SOUTHEAST COUNTRY BANK, INC.

(A Rural Bank)

No. 04 Sto. Domingo,

Camaligan, Camarines Sur

FINANCIAL AUDIT REPORT

As at and For the Years Ended December 31, 2023 and 2022

SOUTHEAST COUNTRY BANK, INC.
(Formerly RURAL BANK OF CAMALIGAN, INC.)
Sto. Domingo, Camaligan, Camarines Sur 4401
Tel. No. (054) 881-1365 / Mobile No. +639560738360

Statement of Management's Responsibility for Financial Statements

The management of **SOUTHEAST COUNTRY BANK, INC. (A RURAL BANK)** (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 year ended December 31, 2023, 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.

TOMAS N. PRADO 3/15/2024
Chairman of the Board

MELCHOR N. PRADO 3/15/2024
President

NILDA V. ELEN 3/15/24
Corporate Treasurer

SOUTHEAST COUNTRY BANK, INC.

(Formerly RURAL BANK OF CAMALIGAN, INC.)

Sto. Domingo, Camaligan, Camarines Sur 4401

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Statement of Management's Responsibility for Annual Income Tax Return

The management of **SOUTHEAST COUNTRY BANK, INC. (A RURAL BANK)** is responsible for all information and representations contained in the annual income tax return for the year ended December 31, 2023. Management is likewise responsible for all information and representations contained in the financial statements accompanying the annual income tax return covering the same reporting period. Furthermore, the management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any all other tax returns.

In this regard, the management affirms that the attached audited financial statements for the year ended December 31, 2023, and the accompanying annual income tax return are in accordance with the books and records of **SOUTHEAST COUNTRY BANK, INC. (A RURAL BANK)** are complete and correct in all material respects. Management likewise affirms that:

a) the annual income tax return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

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

c) **SOUTHEAST COUNTRY BANK, INC. (A RURAL BANK)** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

TOMAS N. PRADO 3/15/2024
Chairman of the Board

MELCHOR N. PRADO 3/15/2024
President

NILDA V. EDEN 3/15/24
Corporate Treasurer

Independent Auditor's Report

To the Shareholders and the Board of Directors
SOUTHEAST COUNTRY BANK, INC. (A Rural Bank)
No. 04 Sto. Domingo,
Camaligan, Camarines Sur

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements **SOUTHEAST COUNTRY BANK, INC. (A RURAL BANK)** (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.

ANNABELLE C. NICOLAS
REVENUE OFFICER

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.

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 required under BSP Circular No. 1074 in Note 26 and BIR Revenue Regulation No. 15-2010 and No. 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 **SOUTHEAST COUNTRY BANK, INC. (A RURAL BANK).** 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.

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

BUREAU OF INTERNAL REVENUE
RECEIVED
24 APR 2024
LE C. NICOLAS
REVENUE OFFICER

April 11, 2024
Makati City

SOUTHEAST COUNTRY BANK, INC. (A RURAL BANK) (CONSOLIDATED)

STATEMENTS of FINANCIAL POSITION

(Amounts in Philippine Pesos)

	Notes		December 31, 2023		2022
ASSETS					
Cash and cash equivalents	2,3,5	₱	**34,301,978**	₱	55,430,586
Loans receivable - net	2,3,6		**123,463,493**		110,991,648
Bank premises, furniture and equipment - net	2,3,7		**6,265,383**		2,451,068
Deferred tax assets	2,3,18		**2,703,069**		2,714,246
Other assets	2,3,8		**2,499,252**		203,397
TOTAL ASSETS		₱	**169,233,175**	₱	171,790,944
LIABILITIES and SHAREHOLDERS' EQUITY					
Liabilities					
Deposit liabilities	2,3,9	₱	**104,482,802**	₱	113,166,092
Income tax payable	2,3,18		**367,095**		421,865
Retirement benefit obligation	2,3,10		**1,536,238**		1,536,238
Accounts payable - others	2,3		**360,000**		-
Other current liabilities	2,3,11		**2,505,072**		2,529,382
Total liabilities			**109,251,207**		117,653,577
Shareholders' equity	2,3,12				
Share capital			**26,543,900**		26,543,900
Retained earnings			**33,438,068**		27,593,467
Total shareholders' equity			**59,981,968**		54,137,367
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY		₱	**169,233,175**	₱	171,790,944

See accompanying Notes to Financial Statements

BUREAU OF INTERNAL REVENUE
REVENUE DISTRICT NO. 65
RECEIVED
24 APR 2024
ANABELLE C. NICOLAS
REVENUE OFFICER

SOUTHEAST COUNTRY BANK, INC. (A RURAL BANK) (CONSOLIDATED)

STATEMENTS of COMPREHENSIVE INCOME

(Amounts in Philippine Pesos)

	Notes	For the years ended December 31, 2023	2022
INTEREST INCOME AND EXPENSE ACCOUNTS			
Interest Income	13	₱ 22,465,757	₱ 21,267,856
Interest Expense	14	(2,297,223)	(2,678,059)
Net Interest Income		20,168,534	18,589,797
NON-INTEREST INCOME	2		-
Fees and Commissions Income		7,335,656	9,391,586
Gains from Sale/Derecognition of Non-Financial Assets		3,499	-
Other Income		13,962	31,875
Recovery on Impaired/Charged-Off Assets		1,000	1,000
Total		7,354,117	9,424,461
NON-INTEREST EXPENSES			
Compensation/Fringe Benefits	15	9,129,863	10,008,493
Taxes and Licenses	22	1,040,096	925,752
Fees and Commissions Expenses		25,721	11,061
Other Administrative Expenses	16	6,670,535	6,022,782
Depreciation/Amortization	17	648,861	411,025
Provisions	6	2,200,000	-
Total		19,715,076	17,379,113
TOTAL PROFIT BEFORE TAX		7,807,574	10,635,145
PROVISION FOR INCOME TAX	18		
Current		1,748,050	2,388,406
Deferred		11,177	(2,305,430)
Total		1,759,227	82,976
NET PROFIT		6,048,347	10,552,169
EARNINGS PER SHARE	2,3,24	₱ 22.79	₱ 39.75

See accompanying Notes to Financial Statements

BUREAU OF INTERNAL REVENUE REVENUE DISTRICT NO. 65 RECEIVED 04 APR 2024 C. NICOLAS

SOUTHEAST COUNTRY BANK, INC. (A RURAL BANK) (CONSOLIDATED)

STATEMENTS of CHANGES in SHAREHOLDERS' EQUITY

(Amounts in Philippine Pesos)

