral expects banks, including their non-bank financial subsidiaries and affiliates, to exercise appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the bank and its depositors, creditors, fiduciary clients, and other stakeholders.

RPT policies/roles of senior management and self-assessment functions.

(a) The RPT policies shall include, but not be limited to the following:

Definition of related parties. The policy shall clearly define "related parties". It shall identify persons and companies that are considered the BSFI's related parties. The policy shall require management to periodically review and update the inventory of related parties to capture organizational and structural changes in the BSFI and its related parties.

Coverage of RPT policy. The coverage of the RPT policy shall capture a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose material/special risk or potential abuse to the BSFI and its stakeholders.

Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of the policy. The prospective treatment should, however, be without prejudice to supervisory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

Guidelines in ensuring arm's length terms. The policy shall have clear guidelines in ensuring that RPTs are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. This shall include guidance for an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the BSFI and its stakeholders. The price discovery mechanism may include, but not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

Conflicts of interest. The policy shall cover the identification and prevention or management of potential or actual conflicts of interest which may arise. The members of the board of directors, stockholders, and management shall disclose to the board of directors whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the BSFI. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the BSFI.

Materiality thresholds and excluded transactions. The policy shall include materiality thresholds for RPTs, which shall be set at a level where omission or misstatement of the transaction could pose significant risk to the BSFI and could influence the economic decisions of its board of directors.

Materiality threshold may be set for each type of transaction and for each related party group, depending on the nature of the transaction and risks involved. The RPT policy may also identify transactions excluded from the materiality threshold requirement, such as transactions concerning deposit operations, regular trade transactions involving purchases and sales of debt securities traded in an active market, and those granted under Bangko Sentral approved fringe benefit programs. Materiality threshold levels will vary from one BSFI to another depending on the nature, scope, frequency, value of, and risks associated with the RPT. The BSFI shall document the justifications for the materiality thresholds and exclusions set.

The Bangko Sentral may direct a BSFI to reduce its materiality threshold or amend excluded transactions if the Bangko Sentral deems that the threshold or exclusion is inappropriate considering the BSFI's size, risk profile, and risk management systems.

Internal limits for individual and aggregate exposures. To ensure that RPTs are within prudent levels, the policy shall, in addition to existing prudential limits which shall be complied with at all times, include internal limits or sub-limits for individual and aggregate exposures to a related party and for aggregate exposures to all related parties that are consistent with the BSFI's risk appetite, risk profile, and capital strength. The internally-set limits shall be tied in with the BSFI's internal definition of capital. Breaches in limits shall be reported to the board of directors with the decision of the board of directors to accept the exposure or to take steps to address the breaches, as may be necessary, duly documented in the minutes of meetings.

Whistleblowing mechanisms. The policy shall include effective whistleblowing mechanisms consistent with the corporate values and codes of conduct set by the board of directors. The policy shall encourage employees to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable RPTs. It shall include guidance on how and by whom legitimate material concerns should be reported, investigated and addressed by an objective independent internal or external body, senior management and/or the board of directors itself.

Restitution of losses and other remedies for abusive RPTs. The policy shall include measures that would cut losses and allow recovery of losses or opportunity costs incurred by the BSFI arising from RPTs that are not engaged on arm's length terms. The policy shall also include the manner of handling personnel, officers or directors, who have been remiss in their duties in handling RPTs.

The overarching policy will consolidate all existing policies that address the above requirements or may make reference to already existing policies.

(b) *Roles of senior management and self-assessment functions.* Senior management shall implement appropriate controls to effectively manage and monitor RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the BSFI's policy and Bangko Sentral's regulations.

Income Taxes

Current Taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxing authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted during the reporting period.

Deferred Taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rates expected in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the statements of comprehensive income. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authorities.

Documentary Stamp Tax

Documentary stamp taxes are imposed on the following:

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;
(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;
(c) Acceptance of bills of exchange and letters of credit; and
(d) Bills of lading or receipt.

Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and these 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 reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset not exceeding the amount of the related provision. 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. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each reporting date 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.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Prior Period Adjustments

Prior period adjustments cover those adjustments pertaining to the omissions and misstatements in the entity's financial statements for one or more periods arising from a failure to use or misuse of reliable information that were available when the financial statements for these periods were authorized for issue or could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

The Bank shall correct material period errors retrospectively in the first set of financial statements authorized for issue after discovery by:

(a) Restating the comparative amounts for prior period presented in which the error occurred.
(b) Restating the opening balances of assets, liabilities and equity for the earliest prior period presented if the error or adjustment occurred before earliest period presented.

The correction of prior period error is excluded from profit or loss for the period in which the error is discovered but it is an adjustment of the beginning balance of retained earnings of the earliest period presented.

Events after End of Reporting Period

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. Two types of events can be identified:

(a) those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*); and
(b) those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the reporting period*).

Post year-end event that provides additional information about the Bank's position at each reporting date (adjusting events) are reflected in the financial statements. Post year-end adjustments that are not adjusting events are disclosed in the notes to financial statements.

Comparative Information

Where necessary, certain accounts in prior years have been reclassified and comparative figures have been adjusted to conform to current year's financial statements presentation.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

The following represents a summary of the significant estimates and judgments and related impact and associated risks in the Bank's financial statements.

(a) Evaluation of Asset Impairment

The Bank assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include significant changes in asset usage, significant decline in assets' market value and obsolescence or physical damage of an asset. If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Bank is required to make estimates and assumptions that may affect property and equipment.

(b) Financial Assets and Liabilities

The Bank carries some of its financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence, i.e., interest rates, volatility rates, the amount of changes in fair value would differ if the Bank utilized different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect directly the statements of income and equity, as appropriate.

(c) Fair Value of Financial Assets and Liabilities

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities as at December 31, 2023 and 2022, as presented in the statements of financial position at their fair value:

	2023		2022	
	Carrying value	Fair Value	Carrying value	Fair Value
Financial assets				
Checks and and other cash items	₱ 1,120,623	₱ 1,120,623	₱ 1,513,507	₱ 1,513,507
Due from BSP	8,978,705	8,978,705	9,357,038	9,357,038
Due from other banks	27,618,157	27,618,157	22,723,219	22,723,219
Cash equivalents	26,585,976	26,585,976	24,265,028	24,265,028
Loans receivable, net	226,261,351	226,261,351	206,881,624	206,881,624
Investments - Fair Value through OCI	25,713,875	25,713,875	31,653,912	31,653,912
Accrued interest and other receivables	2,642,424	2,642,424	2,156,631	2,156,631
Total financial assets	318,921,111	318,921,111	298,550,959	298,550,959
Financial liabilities				
Deposit liabilities	274,682,374	274,682,374	275,791,166	275,791,166
Accrued interest expense	521,582	521,582	587,924	587,924
Accrued expenses	1,415,485	1,415,485	1,062,632	1,062,632
Accounts payable	404,933	404,933	129,134	129,134
Lease liability	3,066,832	3,066,832	3,676,934	3,676,934
Total financial liabilities	₱ 280,091,205	₱ 280,091,205	P 281,247,791	₱ 281,247,791

(d) Useful Life of Bank Premises, Furniture and Equipment

The Bank estimates the useful lives of bank premises, furniture and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of bank premises, furniture and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors and circumstances.

A reduction in the estimated useful lives of bank premises, furniture and equipment would increase recorded operating expenses and decrease non-current assets. Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The range of estimated useful life of the Bank's property and equipment follow:

	Estimated Useful Life in Years
Furniture and fixtures	1.5 - 10 years
Leasehold improvements	5 - 10 years
Transportation equipment	3 years
Right-of-use asset	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements of five to ten years, whichever is shorter.

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

As at December 31, 2023 and 2022, Bank premises, furniture and equipment, net of accumulated depreciation amounted to ₱ 5,193,800 and ₱5,966,473, respectively (Note 8).

(e) Realizable Amount of Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which these losses can be utilized. Management's discretion is required to determine the amount of deferred tax assets that can be recognized based on the forecasted level of future taxable profits and the related future tax planning strategies.

As at December 31, 2023 and 2022 deferred tax assets amounted to ₱10,312,839 and ₱8,576,076, respectively (Note 10).

(f) Impairment of Non - Financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.

Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are approximate and reasonable, significant changes in these 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.

