



**2023**

# **AUDITED FINANCIAL STATEMENT**

Alas Oplas & Co., CPAs

Independent Member of  
**BKR International**

**RURAL BANK OF PARACALE (CAMARINES NORTE), INC.**  
PARACALE, CAMARINES NORTE – PHILIPPINES

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



# RURAL BANK OF PARACALE (Camarines Norte), Inc.

*Ang Bangkong Subak at Tapat sa Paglilingkod*

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


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

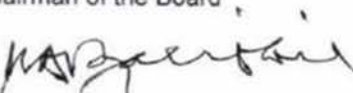
In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease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

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

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

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

  
**ERROL R. PARCERO**  
Chairman of the Board

  
**NORMAN A. BALITBIT**  
President

  
**ADELINA T. ESPERAS**  
Treasurer



Signed this 8<sup>th</sup> day of March 2024

# Alas Oplas & Co., CPAs

## INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors  
**RURAL BANK OF PARACALE (CAMARINES NORTE), INC.**  
San Antonio Street, Brgy. Poblacion Norte  
Paracale, Camarines Norte

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

Independent Member of  
**B K R International**

### Opinion

We have audited the financial statements of **RURAL BANK OF PARACALE (CAMARINES NORTE), INC.** (the "Bank") which comprise the statement of financial position as of December 31, 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies and other explanatory information.

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

### Basis for Opinion

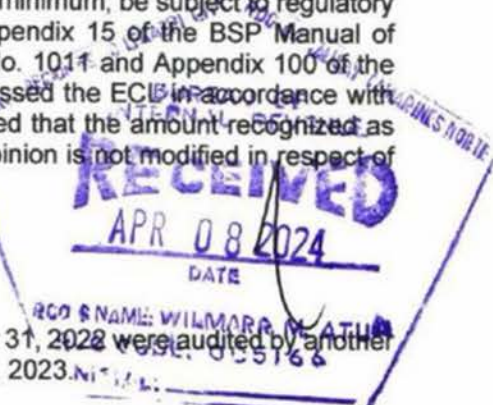
We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the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

### Emphasis of Matter

We draw attention to Note 4 to the financial statements which describes the basis used by the Bank in setting up allowance for credit losses. As stated in Bangko Sentral ng Pilipinas (BSP) Circular No. 1011, BSP-supervised financial institutions with credit operations that may not economically justify adoption of a simple loan loss estimation methodology that is compliant with PFRS 9, shall, at a minimum, be subject to regulatory guidelines in setting up allowance for credit losses prescribed under Appendix 15 of the BSP Manual of Regulations for Banks (MORB). Following the guidance of BSP Circular No. 1011 and Appendix 100 of the BSP MORB in adopting PFRS 9 impairment requirements, the Bank assessed the ECL in accordance with the said standard and based on management judgement, it was determined that the amount recognized as allowance based on Appendix 15 of the BSP MORB is reasonable. Our opinion is not modified in respect of this matter.

### Other Matter

The financial statements of the Bank as of and for the year ended December 31, 2022 were audited by another auditor who expressed an unqualified opinion in their report dated March 3, 2023.



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

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

# Alas Oplas & Co., CPAs

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

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

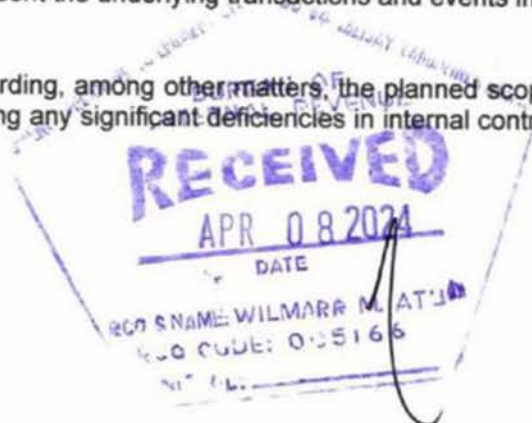
## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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