	Notes	For the years ended December 31, 2023	2022
SHARE CAPITAL	2,3,12		
Authorized - 300,000 shares at P100 par value			
Subscribed and paid-up - 265,439 shares		₱ 26,543,900	₱ 26,543,900
RETAINED EARNINGS	2,3		
Retained Earnings - Appropriated			
Beginning balance		-	-
Appropriation during the year	12	23,456,100	-
Ending balance		23,456,100	-
Retained Earnings - Unappropriated	2,3,17		
Beginning balance		27,593,467	20,364,883
Approriations		(23,456,100)	-
Adjustments		(203,747)	392,561
Cash dividends		-	(3,716,146)
Net income		6,048,347	10,552,169
Ending balance		9,981,968	27,593,467
Total Retained Earnings		33,438,068	27,593,467
TOTAL SHAREHOLDERS' EQUITY		₱ 59,981,968	₱ 54,137,367
BOOK VALUE PER SHARE	2,3,24	₱ 225.97	₱ 203.95

See accompanying Notes to Financial Statements

SOUTHEAST COUNTRY BANK, INC. (A RURAL BANK) (CONSOLIDATED)

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		₱ **7,807,574**	₱ 10,635,145
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	17	**648,861**	411,025
Provision for retirement	2,3,10	**-**	863,352
Interest income	13	**(22,465,757)**	(21,267,856)
Write off	6	**2,696,495**	1,494,797
Adjustments	2,3,17	**(203,747)**	392,561
Retirement benefit obligation funding	2,3,10	**-**	(863,352)
Interest expense	14	**2,297,223**	2,678,059
Decrease (increase) in			
Loans receivable	2,3,6	**(15,168,340)**	(14,084,401)
Other assets	2,3,8	**(2,295,856)**	(22,888)
Increase (decrease) in			
Deposit liabilities	2,3,9	**(8,683,290)**	(7,264,928)
Other current liabilities	2,3,11	**(24,310)**	502,850
Accounts payable - others	2,3	**360,000**	-
Cash used in operations		**(35,031,145)**	(26,525,636)
Income taxes paid	18	**(1,802,820)**	(2,390,651)
Interest expense paid	14	**(2,297,223)**	(2,678,059)
Interest income received	13	**22,465,757**	21,267,856
Net cash used in operating activities		**(16,665,430)**	(10,326,490)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of bank premises, furniture and equipment	2,3,7	**(4,463,178)**	(534,074)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for cash dividend	17	**-**	(3,716,146)
NET DECREASE in CASH		**(21,128,608)**	(14,576,710)
CASH and CASH EQUIVALENTS	2,3,5		
Beginning		**55,430,586**	70,007,296
as at December 31		₱ **34,301,978**	₱ 55,430,586

See accompanying Notes to Financial Statements

SOUTHEAST COUNTRY BANK, INC.
NOTES TO FINANCIAL STATEMENTS
As at and for the Years Ended December 31, 2023 and 2022

1. CORPORATE INFORMATION

SOUTHEAST COUNTRY BANK, INC. (A RURAL BANK) *(Formerly: Rural Bank of Camaligan (Camarines Sur) Inc.)* (the Bank), was first registered with the Securities and exchange Commission (SEC) on September 12, 1974 under SEC Reg. No. 057860. Likewise, the Bank was granted authority to operate by Bangko Sentral ng Pilipinas on November 30, 1974.

The Bank is currently in the business of banking authorized under Republic Act (R.A.) 7353 otherwise known as Rural Banks Act of 1992 and R.A. 720 as amended, otherwise known as Rural Banks' Act (1952) and other allied laws, including but not limited to carry on and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprise.

The Banks' office address is located at Zone 2 Sto. Domingo Camaligan, Camarines Sur, Philippines. It has four (4) branches located in Buhi, Calabanga and Pili, all in Camarines Sur and Aseana, located in Parañaque City.

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 11, 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 have been prepared on the historical cost basis, except financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. The financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency. All amounts are rounded to the nearest Philippine Peso, except when 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.

- **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 of the said revisions to PFRS 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 Association anticipate that the application of these amendments may have an impact on the Association's financial statements in future periods should such transactions arise.

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

- **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 of the said revisions to PFRS 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 of the said revisions to PFRS 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

o 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 management believes that the application of the said revisions to PFRS have no material impact on its financial statements.

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.

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

The amendments in *Non-current Liabilities with Covenants (Amendments to IAS 1)*:
Modify the requirements introduced by *Classification of Liabilities as Current or Non-current* on how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances: Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months.

Defer the effective date of the 2020 amendments to 1 January 2024.

The amendments are effective for reporting periods beginning on or after 1 January 2024. The amendments are applied retrospectively in accordance with PAS 8 and earlier is 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 7 and PFRS 7 regarding supplier finance arrangements**

PAS B has published 'Supplier Finance Arrangements (Amendments to PAS 7 and PFRS 7)' to add disclosure requirements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.

An entity applies the amendments to IAS 7 for annual reporting periods beginning on or after 1 January 2024 (with earlier application permitted) and the amendments to PFRS 7 when it applies the amendments to PAS 7.

There is a certain amount of transition relief provided, including relief regarding comparative information and interim period information.

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

- **PFRS S1 — General Requirements for Disclosure of Sustainability-related Financial Information**

PFRS S1 sets out overall requirements with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

PFRS S1 was issued in June 2023 and applies to annual reporting periods beginning on or after 1 January 2024.

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

- **PFRS S2 'Climate-related Disclosures'.**

PFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

An entity is required to apply IFRS S2 for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If an entity applies IFRS S2 earlier, it is required to disclose that fact and apply IFRS S1 at the same time.

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

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 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 has no financial asset 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. 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.

The Bank's cash and cash equivalents are 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).

The Bank is regulated by the BSP. Under MORB and related circulars, the BSP mandates a distinct provisioning for the bank's loans and receivables. Under the rules on statutory construction, in case of conflict between the general law (such as the PFRS standard) and special law (such as MORB and related circulars enacted by BSP), then the latter will prevail.

In compliance to the mandate of BSP, the Bank is circulating its provision for allowable losses (which is equivalent to the ECL as required by the above PFRS 9) as follows:

- As per MORB 2020 Appendix 100 pertaining to the Guidelines on the Adoption of PFRS 9, under Section 5(c), if the BSFI was noted to have a weak credit loss methodology, it shall apply the Section 143 (Credit Classification and Provisioning).
- Also, as per MORB Section 143, the financial institutions with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or whose practices fell short of expected standards shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed in Appendix 15: Provided, That the FIs notify the appropriate supervising department of the BSP of this preference. Nevertheless, such FIs shall still use experienced credit judgment, subject to the criteria prescribed in this Section, in determining the ACL.

Financial Assets

This category includes cash and cash equivalents and loans receivable.

Cash and Cash Equivalents

This account includes cash on hand, checks and other cash items, due from BSP and due from other banks. Cash on hand represents undeposited 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 BSP which earn 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 banks. These (savings deposit) 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 Receivable

Loans receivable account includes loans extended to clients classified as agricultural loans, agrarian reform loans, commercial loans, industrial loans, salary loans and other loans and discounts. These are 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 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 that 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.

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.
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 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 Banks's financial liabilities includes accounts payable – others and deposit liabilities.

Accounts Payable – Others

Accounts payable - others pertain to the fee for the issuance of the Certificate of Final Acceptance after accepting the project.

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.