Critical Accounting Judgments

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) Functional Currency

The Bank has determined that its functional currency is the Philippine Peso which is the currency of the primary environment in which the Bank operates.

(b) Distinction between Investment Properties and Owner-Managed Properties

The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generated cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes.

If these portions can be sold separately (or leased out separately under finance lease), the bank also accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services of for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(c) Classification of Acquired Properties and fair Value Determination of Non-current Assets Held for Sale and Investment Property

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Non-current Assets Held-for-sale if the Bank expects that the properties will be recovered through sale rather than use, as Investment Property if the Bank intends to hold the properties for capital appreciation or as Financial Assets in accordance with PFRS 9.

At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

(d) Provisions and Contingents

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2 and relevant disclosures are presented in Note 22.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

In lending, risk is always part of financial services. When Banks or financial institutions release loans, collection or default is always considered. Banks put risk on client's savings when these are lend out or makes investments. Any new banks or financial institutions can never avoid risk (thus limiting their scope and impact) nor ignore risk (at their folly). Like all financial institutions, microfinance institutions or micro banking office face risks that they must manage efficiently and effectively to be successful. If the Microfinance institution does not manage its risks well, it will likely fail to meet its social and financial objectives.

The Bank realizes that when risk is not properly managed, financial losses will certainly occur and stockholders tend to lose confidence in the management team as funds begin to dry up. When funds dry up, the Bank would not be able to meet its social objective of providing services to the poor and quickly goes out of business.

The Bank relies on depositors account to fund loans and withdrawals from savings. Financial risk management requires a sophisticated treasury function, usually centralized at the head office, which manages liquidity risk, interest rate risk, and investments portfolio risk. As the bank will increasingly have more product differentiation among loan assets, it becomes increasingly important to manage these risks well.

Risk Management Structure

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

a) 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. The BOD is also 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.

b) 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.

c) 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.

d) Compliance Officer

The compliance officer 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 regulatory reports to the Board.

e) Audit Committee

Audit committee provides and 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 audit committee audit 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 recommendation to the BOD.

Market Risk

This is defined as the risk to earnings or capital arising from the possible decline in value of trading accounts and investments in equities and debt instruments.

Areas of market risk may include the following:

1. Risk of decline in value of trading accounts and investments due to fluctuations in market prices
2. Risk that issuer may not be able to meet its obligations promptly
3. Risk of decline in value of investment decisions which fail to take into account:
   - Marketability of investment instrument (If the Bank cannot wait to hold on investment until maturity, there must be many buyers in the market willing to pay at a price that is close to Bank's acquisition cost so that the Bank will not incur a loss).
   - Diversification of investment outlets
   - Maturity and rate of return
   - Type of issuer (to ensure payment on maturity)
   - BSP regulations on limits and ceilings

Liquidity Risk

This is defined as the possibility of negative effects on the interest of owners, customers and other stakeholders of the Bank, resulting from the inability to meet current cash obligations in a timely and cost-efficient manner.

Such risk may arise as a result of:
1. Mismatches in cash flows
2. Borrowing short and lending long
3. Lack of or insufficient provision for reserves, i.e., primary reserves to meet anticipated cash needs and secondary reserves to meet contingent or extraordinary cash needs/withdrawals.
4. No contingency plan to cover unexpected fund withdrawals during financial stress.
5. Absence of or non-compliance with gap limits.
6. High incidence of past due loans which put pressure on Bank's liquidity position (on time loan collections assure a steady source of funds/cash flows).

Principles of Liquidity Management

1. Maintaining detailed estimates of projected cash inflows and outflows for the next few weeks or months so that net cash requirements can be identified.
2. Maintaining investment accounts that can be easily liquidated into cash or lines of credit with local banks to meet unexpected needs.
3. Anticipating the potential cash requirements of new product introductions or seasonal variations in deposits or withdrawals.

The table below summarizes the maturity profile of the Bank's carrying assets and liabilities as at December 31, 2023 and 2022.

December 31, 2023

	One to three months	Three months to one year	More than one year	Total
Assets				
Cash on hand	₱ 6,805,563	₱ -	₱ -	₱ 6,805,563
Checks and other cash items	1,120,623			1,120,623
Due from BSP	8,978,705	-	-	8,978,705
Due from banks	27,618,157	-	-	27,618,157
Cash equivalents	26,585,976	-	-	26,585,976
Loans receivable - gross	133,136	1,759,936	266,670,679	268,563,751
Investments - Fair Value through OCI	25,713,875	-	-	25,713,875
Bank premises, furniture and equipment - net	-	-	5,193,800	5,193,800
Investment property (ROPA)	-	-	3,665,052	3,665,052
Deferred tax assets	-	-	10,312,839	10,312,839
Other assets - net	3,633,373	-	-	3,633,373
Total assets	100,589,408	1,759,936	285,842,370	388,191,714
Liabilities				
Deposit liabilities	184,521,767	90,160,606	-	274,682,373
Income tax payable	991,554	-	-	991,554
Other current liabilities	2,610,260	-	-	2,610,260
Lease liability	-	-	3,066,832	3,066,832
Retirement benefit obligation	-	-	2,316,553	2,316,553
Total liabilities	188,123,581	90,160,606	5,383,384	283,667,571
Net liquidity gap	-₱ 87,534,172	-₱ 88,400,670	₱ 280,458,985	₱ 104,524,143

December 31, 2022

	One to three months	Three months to one year	More than one year	Total
Assets				
Cash on hand	₱ 6,962,541	₱ -	₱ -	₱ 6,962,541
Checks and other cash items	1,513,507			1,513,507
Due from BSP	9,357,038	-	-	9,357,038
Due from banks	22,723,219	-	-	22,723,219
Cash equivalents	24,265,028	-	-	24,265,028
Loans receivable - gross	21,342,189	22,348,473	193,217,026	236,907,688
Investments - Fair Value through OCI	31,653,912	-	-	31,653,912
Bank premises, furniture and equipment - net	-	-	5,966,473	5,966,473
Investment property (ROPA)	-	-	3,911,066	3,911,066
Deferred tax assets	-	-	8,576,076	8,576,076
Other assets - net	3,137,450	-	-	3,137,450
Total assets	120,954,883	22,348,473	211,670,641	354,973,997
Liabilities				
Deposit liabilities	174,217,221	101,573,945	-	275,791,166
Income tax payable	454,049	-	-	454,049
Other current liabilities	2,135,356	-	-	2,135,356
Lease liability	-	-	3,676,934	3,676,934
Retirement benefir obligation	-	-	1,876,243	1,876,243
Total liabilities	176,806,626	101,573,945	5,553,177	283,933,747
Net liquidity gap	-₱ 55,851,743	-₱ 79,225,472	₱ 206,117,464	₱ 71,040,250

The above contractual maturities reflect the gross cash flows at the end of the reporting period.

Credit Risk

This is defined as the risk to earnings or capital arising from the borrower's failure to pay principal and/or interest at maturity date.

Areas of Credit risk may include the following:

- Risk of poor or no-collection loans
- Risk of unwarranted concentration of credits
- Risk of overexposure to DOSRI and or undisciplined self-dealing practices

Effective Management Approach on Credit Risk

1. Management continuously reviews the entire portfolio to assess the nature of the portfolio's delinquency, while looking for geographic trends and concentrations by sector, product and branch.
2. By monitoring the overall delinquency in the portfolio, management assures that the bank has adequate reserves to cover potential loan losses.
3. Well-designed borrower screening, careful loan structuring, close monitoring, clear collection procedures and active oversight by senior management.
4. Delinquency is understood and addressed promptly to avoid its rapid spread and potential for significant loss.
5. Good portfolio reporting that accurately reflects the status and monthly trends in delinquency including a portfolio at risk, aging schedule and separate reports by loan product.
6. A routine process for comparing concentrations of credit risk with the adequacy of loan loss reserves and detection pattern (e.g. by loan product, by branch, etc.).

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

	Gross Maximum Exposure	
	2023	2022
Due from BSP	₱ 8,978,705	₱ 9,357,038
COCI and Due from other banks	1,120,623	1,513,507
Cash equivalents	26,585,976	24,265,028
Loans receivable - net	226,261,351	206,881,624
Investments - fair value through OCI	25,713,875	31,653,912
Accounts receivable, net	694,913	463,488
Accrued interest receivable	1,947,512	1,693,143
TOTAL	₱ 291,302,955	₱ 275,827,740

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

The Bank reviews the loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibition on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

In respect of loans 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 receivables consist of a large number of customers in various geographical areas. Based on historical information about customer default rates management consider the credit quality of loans receivables that are not past due or impaired to be good.