# Alas Oplas & Co., CPAs

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary Information required under BSP Circular No. 1074 in Note 30, and Revenue Regulations No. 15-2010 on taxes, duties and license fees paid or accrued during the taxable year in Note 29 to the financial statements, are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of **RURAL BANK OF PARACALE (CAMARINES NORTE), INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### ALAS, OPLAS & CO., CPAs

BOA Registration No. 0190, valid from October 31, 2022, to February 18, 2025

BIR A.N. 08-001026-000-2024, issued on January 5, 2024; effective until January 4, 2027

SEC A.N. (Firm) 0190-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period

TIN 002-013-406-000

By:



**RYAN A. SABUG**

Partner

CPA License No. 0111183

BIR A.N. 08-001026-004-2023, issued on February 9, 2023; effective until February 8, 2026

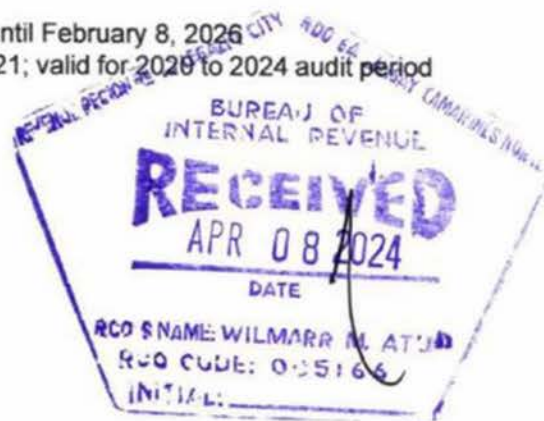
SEC A.N. (Individual) 111183-SEC, Group A, issued on February 4, 2021; valid for 2020 to 2024 audit period

TIN 232-158-286-000

PTR No. 10075665, issued on January 2, 2024, Makati City

March 8, 2024

Makati City, Philippines



**RURAL BANK OF PARACALE (CAMARINES NORTE), INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2023**  
*(With Comparative Figures for 2022)*  
**In Philippine Peso**

	Notes	2023	2022
<b>ASSETS</b>			
Cash and other cash items	8	15,650,782	12,761,274
Due from Bangko Sentral ng Pilipinas	8	10,167,031	10,339,931
Due from other banks	8	55,012,864	78,890,282
Investment securities at amortized cost	9	34,599,343	33,141,912
Loans and other receivables – net	10	403,493,397	349,145,504
Bank premises, furniture, fixtures and equipment – net	11	20,165,508	20,276,265
Assets held for sale – net	12	18,118,900	19,078,683
Investment properties – net	13	2,683,327	–
Deferred tax assets	24	12,842,554	11,860,494
Other assets	14	43,393,021	6,162,613
<b>TOTAL ASSETS</b>		<b>616,126,727</b>	<b>541,656,958</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Deposit liabilities	15	404,119,468	367,431,536
Bills payable	16	9,437,710	–
Accrued taxes, interest and other expenses	17	4,571,964	4,276,365
Income tax payable		3,200,180	1,324,267
Retirement benefit obligation	18	14,152,684	12,337,817
Other liabilities	19	83,850,212	69,673,666
Total Liabilities		519,332,218	455,043,651
<b>Equity</b>			
Capital stock – common	20	50,000,000	50,000,000
Surplus free	21	46,794,509	36,613,307
Total Equity		96,794,509	86,613,307
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>616,126,727</b>	<b>541,656,958</b>

See Notes to Financial Statements.