Regular savings deposits refer to those which earn a lower interest rate while special saving deposits earn a higher interest rate and are both withdrawable either upon presentation of a properly accomplished withdrawal slips together with the corresponding passbook. Lastly, time certificates of deposits refer to interest-bearing deposits with specific maturity dates and evidenced by certificates issued by the bank.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

Non-Financial Assets

This category includes bank premises, furniture, fixture, and equipment, deferred tax assets, and 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.

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.

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.

Other Assets

The Bank's other assets include accounts receivable, prepaid expenses, stationery and supplies.

Accounts Receivable

This refers to the receivables from various individuals due to fraud commitment by previous employees on Bank's funds and unliquidated expenses.

Prepaid Expenses

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

Stationery and supplies

This pertains to the Bank inventory of office supplies and personal checks

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 income tax payable and portion of other current liabilities

Income Tax Payable

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

Other Liabilities

This includes accounts payable, accrued expenses, withholding taxes payable, SSS & HDMF premium and loans payable.

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.

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 Philheath 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 an entity in exchange for service rendered by employees, including directors and management. These includes: short-term employee benefits, which are employee benefits (other than termination benefits) that are wholly due within twelve months after the end of the period in which the employees render the related service; post-employment benefits, which are employee benefits (other than termination benefits) that are payable after the completion of employment; other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service; and termination benefits, which are employee benefits payable as a result of either the Bank's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The Bank shall recognize the cost of all employee benefits as a liability, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund; or as an expense, unless it is required that the costs are to be recognized as part of costs of an asset such as inventories or property, plant and equipment

(a) 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.

(b) 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 policy, approved by the Board on May 17, 2022, 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:

Length of stay	Basis of computation
Five (5) years to twenty (20) years of service	One-half (1/2) of last monthly salary received for every year of service
Over 20 years	Three-fourths (3/4) of last monthly salary received for every year of service.

<u>Equity</u>

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.

Retained Earnings

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 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.

<u>Revenue Recognition</u>

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 financial performance 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 BSP'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 Bank 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.

The Bank as a lessee

The Bank 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 Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank 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 Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank 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 Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank 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 Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank 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 Bank presents right-of-use assets that do not meet the definition of investment property in 'bank premises, furniture and equipment' and lease liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has not elected to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank 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 (RPT) and Relationships

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 BSP 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 BOD, stockholders, and management shall disclose to the BOD 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 BOD.

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 BSP 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 BSP may direct a BSFI to reduce its materiality threshold or amend excluded transactions if the BSP 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 BOD with the decision of the BOD 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 BOD. 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 BOD 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.

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 BSP'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.

Total prior period adjustments as at December 31, 2023 and 2022 amounted to ₱203,747(debit) and ₱392,561(credit), respectively.

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, by 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.

(a) Impairment Losses on Financial Assets (Loans and Receivables, Investments at Amortized Cost and Sales Contract Receivables)

The Bank reviews its loan and receivables and financial assets portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio.

The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditioned that correlate with defaults on assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates.

However, the amounts of changes in fair value would differ if the Bank utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

Then Bank had written-off loans receivable amounting to ₱2,696,495 and ₱1,494,797 in 2023 and 2022, respectively. As at December 31, 2023 and 2022, the allowance for probable losses of the Bank amounted to ₱9,276,037 and ₱9,772,532, respectively. Moreover, the carrying value of the loans receivable of the Bank amounted to ₱123,463,493 and ₱110,991,648 as at December 31, 2023 and 2022, respectively. (See Note 6)

(b) 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 cash on hand	₱ 3,207,420	₱ 3,207,420	₱ 3,906,249	₱ 3,906,249
Due from BSP	1,748,386	1,748,386	3,860,696	3,860,696
Due from other banks	29,346,172	29,346,172	47,663,641	47,663,641
Loans receivable - net	123,463,493	123,463,493	110,991,648	110,991,648
Total financial assets	₱ 157,765,471	₱ 157,765,471	₱ 166,422,234	₱ 166,422,234
Financial liabilities				
Deposit liabilities	₱ 104,482,802	₱ 104,482,802	₱ 113,166,092	₱ 113,166,092
Retirement benefit obligation	1,536,238	1,536,238	1,536,238	1,536,238
Total financial liabilities	₱ 106,019,040	₱ 106,019,040	₱ 114,702,330	₱ 114,702,330

(c) 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:

Categories	Estimated Useful Life in Years
Building	10 – 20 years
Building improvements	1 year
Furniture and fixtures	1 – 2 years
Transportation	2 – 3 years
IT equipment	1 – 3 years
Other office equipment	1 – 3 years

As at December 31, 2023 and 2022, the bank premises, furniture and equipment, net of accumulated depreciation amounted to ₱6,265,383 and ₱2,451,068, respectively (Note 7).

(d) 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.

As at reporting date, the Bank do not have impairment loss or write of non-financial assets.

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 PAS 39.

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 6.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

It must be recognized that banking is a business of taking risks in order to earn profit. Risk is the potential that events, expected or unanticipated, may have an adverse impact on bank's capital or earnings. Bank must evaluate, control, and manage risk according to its significance. The existence of risk is no necessarily a reason for concern, so long as the management exhibits the ability to effectively manage that level of risk.

Risk Management Structure

The BOD and the Management are responsible for developing an appropriate risk management within the Bank. The BOD is ultimately responsible for the effective oversight of the Bank's operational risk management framework. It is the responsibility of the Management to implement the risk management framework approved by the Board.

Risks

a) Credit risks

Risk arises from counterparty's failure to meet the terms of any contract with the Bank or otherwise perform as agreed. It is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual implied contractual agreements, whether reflected on or off the balance sheet. It is not limited to loan portfolio.

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	₱ **1,748,386**	₱ 3,860,696
Due from other banks	**29,346,172**	47,663,641
Loan receivable - net	**123,463,493**	110,991,648
Total	₱ **154,558,051**	₱ 162,515,985

Loans and accounts receivable

The Bank's loans receivables are being monitored on a periodic basis to ensure timely execution of necessary intervention efforts. As at reporting date, there are no significant concentrations of credit risk.

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.

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.

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

		2023		2022
Current	₱	**132,335,034**	₱	120,125,900
Past Due		**3,404,528**		3,147,848
Items in litigation		**7,290,779**		6,811,179
Total	₱	**143,030,341**	₱	130,084,927

The above amounts are gross of loan discount.

Past due loans and items in litigation by ₱736,280 from ₱9,959,027 in 2022 to ₱10,695,307 in 2023. Moreover, the Bank's past due and items in litigation ratio to total loan portfolio is 7%, decreased by 0.18% (see Note 6).

Under BSP MORB (2020) Section 362, 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.

Paid up Capital	₱	26,543,900
Unrestricted Retained Earnings		9,981,968
Undivided Profits		23,456,100
Total Bank's Net Worth	₱	59,981,968
SBL Rate per BSP		25%
Single Borrower's Limit	₱	14,995,492

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

b) Market Risk
The risk of unfavorable changes in interest rates, equity prices, foreign exchange rates, as well as market volatilities and liquidity.

c) Interest Rate Risk
The current and prospective risk to earnings or capital arising from movements in interest rates.

d) Liquidity Risk

The risk that the bank will be unable to service its cash flow obligations today or in the future.