The table below shows the credit quality of the Bank's loans receivable for the years 2023 and 2022.

		2023			2022	
Current	₱	212,578,555	79%	₱	199,140,365	84%
Past due		55,985,196	21%		37,767,323	16%
TOTAL	₱	268,563,751	100%	₱	236,907,688	100%

The past due accounts of the above loan receivable are aged as follows:

December 31, 2023

	1-90 days	91-365 days	over 1 year	Total
Agri Loan - Fishing	-	1,300,000	-	1,300,000
Agri., Hunting and Forestry	-	-	869,705	869,705
Education	-	-	513,733	513,733
Electricity, Gas and Water	-	-	448,950	448,950
Financial Intermediation	-	135,391	754,290	889,681
Construction	-	6,511,069	2,540,201	9,051,270
Manufacturing	-	-	1,370,022	1,370,022
Health and Social Work	-	1,411,776	2,045,558	3,457,334
Hotel and Restaurant	-	-	3,038,694	3,038,694
Other Community Activities	-	694,400	6,350,926	7,045,326
Public, Admin, and Defense	-	15,705	1,068,959	1,084,664
Real Estate, Renting and Business Activities	-	-	723,937	723,937
Transportation and Storage	-	12,787,750	8,238,479	21,026,229
Wholesale and Retail Trade	-	-	5,165,652	5,165,652
	-	22,856,091	33,129,105	55,985,196

	December 31, 2022			
	1-90 days	91-365 days	over 1 year	Total
Agri Loan - Fishing	-	1,300,000	-	1,300,000
Agri., Hunting and Forestry	-	-	869,705	869,705
Education	-	-	487,561	487,561
Electricity, Gas and Water	37,229	-	448,950	486,179
Financial Intermediation	237,808	-	354,914	592,722
Construction	-	-	2,576,903	2,576,903
Manufacturing	-	763,851	569,305	1,333,156
Health and Social Work	178,829	-	1,102,474	1,281,303
Hotel and Restaurant	-	-	1,750,400	1,750,400
Other Community Activities	166,757	926,688	4,815,456	5,908,901
Public, Admin, and Defense	-	237,918	552,718	790,636
Real Estate, Renting and Business Activities	133,309	1,959,719	86,082	2,179,110
Transportation and Storage	78,040	2,925,097	9,874,366	12,877,503
Wholesale and Retail Trade	27,965	-	5,305,279	5,333,244
	859,937	8,113,273	28,794,113	37,767,323

Past due loans increased by ₱ 18,217,873.41 from ₱37,767,323 to ₱55,985,196 as at December 31, 2023. Moreover, the Bank's past due ratio to total loan portfolio of 21% increase by 5% as compared to 16% in 2022 (Note 6).

(a) Loans and accounts receivable
The Bank's loans and accounts receivable are being monitored on a quarterly basis to ensure timely execution of necessary intervention efforts. As of reporting date, there are no significant concentrations of credit risk.

(b) Due from BSP and other banks
The credit risk for due from BSP and other banks are considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Under BSP MORB (2020) Section 362, it states that loans and other credit accommodations and usual guarantees by a bank to any other bank, whether locally or abroad, shall be subject to limits as prescribed by MORB, provided that the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

Computation of required single borrowers' limit (SBL) is shown below:

Bank's Net Worth		2023
Paid up Capital	₱	65,275,000
Undivided profit (deficit)		(3,053,257)
Deferred tax assets		(10,312,839)
Total Bank's net worth	₱	51,908,904
SBL rate per BSP		25%
Single Borrower's Limit	₱	12,977,226

The Bank has no loan releases which exceeds the single borrowers' limit, the Bank is compliant with this requirement.

Cash Flow Interest Rate Risk

The Bank prepares gap analysis to measure the sensitivity of its assets, liabilities and off-balance sheet positions to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of maturity and re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities or anticipated re-pricing dates and other applicable behavioral assumptions. The differences in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

Operational Risk
This is defined as the risk to earnings or capital that may arise as a result of weaknesses in organizational structure, poor oversight function of the Board of Directors and Senior Management, defective personnel recruitment, selection or hiring policy, weak internal control system, inadequate internal and external audit coverage and deficient management information systems.

Sub-categories shall include:

1. Transaction risk – risk of loss due to some failures in the processing of transactions or problems in the delivery of bank services. This risk may consist of:
   a. Documentation risk – risk of loss arising from incomplete or incorrect documentation of a transaction.
   b. Exceeding limits – risk of loss arising from limits being exceeded and the burden of reducing the excess.
   c. Fraud – risk of loss arising either from internal or external fraud within the organization.
   d. Security risk – risk of loss from all forms of security breaches including allowing competitors to have access to confidential matters
   e. Key personnel risk – risk of loss due to complete dependence to only one person with vital management skills and knowledge
   f. Processing risk – risk of loss due to failings or errors in manual processes, which is usually associated with the quality of bank-office staff.
   g. Management information risk – risk of loss arising from management decisions based on inaccurate or incomplete information

h. System error – risk of loss due to a failure in any of the systems used by the bank
i. Information technology failure – risk of loss arising from failure in the computer system

Risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information.

Compliance Risk
This represents risk to earnings or capital arising from violations of or non-conformance with laws, rules and regulations, prescribed practices or ethical standards. The risk exposes the banks to fines, civil money penalties, payment of damages and voiding of contracts.

Strategic Risk
Risk on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsive to industry changes. It is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

A risk to earning or capital arising from adverse business decisions or improper implementation of these decisions.

Reputation Risk
Risk to earnings or capital arising from negative public opinion which will affect the bank's ability to establish new relationship or services or continue servicing existing relationships. Reputation risk is particularly damaging for banks since the nature of their business requires maintaining the confidence of depositors, creditors and the General public.

Legal Risk
This is defined as the risk to earnings or capital arising from unenforceable contracts, lawsuits or adverse judgments. Banks are particularly susceptible to legal risks when entering new types of transactions and when the legal right of counterparty to enter into a transaction is not established. In addition, existing laws may fail to resolve legal issues involving a bank and may have wider implications for banking business and involve cost to it and laws affecting banks and or other enterprise may change. Areas of legal risk may include the following.

1. Possibility that contract is not legally enforceable due to failure to carefully review all contract enters into by the bank
2. Protracted legal or court fees.

Capital Management

The Bank's capital management refers to the implementing measures to maintain sufficient capital and that could assess its internal capital adequacy. It is extremely important to secure sufficient capital to cover risks the Bank faces, from the viewpoint of ensuring the soundness and appropriateness of the Bank's business. The management is charged with and responsible for taking the initiative in developing and establishing such.

The management sets of policies and internal rules with regard to capital management, ensures the development and implementation of capital plans, assessment of capital adequacy and capital allocation processes.

The Bank reviewed at least annually whether its policies and internal rules adopted and the tasks undertaken by the capital management group are suited to the levels of complexity and sophistication of the internal capital adequacy assessment processes used by the Bank and whether their respective capital management processes are functioning effectively.

The review should be conducted by using check items concerning internal capital adequacy assessment as part of the capital management system and those concerning the comprehensive risk management system, and any problem with regard to capital adequacy should be examined as the issue of capital management system.

The Bank ensures whether or not the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

The Bank's management appropriately determines whether there are any weaknesses or problems in the capital management system and the particulars thereof, and appropriately review their causes by precisely analyzing the status of capital management and assessing the effectiveness of capital management, based on all the information available regarding the status of capital management, such as the results of audits by Corporate auditors, and internal audits. In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees, etc.

The management may revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of capital management in a regular and timely manner or on an as needed basis. They provide a system to implement improvements in the areas of the problems and weaknesses in the capital management system identified through their analysis, assessment and review. They also provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis.