The table below summarizes the maturity profile of the Bank's gross total 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 and cash equivalents	₱ 34,301,978	₱ -	₱ -	₱ 34,301,978
Loans receivable, gross	-	108,925	142,921,416	143,030,341
Bank premises, furniture and equipment, net	-	-	6,265,383	6,265,383
Other assets	2,499,252	-	-	2,499,252
Deferred tax assets	-	-	2,703,069	2,703,069
Total assets	₱ 36,801,230	₱ 108,925	₱ 151,889,868	₱ 188,800,024
Liabilities				
Deposit liabilities	₱ 69,144,659	₱ 21,038,144	₱ 14,300,000	₱ 104,482,803
Income tax payable	367,095	-	-	367,095
Retirement benefit obligation	-	-	1,536,238	1,536,238
Other liabilities	2,496,928	-	-	2,496,928
Total liabilities	₱ 72,008,682	₱ 21,038,144	₱ 15,836,238	₱ 108,883,064
Net liquidity gap	**₱ (35,207,452)**	**₱ (20,929,219)**	**₱ 136,053,630**	**₱ 79,916,960**

December 31, 2022	One to three months	Three months to one year	More than one year	Total
Assets				
Cash and cash equivalents	₱ 55,430,586	₱ -	₱ -	₱ 55,430,586
Loans receivable, gross	61,929	1,715,574	128,307,424	130,084,927
Bank premises, furniture and equipment, net	-	-	2,451,068	2,451,068
Other assets	203,397	-	-	203,397
Deferred tax assets	-	-	2,714,246	2,714,246
Total assets	₱ 55,695,911	₱ 1,715,574	₱ 133,472,738	₱ 190,884,223
Liabilities				
Deposit liabilities	₱ 44,776,166	₱ 51,425,016	₱ 16,964,910	₱ 113,166,092
Income tax payable	421,866	-	-	421,866
Retirement benefit obligation	-	-	1,536,238	1,536,238
Other liabilities	2,529,382	-	-	2,529,382
Total liabilities	₱ 47,727,414	₱ 51,425,016	₱ 18,501,148	₱ 117,653,578
Net liquidity gap	₱ 7,968,497	₱ (49,709,442)	₱ 114,971,590	₱ 73,230,645

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

e) Operational Risk

The risk of loss resulting from inadequate or failed internal policies, processes, people and systems or from external events that may disrupt business operation.

f) Compliance Risk

The risk of legal or regulatory sanctions, financial loss or loss to reputation, the bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and best practice standards.

g) Reputation Risk

Risk on earnings or capital arising from negative public opinion. This affects the bank's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the bank to litigation, financial loss, or a decline in its customer base. In extreme cases, banks that lose their reputation may suffer a run-on deposit.

5. CASH AND CASH EQUIVALENTS

The account consists of the following

		2023		2022
Cash on hand/ in vault	₱	**3,148,727**	₱	2,552,193
Checks and other cash items		**58,694**		1,354,056
Due from Bangko Sentral ng Pilipinas		**1,748,386**		3,860,696
Due from other banks		**29,346,172**		47,663,641
Total	₱	**34,301,978**	₱	55,430,586

Cash on hand and other cash item represents actual cash in vault, and those in the possession of the cashiers and the tellers as of close of business on December 31, 2023 and 2022. It also includes checks still in possession of the bank's cashier/s that are to be deposited as of December 31, 2023 and 2022.

Due from Bangko Sentral ng Pilipinas is maintained in compliance with the BSP requirement for rural banks to maintain regular and liquidity reserves on savings and time deposits and on certain deposit substitute liabilities. Under new regulations, only demand deposit accounts (DDAs) maintained by bank with the BSP are eligible for compliance with the required reserve requirements (BSP Circ. 830-2014). Due from Other Banks include Savings and Current/Checking Accounts including Certificate of Time Deposits classified as Cash Equivalents. Due from other banks generally earns interest at rates based on daily bank deposit rates in 2023 and 2022.

6. LOANS RECEIVABLE – NET

The account consists of the following

		2023		2022
Loans				
Current	₱	**132,335,034**	₱	120,125,900
Past Due		**3,404,528**		3,147,848
Items in Litigation		**7,290,779**		6,811,179
Loans, gross		**143,030,341**		130,084,927
Discounts		**(10,290,811)**		(9,320,746)
Allowance for Credit Losses		**(9,276,037)**		(9,772,532)
Loans Receivables, net	₱	**123,463,493**	₱	110,991,648
Past Due Ratio		**8.06%**		8.25%

Loans are stated in their outstanding balances, reduced by unearned interests and discounts and estimated allowances from credit losses. Loans are granted to customers at bank-sanctioned interest rates with interest normally collected in advance and are recorded in the books as credit to Unearned Interest/Discount and gradually amortized to income account during the period when earned if any

Interest rates on these loans 6% p.a. in 2023 and 2022. Total interest income earned from loans receivable are ₱22,069,339 and ₱21,096,108 for the period ended December 31, 2023 and 2022, respectively (See Note 13).

a) The above total loans are further classified according to security as mandated by the Bangko Sentral ng Pilipinas (BSP) in compliance to the Manual Regulation of Bank (2018) Section 174 under Required Disclosures in the notes (d) are as follows:

	2023			
Classification	Current	Past due	Total	Percentage
Secured	₱ 980,877	₱ 411,164	₱ 1,392,041	1%
Unsecured	121,437,292	9,910,197	131,347,489	99%
Total	₱ 122,418,169	₱ 10,321,361	₱ 132,739,530	
Percentage	92.22%	7.78%		

The above amounts are net of loan discount.

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

	2023			
Secured	Current	Past due	Total	Percentage
Real estate mortgage	₱ 980,877	₱ 411,164	₱ 1,392,041	100%
Percentage	70.46%	29.54%		

The above amounts are net of loan discount.

	2022			
Classification	Current	Past due	Total	Percentage
Secured	₱ 1,960,375	₱ 68,051	₱ 2,028,426	2%
Unsecured	128,056,501	-	128,056,501	98%
Total	₱ 130,016,876	₱ 68,051	₱ 130,084,927	
Percentage	99.95%	0.05%		

The above amounts are gross of loan discount.

Total secured loans are broken down as to type of collateral, as follows.

	2022			
Secured	Current	Past due	Total	Percentage
Real estate mortgage	₱ 1,960,375	₱ 68,051	₱ 2,028,426	100%
Percentage	96.65%	3.35%		

The above amounts are gross of loan discount.

b) Also, we classified the account according to industry, as follows:

	2023			2022		
Wholesale and retail trade	₱	**533,034**	**0.37%**	₱	901,496	0.69%
Retail estate activities		**871,155**	**0.61%**		1,126,930	0.87%
Education/ other comm. social and personal service activities		**141,626,152**	**99.02%**		128,056,501	98.44%
	₱	**143,030,341**	**100.00%**	₱	130,084,927	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, the loan for education/ other comm. social and personal service activities exceeded the 30% credit concentration limit.

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

	2023				2022			
		Performing		**Non-Performing**		Performing		Non-Performing
Wholesale and retail trade	₱	**533,034**	₱	**-**	₱	833,445	₱	68,051
Retail estate activities		**455,081**		**-**		1,126,930		-
Education/ other comm. social and personal service activities		**131,346,919**		**10,695,307**		118,165,524		9,890,976
	₱	**132,335,034**	₱	**10,695,307**	₱	120,125,900	₱	9,959,027

d) 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	₱	120,129,681	₱	-	₱	120,129,681	90.50%
Especially mentioned		2,283,575		-		2,283,575	1.72%
Substandard		4,913		2,450,130		2,455,043	1.85%
Substandard (2)		-		411,164		411,164	0.31%
Doubtful		-		-		-	0.00%
Loss		-		7,460,067		7,460,067	5.62%
Loss (secured)		-		-		-	0.00%
Total	₱	122,418,169	₱	10,321,361	₱	132,739,530	100.00%
Percentage		92.22%		7.78%		100.00%	

The above amounts are net of loan discount.

December 31, 2022							
		Current		Past due		Total	Percentage
Unclassified loans	₱	119,277,445	₱	1,745,972	₱	121,023,417	93.03%
Especially mentioned		848,455		-		848,455	0.65%
Substandard		-		-		-	0.00%
Substandard (2)		-		1,866,803		1,866,803	1.44%
Doubtful		-		709,569		709,569	0.55%
Loss		-		5,636,682		5,636,682	4.33%
Loss (secured)		-		-		-	0.00%
Total	₱	120,125,900	₱	9,959,027	₱	130,084,927	100.00%
Percentage		92.34%		7.66%		100.00%	

Provision and Allowance for Losses

BSP Circular 941 on Amendments to Regulations on Past Due and Non-Performing Loans provides that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that, full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interest for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

The changes in the allowance for credit losses - loans

		2023		2022
Beginning Balance	₱	**9,772,532**	₱	11,267,329
Additions - provision for impairment		**2,200,000**		-
Write-off		**(2,696,495)**		(1,494,797)
Balance, December 31	₱	**9,276,037**	₱	9,772,532

The Bank provided additional provision for impairment amounting to ₱2,200,000 due to significant write-off receivable during the year. During the year 2023, the Bank had loans receivable written off amounting to ₱2,696,495 which pertains to overdue accounts of salary loans which were uncollectible despite diligent efforts in collecting had been exerted. The total amount was used as deductible expense against income on the income tax computation

General and Specific Loan Loss Provision and allowance were computed in accordance with BSP Circular No. 855. The total loan portfolio is reviewed monthly by the bank to ensure that adequate reserves are consistently set up and maintained at a level sufficient to absorb losses. General and Specific loan loss provision are booked on a monthly bases and is adjusted accordingly if there is an additional allowance by the BSP.

In compliance with Subsection X302.1 of the Manual of Regulation for Banks (BSP-MORB) 2020, the Provision and Allowance for losses and Impairment Losses as computed above were determined as follows:

			2023			2022
Unclassified	0%	₱	-	0%	₱	-
Specially Mentioned	2%		**45,671**	2%		16,969
Substandard Secured	10%		-	10%		-
Substandard Secured	15%		**61,675**	15%		-
Substandard Unsecured	25%		**613,761**	25%		466,701
Doubtful	50%		-	50%		354,785
Loss	100%		**7,460,067**	100%		5,636,682
Total Specific Loan Loss Provision			**8,181,173**			6,475,137
Total General Loan Loss Provision			**1,201,297**			1,210,234
Total Required Valuation			**9,382,470**			7,685,371
Less: Book Value Reserve			**9,276,037**			9,772,532
Over (under) provision		₱	**(106,433)**		₱	2,087,161

The Bank is covered by the expected loss methodology (ECL) required by FRS 9. However, the Bank opted to apply the herein impairment that is more forward looking, and that a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. ECL represents credit losses that reflect an unbiased and probability weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible events over the expected life of a financial instrument. Also, a three-stage approach for impairment of financial assets is used, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognized.

Under the 'expected credit loss (ECL)' model, an entity calculates the allowance for credit losses by considering on a discounted basis the shortfalls it would incur in various default scenarios for prescribed future periods.

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

The Bank had no loans extended to its directors, officers, stockholders and related interests (DOSRI). However, the balance of fringe benefit loans to employees under other loans amounted to ₱836,298 and ₱857,783, respectively, which is 0.66% and 0.66% of the total outstanding loans as of December 31, 2023 and 2022.

As at December 31, 2023, the Bank has an under allowance of ₱106,433. This was recorded in the bank's book in January 2024.

7. BANK PREMISES, FURNITURE and EQUIPMENT – NET

Movements in the account for the years ended December 31, 2023 and 2022 are as follows

2023	Land	Building, building and leasehold improvements	Furniture, fixtures and equipment	Transportation, info tech and other equipment	Total
Cost:					
At January 1,	₱ 1,820,000	₱ 2,957,525	₱ 588,271	₱ 3,087,642	₱ 8,453,438
Additions	-	4,147,000	82,950	163,928	4,393,878
Adjustments/Disposal	-	-	-	-	-
At December 31,	1,820,000	7,104,525	671,221	3,251,571	12,847,316
Accumulated depreciation					
At January 1,	-	2,863,380	578,315	2,560,675	6,002,370
Depreciation	-	214,917	14,560	350,087	579,564
Adjustments	-	-	-	-	-
At December 31,	-	3,078,297	592,875	2,910,762	6,581,933
Carrying values December 31	**₱ 1,820,000**	**₱ 4,026,228**	**₱ 78,346**	**₱ 340,809**	**₱ 6,265,383**

2022	Land	Building, building and leasehold improvements	Furniture, fixtures and equipment	Transportation, info tech and other equipment	Total
Cost:					
At January 1,	₱ 1,820,000	₱ 2,844,557	₱ 575,000	₱ 2,679,807	₱ 7,919,364
Additions	-	112,968	13,271	407,835	534,074
Adjustments/Disposal	-	-	-	-	-
At December 31,	1,820,000	2,957,525	588,271	3,087,642	8,453,438
Accumulated depreciation					
At January 1,	-	2,844,552	574,997	2,171,797	5,591,345
Depreciation	-	18,828	3,318	388,879	411,025
Adjustments	-	-	-	-	-
At December 31,	-	2,863,380	578,315	2,560,675	6,002,370
Carrying values December 31	₱ 1,820,000	₱ 94,145	₱ 9,956	₱ 526,967	₱ 2,451,068

8. OTHER ASSETS

The account consists of the following

	2023	2022
Accounts receivable	**₱ 35,287**	₱ 34,418
Stationery and supplies on hand	**82,327**	159,779
Prepaid expenses	**2,381,639**	9,200
	₱ 2,499,252	₱ 203,397

9. DEPOSIT LIABILITIES

The account consists of the following

		2023		2022
Savings deposit	₱	**88,822,802**	₱	89,006,026
Time certificate of deposits		**15,660,000**		24,160,066
	₱	**104,482,802**	₱	113,166,092

The table below shows the interest rates:

	2023	2022
Regular/Special Savings	**1% to 5.5%**	1% to 5.5%
Time	**4.5% to 6%**	4.5% to 6%

Interest expense on deposit liabilities amounted to ₱2,297,223 and ₱2,678,059 in 2023 and 2022, respectively.