The Bank's debt-to-equity ratio is computed as follows:

		2023		2022
Total liabilities	₱	283,667,571	₱	283,933,747
Total equity		62,221,743		41,014,186
Debt-to-equity ratio		4.56 to 1.00		6.92 to 1.00

5. CASH AND CASH EQUIVALENTS

The account consists of the following:

		2023		2022
Cash on hand	₱	6,805,563	₱	6,962,541
Cash and other cash items		1,120,623		1,513,507
Due from BSP		8,978,705		9,357,038
Due from other banks		27,618,157		22,723,219
Cash equivalents		26,585,976		24,265,028
Total	₱	71,109,024	₱	64,821,333

Due from other banks represents unrestricted regular deposits with various banking institutions which earn interest at their respective bank deposit rates. Cash equivalents are short-term investments and special savings deposit having maturities of three (3) months or less that earn interest which are automatically rolled-over at maturity. Due from banks and cash equivalents interest rates range from .0375% to 5.5% per annuity.

Total interest earned from due from other banks net of final withholding tax amounted to ₱917,435 and ₱589,612 for the years ended December 31, 2023 and 2022, respectively (see Note 20). Due from BSP represents the balance of the demand deposit account maintained with the BSP to meet reserve requirements (see Note 25).

6. LOANS RECEIVABLES - NET

The account consists of the following:

		2023		2022
Current	₱	**212,578,555**	₱	199,140,363
Past due		**55,985,196**		37,767,325
Gross loans receivable		**268,563,751**		236,907,688
Less:				
Loan loss provision - specific		**33,447,995**		27,039,209
Loan loss provision - general		**1,567,455**		1,636,018
Unearned interest discount		**5,812,303**		-
Deferred bank charges		**1,474,647**		1,350,837
		42,302,400		30,026,064
Net	₱	**226,261,351**	₱	206,881,624

Interest rates depend on the term and type of loan. Total interest income earned from loans receivable are ₱28,340,200 and ₱25,401,596 for the period ended December 31, 2023 and 2022, respectively (See Note 17).

a) The above total loans are further classified according to security:

				2023			
Classification		Current		Past due		Total	Percentage
Secured	₱	158,741,155	₱	36,273,055	₱	195,014,210	73%
Unsecured		53,837,400		19,712,141		73,549,541	27%
Total	₱	212,578,555	₱	55,985,196	₱	268,563,751	
Percentage		79%		21%			

				2022			
Classification		Current		Past due		Total	Percentage
Secured	₱	149,404,869	₱	20,225,562	₱	169,630,431	72%
Unsecured		49,735,494		17,541,763		67,277,257	28%
Total	₱	199,140,363	₱	37,767,325	₱	236,907,688	100%
Percentage		84%		16%		100%	

b) Total secured loans are broken down as to type of collateral, as follows:

				2023			
Secured		Current		Past due		Total	Percentage
Real Estate Mortgage	₱	156,270,350	₱	1,221,013	₱	157,491,363	81%
Chattel Mortgage		33,126,684		206,917		33,333,601	17%
Others		4,189,246		-		4,189,246	2%
Total	₱	193,586,280	₱	1,427,930	₱	195,014,210	100%
Percentage		99%		1%		100%	

		2022					
Secured		Current		Past due		Total	Percentage
Real Estate Mortgage	₱	123,994,046	₱	12,630,716	₱	136,624,763	81%
Chattel Mortgage		24,891,275		7,461,537		32,352,811	19%
Others		519,548		133,309		652,857	0%
Total	₱	149,404,869	₱	20,225,562	₱	169,630,431	100%
Percentage		88%		12%		100%	

c) Loans are classified according to industry, as follows:

		2023			2022	
Other community, social	₱	**51,211,428**	**19.07%**	₱	44,197,832	18.66%
Public admin & defense		**29,838,130**	**11.11%**		23,213,464	9.80%
Transportation, storage		**28,422,088**	**10.58%**		27,001,626	11.40%
Wholesale & retail		**23,397,625**	**8.71%**		22,390,005	9.45%
Real estate, renting & building		**22,369,787**	**8.33%**		13,213,519	5.58%
Construction		**20,878,396**	**7.77%**		15,968,747	6.74%
Electricity, gas & water		**19,233,924**	**7.16%**		25,724,026	10.86%
Financial intermediation		**16,951,988**	**6.31%**		11,715,580	4.95%
Education		**15,347,014**	**5.71%**		13,479,809	5.69%
Agri. Hunting & forestry		**10,164,922**	**3.78%**		7,170,612	3.03%
Hotel & restaurant		**7,979,913**	**2.97%**		9,168,026	3.87%
Health & social work		**7,816,065**	**2.91%**		8,260,300	3.49%
Agri Loan - Fishing		**7,801,404**	**2.90%**		8,359,055	3.53%
Manufacturing		**7,151,068**	**2.66%**		7,045,087	2.97%
	₱	**268,563,751**	**100.00%**	₱	236,907,688	100.00%

Concentration of credit as to industry/sector where concentration is said to exist when the total loan exposures to a particular industry/economic sector exceeds thirty (30%) of total loan portfolio in compliance to the MORB (2020) Section 143. As at December 31, 2023, there is no specific loan sector that exceeds the credit concentration limit.

d) Breakdown of total loans status as to performing and non-performing per product line:

	2023		2022	
	Performing	**Non-Performing**	Performing	Non-Performing
Other community, social	₱ **44,166,103**	₱ **7,045,326**	₱ 38,288,931	₱ 5,908,901
Public admin & defense	**28,753,466**	**1,084,664**	22,422,827	790,637
Real estate, renting & building	**21,645,849**	**723,937**	11,034,408	2,179,111
Electricity, gas & water	**18,784,974**	**448,950**	25,237,847	486,179
Wholesale & retail	**18,231,973**	**5,165,652**	17,056,762	5,333,243
Financial intermediation	**16,062,307**	**889,681**	11,122,858	592,722
Education	**14,833,281**	**513,733**	12,992,248	487,561
Construction	**11,827,125**	**9,051,270**	13,391,844	2,576,903
Agri. Hunting & forestry	**9,295,217**	**869,705**	6,300,907	869,705
Transportation, storage	**7,395,859**	**21,026,229**	14,124,124	12,877,503
Agri Loan - Fishing	**6,501,404**	**1,300,000**	7,059,055	1,300,000
Manufacturing	**5,781,047**	**1,370,022**	5,711,931	1,333,157
Hotel & restaurant	**4,941,219**	**3,038,694**	7,417,626	1,750,400
Health & social work	**4,358,731**	**3,457,334**	6,978,997	1,281,303
	₱ **212,578,555**	₱ **55,985,196**	₱ 199,140,365	₱ 37,767,323

e) In compliance with BSP Circular 855 and MORB (2020) Section 143, the loans were classified qualitatively and appraised as follows:

	December 31, 2023			
	Current	Past due	Total	Percentage
Unclassified loans	₱ 159,347,875	₱ 23,937	₱ 159,371,813	59.34%
Especially mentioned	58,974,883	-	58,974,883	21.96%
Substandard	4,638,688	-	4,638,688	1.73%
Substandard (2)		5,187,384	5,187,384	1.93%
Doubtful		20,166,533	20,166,533	7.51%
Loss		20,224,450	20,224,450	7.53%
Loss (secured)	-	-	-	0.00%
Total	₱ 222,961,446	₱ 45,602,305	₱ 268,563,751	100.00%
Percentage	**83.02%**	**16.98%**	**100.00%**	

	2022			
	Current	Past due	Total	Percentage
Unclassified loans	₱ 163,346,256	₱ 216,058	₱ 163,562,314	69%
Especially mentioned	35,315,063	16,692	35,331,755	15%
Substandard	479,044	5,019,420	5,498,464	2%
Substandard (2)	-	425,816	425,816	0%
Doubtful	-	14,627,733	14,627,733	6%
Loss	-	17,461,607	17,461,607	7%
Loss (secured)	-	-	-	0%
Total	₱ 199,140,363	₱ 37,767,325	₱ 236,907,688	100%
Percentage	84%	16%	100%	

Based on the preceding loan classification, we computed the required provision for probable loan losses, broken down as to regular loans and microfinance loans and reconciled these against per books loan loss provision.