Total liquidity and statutory reserves, as reported to the BSP:

		2023		2022
Due from Bangko Sentral ng Pilipinas	₱	**1,748,386**	₱	3,860,696
Cash on hand and in vault		**3,148,727**		2,552,193
	₱	**4,897,112**	₱	6,412,889

Under current and existing BSP regulations the Bank should comply with a simplified minimum reserve requirement on statutory legal and liquidity reserves. The required reserves shall be kept in the form of deposits placed in banks Demand Deposit Accounts (DDAs) with the BSP. The bank has complied with the reserve requirement.

10. RETIREMENT BENEFIT OBLIGATION

Retirement benefit obligation of the Bank amounted to ₱1,536,238, the same amount for both years ended December 31, 2023 and 2022.

Movement of retirement benefit obligation is shown below:

		2023		2022
Beginning balance	₱	**1,536,238**	₱	672,886
Retirement benefit provision during the year		**-**		863,352
End balance	₱	**1,536,238**	₱	1,536,238

The Bank has a defined Retirement Benefit Plan covering all qualified employees who have rendered at least five (5) years of service. It is funded solely by the Bank, the last actuarial valuation of which was made on 30 March 2012.

Since May 2015, the retirement fund has been deposited with the Bank in the name of SECB Employees Retirement Fund, Inc. (SERFI), which was duly registered with the Securities and Exchange Commission (SEC) on August 22, 2018.

As of December 31, 2023 and 2022, the retirement fund (maintained off-books) amounted to ₱9,789,031 and ₱9,948,605, respectively, to cover the retirement benefit obligation of the Bank in the amount of ₱3,992,547 determined as per the Bank's own computation.

During the year 2023, the Bank has also made a payment amounting to ₱147,592.50 to its retired employee. This amount was deducted from the Bank's funding. This amount paid was considered as deductible expense in the computation of income tax payable during the year 2023.

11. OTHER CURRENT LIABILITIES

The account consists of the following

		2023		2022
Accrued other expenses	₱	**1,629,029**	₱	1,324,070
Accrued interest payable		**710,143**		1,075,188
Withholding taxes payable		**79,324**		58,267
SSS and HDMF loan payable		**64,435**		54,966
SSS, PHIC, HDMF premium payable		**22,140**		16,890
	₱	**2,505,072**	₱	2,529,382

12. EQUITY

The account consists of the following

		2023		2022
Authorized:				
Common shares : 270,000 shares at ₱100.00 par value	₱	**27,000,000**	₱	**27,000,000**
Preferred shares : 30,000 shares at ₱100.00 par value		**3,000,000**		**3,000,000**
Subscribed and paid up:				
Common shares : 265,439 shares at ₱100.00 par value	₱	**26,543,900**	₱	**26,543,900**

Minimum Capital Requirement

The minimum capitalization of rural banks with up to 5 branches is ₱50 million. The Bank is compliant to this requirement. At present, specifically in 2023, the Bank's net worth amounted to ₱59,981,968.

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 Hybrid Tier 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) for 2023 is computed below:

		Amount
A. Total qualifying capital		
Tier 1:		
Paid-up capital	₱	26,543,900
Undivided profits		33,438,068
Subtotal		59,981,968
Less: Deferred tax assets		(2,703,069)
Total Tier 1 capital		57,278,899
Tier 2:		
Add: General loan loss provision		1,239,268
Total qualifying capital	₱	**58,518,167**

		Book Value	Risk Rate		Amount
B.1. Credit risk-weighted assets					
Cash on hand	₱	3,148,727	0%	₱	-
Due from BSP		1,748,386	0%		-
Loans to hold out deposits		-	0%		-
COCI		58,694	20%		11,739
Loans to individual for housing purpose, secured, not classified as non-performing		-	50%		-
Qualified MSME loans		529,798	75%		397,348
NPL to individual for housing purpose		-	100%		-
NPL except to individual for housing loan, secured		-	150%		-
ROPA		-	150%		-
Other assets *		162,283,771	100%		162,283,771
Total credit risk-weigthed assets				₱	**162,692,858**

* Other assets:		
Total assets	₱	169,233,175
General loan loss provision		1,239,268
Less:		
Deferred tax assets		(2,703,069)
Items mentioned in risk-weighted assets subject to its equivalent risk rate		(5,485,604)
Net other assets	₱	162,283,771

B.2 Operational risk-weighted assets		Amount
Gross income:		
2022	₱	28,005,115
2021		22,108,758
2020		18,645,050
Total		68,758,923
Divided by		3
Average gross income		22,919,641
Multiplied by capital factor		12%
Capital charge		2,750,357
Multiplied by adjusted capital charge factor		125%
Adjusted capital charge		3,437,946
Multiplier		10
Total operational risk-weigthed assets	₱	34,379,461

B.1 Credit risk-weighted assets	₱	162,692,858
B.2 Operational risk-weighted assets		34,379,461
Total risk weigthed assets	**₱**	**197,072,319**

Qualifying capital/Risk - weighted assets	**58,518,167**	
Risk - Based Capital Adequacy Ratio	**197,072,319**	**29.69%**

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 29.69% as at December 31, 2023.

Cash Dividend

During the year 2023, the Bank did not declare dividend.

On June 15, 2022, the Bank under Board Resolution No. 2022-06-046, approved and confirm the declaration of 14% cash dividend to common stockholders as of May 31, 2022 amounting to ₱3,716,146 which the BSP noted on June 23, 2022.

Retained Earnings - Appropriation

The Bank prior to the issuance of the report issued a Board Resolution No. 2024-03-018, pertains to the approval of the appropriation of the Bank's retained earnings amounting to ₱23,456,100 as reserve for future stock dividends declaration to increase its authorized capital stock from ₱30 Million to ₱53 Million.

13. INTEREST INCOME

The account consists of the following

		2023		2022
Interest income on loans:				
Salary loans	**₱**	**21,749,438**	₱	20,752,794
Housing purposes loans		**144,140**		146,338
Small scale enterprise loans		**230,660**		144,009
Fringe benefit loans		**53,654**		52,967
Total		**22,177,892**		21,096,108
Interest income from bank deposits		**287,864**		171,748
Total	**₱**	**22,465,757**	₱	21,267,856

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.