Our reconciliation of the preceding loan qualification showed that the bank is compliant on this requirement having a provision ₱1,567,455 on its general loan loss provision and ₱33,447,995 for its specific loan loss provision as at December 31, 2023. Reconciliations are as follows:

2023					
Classification		Amount	Rate		Required Provision
General loan loss					
Unclassified	₱	159,347,875	1%	₱	1,593,479
Specific loan loss					
Especially mentioned - micro		-	2%		-
Especially mentioned		58,974,883	5%		2,948,744
Substandard (1)		4,642,920	10%		464,292
Substandard (2)		5,187,384	25%		1,296,846
Doubtful		20,186,237	50%		10,093,119
Loss		20,224,452	100%		20,224,452
Total	₱	268,563,751		₱	36,620,932
Booked provision					1,567,455
General loan loss provision					1,593,718
Over (under) provision				₱	(26,263)
Booked provision					33,447,995
Specific loan loss provision					33,416,841
Over (under) provision				₱	31,154
Net provision - over					4,891

The foregoing assets were not used to secure any liability of the Bank.

Total loan releases and collection for the year December 31, 2023 amounted to ₱ 133,160,370 and 101, 504307, respectively.

As at December 31, 2023 and 2022, the provision for probable losses amounted to ₱6,340,223 and ₱2,532,641, respectively. Total accounts written off for the years ended December 31, 2023 and 2022 amounted to ₱ nil and ₱174,891, respectively. These accounts were already reported to BSP upon write off and the Bank considered the requirements set forth in RR 25-2002.

Additionally, movements in the allowance for probable loan loss account are presented as follows:

2023						
		General		Specific		Total
Beginning balance	₱	1,636,018	₱	27,039,209	₱	28,675,227
Write off of loans receivable		-		-		-
Reversal provision		(68,563)		(213,521)		(282,084)
Additional provision		-		6,622,307		6,622,307
Ending balance	₱	1,567,455	₱	33,447,995	₱	35,015,450

2022						
		General		Specific		Total
Beginning balance	₱	1,172,709	₱	25,171,042	₱	26,343,750
Write off of loans receivable		-		-		-
Reversal provision		275,292		(476,456)		(201,164)
Additional provision		188,018		2,344,623		2,532,641
Ending balance	₱	1,636,018	₱	27,039,209	₱	28,675,227

7. INVESTMENTS - FAIR VALUE THROUGH OCI

The account consists of Government treasury bills, the details are shown below:

	2023	2022	Term: Coupon
Security Bank	₱ 24,713,875	₱ -	4 months; 4.750%
Security Bank	1,000,000	-	1 year; 3.500%
Robinsons Bank	-	9,653,912	3 months; 4.125%
Security Bank	-	8,000,000	10 years; 3.400%
Security Bank	-	4,000,000	10 years; 3.550%
Security Bank	-	2,000,000	10 years; 3.425%
Security Bank	-	2,000,000	10 years; 3.750%
Security Bank	-	2,000,000	10 years; 3.600%
Security Bank	-	1,000,000	10 years; 3.500%
Security Bank	-	1,000,000	10 years; 3.680%
Security Bank	-	1,000,000	10 years; 3.650%
Security Bank	-	1,000,000	10 years; 3.625%
Ending balance	₱ 25,713,875	₱ 31,653,912	-

Unrealized gain recognized in other comprehensive income as at December 31, 2023 and 2022 amounted to nil and ₱156,011, respectively. The interest earned from these treasury bills amounted to ₱670,458 and P828,375 for the period ended December 31, 2023 and 2022, respectively (see Note 20). The management has the option of selling the investment regardless of maturity period, which based on appreciation of investments in the market. There is no definite intention of holding the investment until its maturity.

8. BANK PREMISES, FURNITURE AND EQUIPMENT - NET

The account consists of the following:

2023	Furniture & Fixture & IT Equipment	Transportation Equipment	Leasehold Improvement	Right Of Use Asset	Total
Cost:					
At January 1	₱ 4,065,762	₱ 6,050,508	₱ 1,801,719	₱ 5,165,018	₱ 17,083,007
Acqusition	371,347	-	635,269	0	1,006,615
At December 31	4,437,109	6,050,508	2,436,988	5,165,018	18,089,623
Acc. depreciation:					
At January 1	3,671,410	3,628,423	1,793,324	2,023,377	11,116,534
Depreciation	286,961	822,082	28,791	641,454	1,779,288
At December 31	3,958,371	4,450,505	1,822,115	2,023,377	12,895,822
Carrying values December 31	**₱ 478,738**	**₱ 1,600,003**	**₱ 614,873**	**₱ 3,141,641**	**₱ 5,193,800**

2022					
	Furniture & Fixture & IT Equipment	Transportation Equipment	Leasehold Improvement	Right Of Use Asset	Total
Cost:					
At January 1	₱ 3,578,880	₱ 3,650,508	₱ 1,801,719	₱ 5,165,018	₱14,196,125
Acqusition	486,882	2,400,000	-	-	2,886,882
Addition	-	-	-	-	-
At December 31	4,065,762	6,050,508	1,801,719	5,165,018	17,083,007
Acc. depreciation:					
At January 1	3,462,057	2,422,587	1,724,200	1,298,019	8,906,863
Depreciation	209,353	1,205,836	69,124	725,358	2,209,671
At December 31	3,671,410	3,628,423	1,793,324	2,023,377	11,116,534
Carrying values December 31	₱ 394,352	₱ 2,422,085	₱ 8,396	₱ 3,141,641	₱ 5,966,473

Under Section 109 of the MORB (2020), investments in fixed assets should not exceed 50% of the Bank's net worth. As at December 31, 2023 and 2022, the Bank has satisfactorily complied with this requirement by having a rate of 8.35%.

Depreciation for the years ending December 31, 2023 and 2022 amounted to ₱1,779,288 and ₱2,209,671, respectively.

9. INVESTMENT PROPERTY (ROPA) - NET

	2023	2022
ROPA land	₱ **3,307,575**	₱ 3,307,575
ROPA building and others	**603,491**	603,491
Total	**3,911,066**	3,911,066
Less: Accumulated depreciation - ROPA building and others	**(246,014)**	-
ROPA - net	₱ **3,665,052**	₱ 3,911,066

The Bank's investment property (real and other properties acquired) consists of land and building which were foreclosed properties from delinquent borrowers and loans receivable and were reclassified to ROPA account.

Movement of this account for the year 2023 are as follows:

		Land		Building & Others		Total
Cost						
January 1	₱	3,307,575		603,491		3,911,066
Additions		-		-		-
Disposal		-		-		-
As at December 31, 2023		3,307,575		603,491		3,911,066
Accumulated Depreciation						
January 1	₱	-	₱	-	₱	-
Depreciation		139,516		106,498		246,014
Disposal		-		-		-
As at December 31		139,516		106,498		246,014
Net Book Value as at December 31, 2023	**₱**	**3,168,059**	**₱**	**496,992**	**₱**	**3,665,052**
Net Book Value as at December 31, 2022	₱	3,307,575	₱	603,491.00	₱	3,911,066

The said asset was not used as security to any of the Bank's liability.

10. DEFERRED TAX ASSETS

The account was arrived at as follows:

		2023		2022
Provision on unrealized losses - Loans	₱	**8,753,863**	₱	7,175,260
Accrued Retirement		**842,688**		732,611
Provison for probable losses - AR Others		**574,627**		495,379
Deferred tax assets on Leases		**141,661**		133,823
OCI		-		39,003
Total	₱	**10,312,839**	₱	8,576,076

The above computation was in accordance with PAS 12, Income Taxes which states that 'deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized'.

Pursuant to Section 4 (bbbb) of Bayanihan II and as implemented under RR No. 25-2020, published on October 2, 2020, the net operating loss of a business or enterprise incurred for the taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years following the year of such loss.

Moreover, Sec. 27 (A) of the NIRC, as amended by the CREATE Law, and as implemented under RR No. 5-2021 mandates that an income tax rate of twenty-five percent (25%) effective July 1, 2020, is hereby imposed upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation, provided, that corporations with net taxable income not exceeding ₱5 Million and total assets not exceeding ₱100 Million excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed, shall be taxed at twenty percent (20%).

11. OTHER ASSETS - NET

The account consists of the following:

		2023		2022
Accounts receivable	₱	1,345,349	₱	1,345,349
Accrued interest receivable		1,947,512		1,693,143
Prepaid expenses		688,015		672,854
Stationery and supplies		282,934		287,965
Accounts receivable - others		1,612,409		1,090,670
Account Receivable-Expresspayment		35,662		8,984
Petty cash fund		20,000		20,000
Total		5,931,881		5,118,965
Less: Allowance for probable loss - Accounts receivable		(2,298,507)		(1,981,516)
Other assets - net	₱	3,633,373	₱	3,137,450

The Bank is covered by exemption on payments of percentage tax (GRT) pursuant RA 7353 otherwise known as the Rural Bank Act of 1992 which provides that 'rural banks are exempted from payment of percentage tax for five years (5) years starting from its incorporation'. Pursuant to this Act, the Bank filed its claim for refund with the BIR. As at December 31, 2023 and 2022, the claim for refund remained pending with the BIR.