14. INTEREST EXPENSE

This account consists of the following:

		2023		2022
Special deposits	₱	1,012,707	₱	891,385
Time deposits		929,557		1,448,757
Savings deposit		354,958		337,917
	₱	2,297,223	₱	2,678,059

15. COMPENSATION/FRINGE BENEFITS

This account consists of the following:

		2023		2022
Salaries and Wages		5,737,859		5,784,850
Fringe Benefits - Officers and Employees		1,925,741		2,028,046
Directors Fees		680,000		522,000
SSS Contributions - Bank Share		506,444		504,923
Transportation Allowances - Directors		147,000		165,000
PhilHealth Contributions - Bank Share		104,718		107,942
Pag-IBIG Contributions - Bank Share		28,099		32,380
Contribution to Retirement/Provident Fund		-		863,352
	₱	9,129,863	₱	10,008,493

16. OTHER ADMINISTRATIVE EXPENSES

The account consists of the following

		2023		2022
Security, clerical, messenger and janitorial services		822,884		720,426
Rent		713,336		97,790
Information technology		673,018		569,344
Repairs and maintenance		482,373		503,215
Power, light and water		427,648		479,352
Insurance		338,879		353,861
Fuel and lubricants		331,945		401,388
Travelling expense		308,003		491,246
Postage, telephone, cables and telegram		234,956		211,067
Stationery and supplies		173,436		111,664
Representation and entertainment		142,661		225,330
Documentary stamps		125,163		216,766
Litigation expense		124,174		89,689
Professional Fees		90,000		72,800
Donations and charitable contributions		86,799		126,748
Fines, penalties and other charges		44,613		44,613
Fees and dues		28,481		16,581
Supervision/ banking fees		27,698		23,697
Periodicals and magazines		2,275		2,665
Miscellaneous expenses		1,492,193		1,264,541
	₱	6,670,535	₱	6,022,782

17. DEPRECIATION

This account consists of the following:

		2023		2022
Depreciation Expense - IT Equipment	₱	**204,312**	₱	123,276
Depreciation Expense - Transportation Equipment		**158,664**		211,620
Depreciation Expense - Building Improvements		**154,917**		18,828
Depreciation Expense - Leasehold Rights and Improvements		**60,000**		-
Depreciation Expense - Other Office Equipment		**56,408**		53,983
Depreciation Expense - Furniture and Fixtures		**14,560**		3,318
	₱	**648,861**	₱	411,025

18. TAXATION

The Bank's income tax was arrived at as follows

		2023		2022
Net income before income tax	₱	**7,807,574**	₱	10,635,145
Add (Deduct) Non-deductibe expenses/ Non-taxable income				
Provision for impairment losses		**2,200,000**		-
Interest expense limitation		**71,966**		42,937
Representation expense limitation		**-**		14,369
Interest income subject to final tax		**(287,864)**		(171,748)
Contribution to retirement expense		**-**		863,352
Retirement for the year		**(147,593)**		(380,250)
Write-off of loans receivable		**(2,696,495)**		(1,494,797)
Penalties		**44,613**		44,613
Taxable income		**6,992,201**		9,553,622
Reconciliation to provision for income tax				
Recognition/adjustment of deferred tax asset on loan loss provision		**44,709**		(8,548,834)
Recognition of deferred tax asset on retirement benefit		**-**		(672,886)
Total taxable income		**7,036,910**		331,903
At tax rate*	₱	**1,759,227**	₱	82,976

Statutory tax rate is 25%

Deferred Tax Assets

The details of the Bank's deferred tax assets are shown below:

Deferred tax asset - temporary tax difference					
		Retirement		Provision for Impairment	Total
Balance, January 1, 2022	₱	215,838	₱	192,978	₱ 408,816
Additional during the year		168,222		2,137,209	2,305,430
Balance, January 1, 2023		384,060		2,330,187	2,714,246
Additional (deduction) during the year		-		(11,177)	(11,177)
	₱	384,060	₱	2,319,009	₱2,703,069

The Bank's deferred tax assets arises from provision for probable losses and retirement liability.

Income tax payable

Based on the amounts presented, the Bank is liable to pay regular corporate income tax:

		2023		2022
Income tax due	₱	1,748,050	₱	2,388,406
Less:				
Prepaid income tax (Prior year's balance)		-		-
Quarterly payments		1,380,955		1,966,541
Income tax payable	₱	367,095	₱	421,865

19. RELATED PARTY TRANSACTION

Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

In the aggregate, DOSRI loans should not exceed the total capital funds or 15% of the total loan portfolio of the Bank, whichever is lower. BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. As at December 31, 2023, the Bank's has no outstanding DOSRI loans. However, the balance of fringe benefit loans to employees under other loans amounted to ₱836,298 and ₱857,783, respectively, which is 0.66% and 0.56% of the total outstanding loans as of December 31, 2023 and 2022.

Compensation of the Bank's Board of Directors and Key Management Personnel are shown below:

		2023		2022
Directors' fees	₱	827,000	₱	687,000
Compensation - key management personnel		698,236		1,925,384
	₱	1,525,236	₱	2,612,384

20. LEASES

The Company leases office spaces under a six (6) years lease term commencing on August 1, 2023 and to expire on August 31, 2029 and renewable upon mutual agreement of the parties.

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

Total rent expense incurred for the foregoing leases amounted to ₱713,336 and ₱97,790 for the years ended December 31, 2023 and 2022, respectively.

Future minimum lease payments at December 31, 2023 as follows

Within 1 year ₱53,790

21. LEGAL MATTERS/CONTINGENCIES

In a labor case commenced by the Bank's former employee for claim of retirement benefits, the Labor Arbiter's decision dated 28 October 2022 in favor of the former employee was appealed to the DOLE Commissioners by the respondent Bank.

In an entry of judgment by the DOLE Commissioner dated 10 May 2023, it upheld the award of retirement benefits in a modified amount of ₱491,287.50 in favor of the complainant-employee, and against the respondent Bank. The judgment became final and executory on 26 February 2023.

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

In compliance with BIR Revenue Regulation No. 15-2010, which requires addition to the disclosures mandated under the Philippine Financial Reporting Standard, and such other standards and convention, the Notes to Financial Statements shall include information on withholding taxes, taxes and licenses, documentary stamp tax and final taxes paid or accrued during the taxable year.

Gross receipts tax

In lieu of the Value Added Tax (VAT), the Bank is subject to the Gross Receipts Tax (GRT) imposed on all banks and non-bank financial intermediaries performing quasi-banking functions pursuant to Section 121 of the Tax Code, as amended.

		2023
PT101	₱	223,791
PT103		514,788
PT105		4,331
	₱	742,911

Withholding taxes

		2023
Compensation and benefit	₱	57,307
Expanded		143,629
Final		286,043
	₱	486,979

Documentary stamp tax

		2023
On debt instruments	₱	125,163

Taxes and licenses

		2023
Gross receipts tax	₱	731,966
Business/Mayor's permit and other local taxes		303,433
Real property tax		2,697
BIR registration		2,000
	₱	1,040,096

Tax assessments and cases

The Company has received Letter of Authority from the BIR with regard to the examination of books of accounts and other accounting records for all internal revenue tax liabilities for the year 2021 pursuant to LOA SN eLA201700060748 dated January 11, 2023.