Accounts receivable mainly consists of claims from the BIR for payments of gross receipts tax in its early years of operation. Accrued interest receivable represents income earned but not yet collected as of the end of the period. Prepaid expenses represent prepayments on insurance, maintenance and creditable withholding tax. Petty cash fund is used to defray small operating expenses.

None of the foregoing assets were used to secure any liability of the Bank.

12. DEPOSIT LIABILITIES

This account consists of the following:

		2023		2022
Regular savings	₱	183,124,350	₱	172,320,600
Special savings deposit		90,160,606		101,573,945
Grameen savings		658,326		885,622
Microfinance savings deposit		621,994		730,001
Loan Regular Savings-Active		117,097		280,998
Total	₱	274,682,373	₱	275,791,166

The maturity profile of special savings deposit is presented below:

		2023		2022
30 days to 180 days	₱	33,696,412	₱	83,148,904
181 days to 360 days		55,404,194		18,425,041
Over 360 days		1,060,000		-
Total	₱	90,160,606	₱	101,573,945

The classification of deposit liabilities according to interest rate is presented as follows:

		2023		2022
0.50 % - 3.50 %	₱	231,571,026	₱	275,291,166
3.51 % - 5.50 %		43,111,348		500,000
5.51 % - 8.50 %		-		-
Total	₱	274,682,373	₱	275,791,166

Total interest expense incurred pertaining to deposit liabilities for years 2023 and 2022 amounted to ₱3,028,867 ₱4,043,419, respectively (see Note 18).

13. OTHER CURRENT LIABILITIES

This account consists of the following:

		2023		2022
Accrued expense	₱	1,415,485	₱	1,062,632
Accrued interest expense		521,582		587,924
Accounts payable		404,607		129,134
Withholding tax payable - special & TD savings		146,275		205,755
SSS, Philhealth, Pag ibig premium		61,238		61,035
Witholding tax payable - compensation & expanded		40,729		76,255
SSS, and Pag ibig loans		20,018		12,621
Total	₱	2,609,933	₱	2,135,356

Accrued expenses pertain to unpaid rent, utilities, audit fees, gross receipt tax and clerical services.

14. RETIREMENT BENEFITS OBLIGATION

		2023		2022
Retirement benefit obligation	₱	2,316,553	₱	1,876,243

The Bank has a defined, non-contributory and partially funded retirement plan. During the year, the Bank's retirement benefit obligation has an increase of ₱440,310 and payment of ₱762,624.

The Bank did not avail for actuarial valuation services as at reporting date. Total net assets of the Retirement Trust Fund amounted to ₱1,054,201.as at December 31, 2023 and this account is not shown in the Bank's AFS as a separate account. The latest actuarial valuation services availed of by the Bank was in December 2016.

15. LEASE LIABILITY

		2023		2022
Lease liability	₱	3,066,832	₱	3,676,934

This account pertains to the liability recognized for the lease agreement in adoption of PFRS 16 on leases. Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Bank's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate. The incremental borrowing rate is 6.0% as prescribed by the BSP in BSP circular 799.

16. EQUITY

		2023	2022
Authorized:			
Common shares : 1,000,000 shares at ₱100.00 par value	₱	**100,000,000**	100,000,000
Subscribed and paid up:			
Common shares : 652,750 shares at ₱100.00 par value	₱	**65,275,000**	47,275,000

Minimum capitalization

The minimum capitalization of rural banks with head office only excluding the branch-lite is ₱50 million. The First Integrity Bank, Inc. is compliant to this requirement by having a net worth amounted to ₱51,908,904.

Qualifying capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

The regulatory qualifying capital of the Bank consists of Tier 1 capital, which is the sum of Core Tier 1 capital and allowable amount of Hybrid Tier 1 capital. Core Tier 1 capital consists of paid-up common stock, paid-up perpetual and non-cumulative preferred stock, surplus including current year profit, surplus reserves less required deductions such as unsecured credit accommodations to DOSRI, deferred income tax, and goodwill while HybridTier 1 capital includes perpetual preferred stock and perpetual unsecured subordinated debt. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt and general loan loss provision. In addition, Risk-weighted assets is the aggregate value of assets weighted by credit risk, market risk and operational risk, based on BSP prescribed formula provided under its circulars.

The capital adequacy ratio (CAR) is computed below:

A. Total Qualifying Capital		Amount
Tier 1:		
Paid-up capital	₱	65,275,000
Surplus (deficit)		(6,104,803)
Undivided profits		3,051,546
Subtotal		62,221,743
Deductions from Core Tier 1 capital		
Deferred tax assets		(10,312,839)
Total Tier 1 capital		51,908,904
Add Tier 2:		
General loan loss provision		1,567,455
Total qualifying capital	₱	53,476,359

B.1. Credit risk-weighted assets		Book Value	Risk Rate		Amount
Cash on hand	₱	6,805,563	0%	₱	-
Due from BSP		8,978,705	0%		-
Fair value through OCI		25,713,875	0%		-
Loans to hold out deposits		4,830,411	0%		-
COCI		1,120,623	20%		224,125
Loans to individual for housing purpose, secured, not classified as non-performing		20,076,752	50%		10,038,376
NPL to individual for housing purpose		-	100%		-
Other assets *		248,880,379	100%		248,880,379
GLLP in excess of the amount permitted in upper tier 2 cap		-	100%		-
NPL except to individual for housing loan, secured		17,072,569	150%		25,608,854
ROPA		3,665,052	150%		5,497,578
Total credit risk-weigthed assets				₱	290,249,312

*Other assets:	
Total assets	345,889,314
Add: General loan loss provision	1,567,455
Items mentioned in risk-weighted assets subject to its equivalent risk rate	(88,263,551)
Less: DTA	(10,312,839)
Net other assets	248,880,379

B.2 Operational risk-weighted assets		Amount
Gross income:		
2022	₱	24,507,057
2021		23,111,292
2020		18,016,309
Total		65,634,657
Divided by		3
Average gross income		21,878,219
Multiplied by capital factor		12%
Capital charge		2,625,386
Multiplied by adjusted capital charge factor		125%
Adjusted capital charge		3,281,733
Multiplier		10
Total operational risk-weigthed assets		32,817,329

B.1 Credit risk-weighted assets	290,249,312
B.2 Operational risk-weighted assets	32,817,329
Total risk weigthed assets	323,066,641

Qualifying capital/Risk Assets	53,476,359	16.55%
Total Risk-Weighted Assets	323,066,641	

The 10% risk-based capital adequacy ratio required by BSP under MORB (2020) Section 127 was satisfactorily complied by the Bank having a ratio of 16.55% as at December 31, 2023.

Common Equity Tier (CET 1)

CET1 Capital consists of:		Amount
a. Paid up common stock issued by the bank	₱	65,275,000
b. Common stock dividends distributable		-
c. Additional paid-in capital resulting from the issuance of common stock included in CET1 capital		-
d. Deposit for common stock subscription		-
b. Retained earnings		(6,104,803)
c. Undivided profits		3,051,546
g. Other comprehensive income:		
(1) Net unrealized gains or losses on AFS securities		-
Total CET1 Capital	₱	62,221,743

Total CET1 Capital	62,221,743	19.26%
Total Risk-Weighted Assets	323,066,641	

The 6% CET1 ratio required by BSP under MORB (2020) Section 125 was satisfactorily complied by the Bank having a ratio of 19.26% as at December 31, 2023.

Tier 1

Tier 1 capital (going concern capital) is composed of:		Amount
i. CET1 (refer to CET1 computation)	₱	62,221,743
ii. Regulatory adjustment to CET1 capital		(10,312,839)
iii. Additional Tier 1 (AT1) capital *		-
Total Tier 1 Capital	₱	51,908,904

Total Tier 1 Capital	₱	51,908,904	16.07%
Total Risk-Weighted Assets	₱	323,066,641	

*The Bank have no additional Tier 1 (AT1) capital for the year.

The 7.5% Tier1 capital ratio required by BSP under MORB (2020) Section 125 was satisfactorily complied by the Bank having a ratio of 16.07% as at December 31, 2023.

17. REVENUES

This account consists of the following:

		2023		2022
Interest on loans:				
Salary loans	₱	4,592,402	₱	5,596,655
Other purpose loans		5,656,938		4,925,682
Small scale enterprise		11,627,548		5,626,764
Medium Sscale enterprise		1,300,707		3,904,590
Consumption loans		2,833,869		2,870,239
Grameen loans		1,165,850		1,393,541
Other agricultural loans		1,162,887		1,084,126
Total interest income		28,340,200		25,401,596
Service charge/fees		1,248,042		1,138,107
Total	₱	29,588,242	₱	26,539,703

The above interest income was computed using effective interest method as prescribed by BSP and Philippine Accounting Standards. Interest rate on the loans varies based on the classification of the loans.

18. DIRECT COSTS

This account consists of

		2023		2022
Salaries and wages	₱	7,978,869	₱	8,049,998
Interest on deposits		3,028,867		4,043,419
SSS, Philhealth and Pag ibig contributions		468,161		399,542
Insurance		-		580,252
Total	₱	11,475,897	₱	13,073,211

19. OPERATING EXPENSES

The account consists of the following

		2023		2022
Provision for probable losses	₱	6,359,929	₱	2,819,922
Depreciation & amortization		2,025,302		2,209,671
Taxes & licenses (Note 22)		1,562,244		1,126,566
Directors fees		944,444		1,066,667
Insurance expense		945,242		452,203
Provision for Pension & Others		904,019		565,302
Medical, dental & hospitalization		616,629		672,589
Notarial fees		587,212		499,610
Messenger, clerical & security		537,223		329,224
Postage, telephone, cables & telegrams		495,137		417,629
Repairs & maintenance		470,044		361,790
Fuel & lubricants		375,652		500,161
Power, light & water		356,819		313,783
Stationery & supplies		330,405		290,494
Penalties		290,150		62,880
Employees activities		266,618		30,000
Penalties agri agra & others		238,614		464,145
Trainee/utilities allowances		202,814		162,408
Advertising & publicity		140,254		78,980
Representation & entertainment		118,886		77,274
Travelling expenses		114,235		145,254
Rent		105,150		31,974
Toll & Parking fees		87,214		81,382
Management & other prof fees		73,333		86,667
Audit fees		72,532		84,000
Supervision fees		63,184		78,896
Membership fees & dues		52,040		5,520
Seminars & trainings		41,000		16,630
Bank charges		29,003		26,899
Miscellaneous		122,314		49,751
Total	₱	18,527,641	₱	13,108,270

20. OTHER INCOME

This account consists of

		2023		2022
Gain on sale of assets	₱	1,788,160	₱	527,588
Interest income from other banks		917,435		589,612
Interest income from other investments		465,877		-
Interest income from financial assets (FVOCI)		670,458		828,375
Service charges from POS/Western/Epay/Dormant		354,286		872,056
Service charges from POS/Western/Epay/Dormant		-		370,139
Miscellaneous income		83,253		-
Total	₱	4,279,469	₱	3,187,769

21. TAXATION

The Bank's income tax was arrived at as follows:

REGULAR CORPORATE INCOME TAX (RCIT) at 25%

		2023		2022
Net income (loss) for the year	₱	3,642,245	₱	3,266,722
Add(deduct) reconciling items: Permanent Difference				
Income already subjected to tax		(2,053,770)		(1,417,987)
Penalties		290,150		-
Limit on interest expense		513,443		354,497
Add(deduct) reconciling items: Temporary Difference				
Write off of loans & receivable		-		(174,891)
Provision for probable losses on loans and receivable		6,359,929		2,532,641
Provision for probable losses on other assets				287,281
Provision for retirement benefits		904,019		565,302
Actual emloyees retired during the year		(762,624)		(215,550)
Lease payments		(448,232)		(858,888)
Interest expense on leases		221,928		279,270
Depreciation on right of use assets		641,454		725,358
		9,308,542		5,343,755
Regular income tax (RCIT) rate		25%		25%
Provision for income tax - current	₱	2,327,136	₱	1,335,939
Adjustment to reconcile with provision for income tax - deferred				
Recognition (reversal) of DTA on allowance for probable losses	₱	(1,578,603)	₱	(589,322)
Recognition (reversal) of DTA on accounts receivable		(79,248)		(71,820)
Reversal of DTA on retirement benefits		(110,077)		(350,988)
Recognition (reversal) of DTA on Investments at FVOCI		39,003		(86,482)
Recognition of DTA on Leases		(7,838)		(36,435)
Income tax expense - deferred	₱	(1,736,763)	₱	(1,135,048)

		2023		2022
Gross profit	₱	18,625,788	₱	13,820,989
Add: Other income		2,225,699		1,769,782
Gross Income		20,851,487		15,590,771
MCIT rate		1.5%		1%
DTA - MCIT	₱	312,772	₱	155,908
Income tax due		2,327,136		1,335,939
Less: Tax credits				
Tax credit from previous period		-		-
Taxes paid from previous quarters		(1,335,582)		(881,890)
Application of DTA - NOLCO		-		-
Apllication of DTA - MCIT		-		-
Income tax payable	₱	991,554	₱	454,049

22. ADDITIONAL DISCLOSURES in COMPLIANCE with BIR RR NO. 15-2010 and 34-2020

In compliance with the requirements set forth by BIR Revenue Regulation No. 15-2010 dated November 25, 2010, in addition to the disclosures mandated under full PFRS and such other standards and/or conventions as may heretofore be adopted, hereunder are the information on taxes, duties, and license fees paid or accrued during the taxable year.

a) Amount of taxes withheld on compensation and paid during the year amounted to ₱ 310,650.
b) Amount of expanded withholding taxes paid during the year amounted to ₱ 246,909.
c) Amount of final withholding taxes paid on interest expense during the year amounted to ₱ 604,716.
d) Taxes and licenses account consists of the following:

		2023		2022
Gross receipts tax	₱	1,189,587	₱	960,911
Business/Mayor's permit and other local taxes		178,987		154,511
Documentary stamp tax		193,670		11,144
Total	₱	1,562,244	₱	1,126,566

Related party transactions

In compliance with the requirements set forth by BIR Revenue Regulation No. 34-2020 dated December 18, 2020, the Company expresses that they are not covered by the requirements and procedures for related party transactions provided under this RR.

23. LEASES

The Bank, in its regular course of business, entered into lease agreements with its related parties as summarized below:

1. On January 11, 2021, the Bank entered into a non-cancellable operating lease agreement with Maximino D. Bautista, Jr. (stockholder) stating that the Bank shall rent a building located at No. 1665 Calle Real Poblacion Gen. Aguinaldo, Cavite for ₱30,000 (net of tax) every month for ten (10) years commencing on November 1, 2020. The monthly rental fee is subject to a 5% increase for the five (5) years and 10% increase from six (6) to ten (10) years.. The lessee has the option to renew the lease subject to the terms and conditions agreed upon by both parties.

2. On July 02, 2019, the Bank entered into a non-cancellable operating lease agreement with Ms. Nerisa C. Santos stating that the Bank shall rent a residential building located at No. 2, Libertad Street, Alfonso, Cavite for ₱30,000 (net of tax) every month for five (5) years commencing on May 1, 2019. The monthly rental fee is subject to a 5% increase every year. The lessee has the option to renew the lease subject to the terms and conditions agreed upon by both parties.

The future minimum payments pertaining to the above-mentioned lease agreements are as follows:

Not later than one year	₱ 853,891
Later than one year but within five years	2,638,568
More than five years	1,238,617

The Company has leases for various land and a building. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of revenue) are excluded from the initial measurement of the lease liability and asset. The Company classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 8).

None of the lease agreement contains indicator that the bank, in substance had entered into a finance lease. Thus, the bank has classified all its lease agreement as operating lease where lease payments are charged to expense evenly recognized within the term of the lease. The significant accounting policies relating to the lease are disclosed in Note 2 of the notes to financial statements.

Total rent expense incurred for the foregoing leases amounted to ₱105,149 and ₱31,974 for the years ended December 31, 2023 and 2022, respectively.