The Bank submitted the required documents indicated in the BIR letter dated January 25, 2024. The status of said examination is still on-going.

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. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following tables show selected financial performance indicators.

	2023	2022	Increase (Decrease)	Percentage
Total revenues	₱ 29,819,872	₱ 30,692,317	₱ (872,445)	(2.84%)
Total expenses	(22,012,299)	(20,057,172)	(1,955,127)	9.75%
Income tax expenses	(1,759,227)	(82,976)	(1,676,251)	2020.16%
Net income for the year	₱ 6,048,347	₱ 10,552,169	(4,503,823)	2027.07%
Net income per share	₱ 22.79	₱ 39.75	₱ (16.96)	(42.67%)
Working capital	₱ 53,276,849	₱ 50,930,157	₱ 2,346,693	4.61%
Shareholders' equity				
Paid up capital	₱ 26,543,900	₱ 26,543,900	₱ -	0.00%
Retained earnings	33,438,068	27,593,467	5,844,601	21.18%
Total	₱ 59,981,968	₱ 54,137,367	₱ 5,844,601	21.18%
Shareholders' equity ratio	₱ 0.354	₱ 0.315	₱ 0.039	12.38%
Amount of shareholders' equity per peso of total liabilities	₱ 0.549	₱ 0.460	₱ 0.089	19.35%

	2023	2022	Increase (Decrease)	Percentage
Current ratio	₱ 1.50	₱ 1.44	₱ 0.06	4.17%
Acid test ratio	₱ 1.47	₱ 1.44	₱ 0.03	2.08%
Return on average equity	₱ 0.11	₱ 0.21	₱ (0.10)	(47.62%)
Return on average assets	₱ 0.04	₱ 0.06	₱ (0.02)	(33.33%)
Net interest margin	12.95%	11.58%	₱ 0.01	11.83%
Book value per share	₱ 225.97	₱ 203.95	₱ 22.02	10.80%

Secured Liability and Assets Pledged as Security

Aggregate amount of secured liabilities and assets pledged as security.

The Bank has no aggregate amount of secured liabilities and assets pledged as security.

Contingencies and Commitments

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 amounts 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.

Pursuant to Monetary Board Resolution No. 427.B dated March 26, 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 minimum liquidity ratio is expressed as a percentage of a bank's eligible stock of liquid assets to its total qualifying liabilities.

	2023
Total stock of liquid assets	₱ 34,243,285
Divided by: Total of qualifying liabilities	109,251,207
Minimum liquidity ratio	31.34%

Leverage Ratio

		2023		2022	
Leverage Ratio	= Tier 1 Capital / Total Assets Exposure	= **57,278,899** / **166,530,106**	= **34%**	51,423,121 / 169,076,698	= 30%
Debt to Equity Ratio	= Total Debt / Shareholders' Equity	= **109,251,207** / **59,981,968**	= **182%**	117,653,578 / 54,137,366	= 217%
Debt to Capital Ratio	= Total Debt / Total Capital (Tier 1 + Tier 2)	= **109,251,207** / **58,518,167**	= **187%**	117,653,578 / 52,554,605	= 224%

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 complied with the required reserves as shown below.

				2023
Total available reserves booked			₱	1,748,386
Deposit liabilities	₱	104,482,802		
Multiplied by: Statutory reserves rate		1%		1,044,828
Overage on reserves requirement			₱	703,558

24. EARNINGS AND BOOK VALUE PER SHARE

Earnings per share

		2023		2022
Net income	₱	**6,048,347**	₱	10,552,169
Divided by: No. of shares issued and outstanding		**265,439**		265,439
Earnings per share	₱	**22.79**	₱	39.75

Book value per share

		2023		2022
Share capital	₱	**26,543,900**	₱	26,543,900
Surplus		**33,438,068**		27,593,467
Total		**59,981,968**		54,137,367
Divided by: No. of shares outstanding		**265,439**		265,439
Book value per share	₱	**225.97**	₱	203.95

25. ADDITIONAL 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.

		Taxable
RECEIPTS		
Interest income from loans and investments	₱	22,177,892

		Taxable
COST OF SERVICES		
Interest expense	₱	2,225,257
Salaries, wages and allowances		9,129,863
	₱	11,355,120

		Taxable
OTHER TAXABLE INCOME	₱	7,335,656
Fees and commission income		18,461
Other income	₱	7,354,117

		Taxable
ITEMIZED DEDUCTIONS	₱	86,799
Charitable contributions		648,861
Depreciation		142,661
Entertainment, amusement, and recreation		713,336
Rental		1,040,096
Taxes and licenses		308,003
Transportation and travel		90,000
Professional fees		
Others		427,648
Power, light and water		234,956
Postage, telephone, cables and telegrams		331,945
Fuel and lubricants		147,593
Actual Retirement Paid		2,696,495
Bad debt expense (write-offs)		4,316,295
Other expenses	₱	11,184,688

26. 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 L74 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 weakness 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.

(4) Copy of Board Resolution showing the actions on the AFS and the submitted LOC.

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VELASCO, PUNZALAN and COMPANY
(Formerly Velasco Aguirre and Company)
CERTIFIED PUBLIC ACCOUNTANTS
LG 21 Cityland Dela Rosa Condominium, 7648 Dela Rosa St., Pio Del Pilar, Makati City 1230 | Tel (632) 8819-1427 | Telefax (632) 8817-6395
Email velascoaguirre@outlook.ph; velascopunzalan@gmail.com; vpc.nestor@outlook.com; Web www.vpccpas.weebly.com

Statement Required by Rule 68, Part 1 Section 3.f., Securities Regulation Code (SRC), as revised on August 19, 2019

To the Shareholders and the Board of Directors
SOUTHEAST COUNTRY BANK, INC. (A Rural Bank)
No. 04 Sto. Domingo,
Camaligan, Camarines Sur

We have audited the financial statements of **SOUTHEAST COUNTRY BANK, INC. (A Rural Bank)** for the years ended December 31, 2023 and 2022, on which we have rendered the attached report dated April 11, 2024.

In compliance with SRC Rule 68, we are stating that the said Bank has eleven (11) shareholders owning one hundred (100) or more shares.

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 11, 2024
Makati City

VELASCO, PUNZALAN and COMPANY
(Formerly Velasco Aguirre and Company)
CERTIFIED PUBLIC ACCOUNTANTS
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Statement Required Under
Revenue Regulation V-20 of Bureau of Internal Revenue

To the Shareholders and the Board of Directors
SOUTHEAST COUNTRY BANK, INC. (A Rural Bank)
No. 04 Sto. Domingo,
Camaligan, Camarines Sur

We have audited the financial statements of **SOUTHEAST COUNTRY BANK, INC. (A Rural Bank)** as at December 31, 2023, of which we have rendered the attached report dated April 11, 2024.

In compliance with BIR Revenue Regulations V-20, we are stating that no partner of our firm is related by consanguinity or affinity to the president, manager or principal shareholder of the Bank.

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
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April 11, 2024
Makati City