24. SELECTED FINANCIAL PERFORMANCE INDICATORS

	2023	2022	Increase (Decrease)	Percentage
Total revenues	₱ 33,867,711	₱ 29,727,472	₱ 4,140,239	13.93%
Total expenses	(30,225,466)	(26,460,750)	(3,764,715)	14.23%
Income tax benefits (expenses)	(590,699)	(200,891)	(389,808)	0.00%
Net income for the year	3,051,546	3,065,831	(14,285)	28.15%
Net income per share	₱ 4.67	₱ 6.49	₱ (1.81)	-27.91%
Working capital	₱ 48,505,974	₱ 28,113,748	₱ 20,392,226	72.53%
Shareholders' equity				
Paid up capital	₱ 65,275,000	₱ 47,275,000	₱ 18,000,000	38.08%
Deficit	(3,053,257)	(6,104,803)	3,051,546	-50%
Other comprehensive income (loss)	-	(156,011)	156,011	-100%
Total	₱ 62,221,743	₱ 41,014,186	₱ 21,207,557	-112%
Shareholders' equity ratio	₱ 0.18	₱ 0.13	₱ 0.05	42.52%
Amount of shareholders' equity per peso of total liabilities	₱ 0.22	₱ 0.14	₱ 0.07	51.89%

	2023		2022		Increase (Decrease)		Percentage
Current ratio	₱	1.17	₱	1.10	₱	0.07	6.73%
Acid test ratio	₱	1.07	₱	0.98	₱	0.09	9.04%
Return on average equity	₱	0.07	₱	0.07	₱	0.00	6.71%
Return on average assets	₱	0.01	₱	0.01	₱	(0.00)	-8%
Net interest margin		0.09		0.08	₱	0.01	11%
Book value per share	₱	95.43	₱	86.76	₱	8.68	10.00%
Aggregate amount of assets pledged as securities	₱	-	₱	-			
Aggregate amount of liabilities pledged as securities	₱	-	₱	-			

Aggregate amount of secured liabilities and assets pledged as security. There were no amount of secured liabilities and assets pledged as security for both years 2023 and 2022.

Nature and amounts of contingencies and commitments arising from off-balance sheet items (include late deposit/payment received, items held for safekeeping/custody, items held as collateral, deficiency claims receivable and other contingent accounts).

There were no amount of contingencies and commitments arising from off-balance sheet items years 2023 and 2022.

Minimum Liquidity Ratio

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

Minimum requirement - A prudential MLR of twenty percent (20%) shall apply to banks on an ongoing basis absent a period of financial stress. The liquidity ratio is expressed as a percentage of a bank's eligible stock of liquid assets to its total qualifying liabilities.

Pursuant to Monetary Board Resolution No. 427.B dated 26 March 2020, the minimum liquidity ratio (MLR) for stand-alone thrift banks, rural banks and cooperative banks, as set out in Section 145 of the Manual of Regulations for Banks, is hereby reduced from 20 percent (20%) to 16 percent (16%) in response to the COVID-19.

The BSP recognizes that the COVID-19 outbreak and community quarantine implemented to combat the spread of the disease has elevated the liquidity risk exposures of banks arising primarily from higher demand for funds by depositors, borrowers or both. Owing to the BSP's adoption of liquidity standards, banks are largely seen to have entered this stress situation in a strong liquidity position, with buffers ready to absorb the recent and coming liquidity shocks.

The liquidity ratio is expressed as a percentage of a bank's eligible stock of liquid assets to its qualifying liabilities:

		2023
Total stock of liquid assets	P	71,109,024
Divided by: Total of qualifying liabilities		283,595,034
Minimum Liquidity Ratio (MLR)		25%

Leverage Ratio

			2023		2022	
Leverage Ratio	=	Tier 1 Capital / Total Assets Exposure	62,221,743 / 335,576,475	= 19%	32,594,121 / 316,371,858	= 10%
Debt to Equity Ratio	=	Total Debt / Shareholders' Equity	283,667,572 / 62,221,743	= 4.56	283,933,747 / 41,014,186	= 6.92
Debt to Capital Ratio	=	Total Debt / Total Capital (Tier 1 + Tier 2)	283,667,572 / 53,476,359	= 5.30	283,933,747 / 34,230,139	= 8.29

Reserve requirement

The BSP Circular 1172 states the required reserves against deposit and deposit substitutes liabilities. The statutory/legal reserve requirements of peso deposit liabilities and deposit substitutes for Rural Banks on savings and time deposits is 1% effective June 30, 2023.

The Bank has satisfactory complied with the required reserves as shown below:

				2023
Reserve Requirements			₱	
A. Total Available Reserves, Due from BSP				8,978,705
B. Required Reserve, Legal Reserves (1% x deposit liabilities)				
Total deposit liabilities	₱	274,682,374		
Rate of required reserve		1%		2,746,824
Excess			₱	6,231,881

25. RELATED PARTY TRANSACTIONS

During the year 2023, the Bank does not have outstanding loan balance for transactions involving certain directors, officers, stockholders and related interest (DOSRI). There are no related party loan transactions reported during the year.

The Bank has entered into lease agreements with stockholders' of the Bank namely, Maximino D. Bautista, Jr. (Note 23). Total rent expense incurred for the foregoing leases amounted to ₱1,007,066 for the year ended December 31, 2023.

The total gross compensation of the key management personnel for the year amounted to ₱3,716,334. While director's fee for the year amounted to ₱944,444.

26. EARNINGS AND BOOK VALUE PER SHARE

Earnings per share		2023		2022
Net income	₱	3,051,546	₱	3,065,831
Divided by shares issued and outstanding		652,750		472,750
Earnings per share	₱	4.67	₱	6.49

Book value per share		2023		2022
Share capital	₱	65,275,000	₱	47,275,000
Deficit		(3,053,257)		(6,104,803)
Other comprehensive loss		-		(156,011)
Total		62,221,743		41,014,186
Divided by: No. of shares outstanding		652,750		472,750
Book value per share	₱	95.32	₱	86.76

27. OTHER SUPPLEMENTAL INFORMATION

In addition to the disclosures mandated under PFRS and such other standards and/or conventions as may heretofore be adopted, hereunder are the information on sales, cost of sales, non-operating and other taxable income, and itemized deductions (if optional standard deduction was not availed) during the taxable year.

Revenues

		Taxable
Sales of Services (Interest/fees)	₱	**29,588,242**

Cost of services

		Taxable
Direct Charges - Salaries, Wages and Benefits	₱	7,978,869
Direct Charges - Others		2,983,585
	₱	**10,962,454**

Other taxable income

		Taxable
Gain from Sale of Non-financial Assets	₱	-
Profit/Loss on Assets Sold/Exchanged		1,579,916
Miscellaneous		437,539
Recoveries of written off assets		208,244
	₱	**2,225,699**

Itemized deductions

	Taxable regular rate
Depreciation	1,383,848
Rental	553,382
Taxes and licenses	1,562,244
Transportation and travel	114,235
Professional fees	72,532
Messenger, clerical and security	537,223
Advertising and promotion	140,254
Communication, light and water	851,956
Directors' fee	944,444
Insurance	945,242
Others	4,437,584
	11,542,944

The Bank's information on taxes and licenses is disclosed in Note 22.

28. SUPPLEMENTAL INFORMATION REQUIRED BY BSP

In compliance with MORB 2020 Section 174 - Financial Audit and Appendix 55 of BSP Circular No. 1074 series of 2020 the reports submitted to BSP which is composed of the following:

(1) a certification by the external auditor on the compliance with the following: (a) Confidentiality clause pertinent to read-only access to the Report of Examination; and (b) Disclosure requirements under Section 174 and other information that may be required;

(2) Reconciliation statement, including copies of adjusting entries on the reconciling items, between the AFS and the prudential reports;

(3) Letter of Comments (LOC) indicating material weaknesses on internal control and risk management system as well as other issues, which may include findings on the quality of governance, that should be brought to the attention of the Board/Management along with the recommendations for corrective action. Otherwise, a certification by the external auditor that there are no issues noted in the course of the audit to warrant the submission of the LOC;

(4) Copy of the board resolution showing the actions on the AFS and the submitted LOC, if any;

(5) Report by the external auditor to the appropriate supervising department of the Bangko Sentral any matter adversely affecting the condition or soundness of the BSFI, if any.

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