**RURAL BANK OF PARACALE (CAMARINES NORTE), INC.**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**  
*(With Comparative Figures for 2022)*  
**In Philippine Peso**

	Notes	2023	2022
<b>INTEREST INCOME</b>			
Due from other banks	8	54,408	68,026
Investment securities at amortized cost	9	785,090	717,117
Loans and other receivables:			
Loans receivable	10	70,203,580	53,876,032
Sales contract receivable	10	269,006	154,933
		<b>71,312,084</b>	<b>54,816,108</b>
<b>INTEREST EXPENSE</b>			
Deposit liabilities	15	(7,002,349)	(6,169,797)
Bills payable	16	(88,756)	-
		<b>(7,091,105)</b>	<b>(6,169,797)</b>
<b>NET INTEREST INCOME</b>		<b>64,220,979</b>	<b>48,646,311</b>
<b>OTHER OPERATING INCOME</b>	22	<b>9,758,211</b>	<b>9,404,109</b>
<b>TOTAL OPERATING INCOME</b>		<b>73,979,190</b>	<b>58,050,420</b>
<b>OPERATING EXPENSES</b>	23	<b>(60,591,429)</b>	<b>(52,481,234)</b>
<b>NET OPERATING INCOME BEFORE PROVISIONS</b>		<b>13,387,761</b>	<b>5,569,186</b>
<b>PROVISION FOR CREDIT LOSSES</b>	10	<b>(2,113,374)</b>	<b>(284,914)</b>
<b>PROFIT BEFORE TAX</b>		<b>11,274,387</b>	<b>5,284,272</b>
<b>INCOME TAX EXPENSE</b>	24	<b>(3,200,024)</b>	<b>(940,134)</b>
<b>PROFIT</b>		<b>8,074,363</b>	<b>4,344,138</b>
<b>OTHER COMPREHENSIVE INCOME</b>		-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>8,074,363</b>	<b>4,344,138</b>

See Notes to Financial Statements.





**RURAL BANK OF PARACALE (CAMARINES NORTE), INC.**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**  
*(With Comparative Figures for 2022)*  
**In Philippine Peso**

	Common Stock (Note 20)	Surplus Free (Note 21)	Total
<b>Balance at December 31, 2021</b>	<b>50,000,000</b>	<b>31,730,716</b>	<b>81,730,716</b>
Profit	-	4,344,138	4,344,138
Adjustments or others	-	538,453	538,453
<b>Balance at December 31, 2022</b>	<b>50,000,000</b>	<b>36,613,307</b>	<b>86,613,307</b>
Profit	-	8,074,363	8,074,363
Adjustments or others	-	2,106,839	2,106,839
<b>Balance at December 31, 2023</b>	<b>50,000,000</b>	<b>46,794,509</b>	<b>96,794,509</b>

*See Notes to Financial Statements.*

**RURAL BANK OF PARACALE (CAMARINES NORTE), INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**  
*(With Comparative Figures for 2022)*  
**In Philippine Peso**

	Notes	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		11,274,387	5,284,272
Adjustments for:			
Depreciation	11,12	3,132,942	2,722,454
Provision for credit losses	10	2,113,374	284,914
Retirement benefit expense	18	1,989,727	1,030,007
Interest income	8,9	(839,498)	(785,143)
Interest expense	16	88,756	6,169,797
Gain on sale of non-financial assets	22	(3,971,595)	(4,455,740)
Operating income before working capital changes		13,788,093	10,250,561
Increase in operating assets:			
Loans and other receivables		(57,219,625)	(47,035,600)
Other assets		(35,557,491)	(30,384,272)
Increase (Decrease) in operating liabilities:			
Deposit liabilities		36,687,932	24,328,762
Accrued taxes, interest and other expenses		295,599	(11,117,741)
Other liabilities		14,176,547	20,355,636
Cash used in operations		(27,828,945)	(33,602,654)
Income tax paid		(1,597,658)	-
Retirement benefits paid	18	(174,860)	(32,731)
Interest received	8,9	839,498	785,143
Interest paid		(88,756)	(5,852,510)
Net cash used in operating activities		(28,850,721)	(38,702,752)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of bank premises, furniture, fixtures and equipment	11	(2,097,712)	(3,818,508)
Acquisition of investment securities at amortized cost		(2,000,000)	-
Proceeds from disposal of assets held for sale	12	1,785,000	2,376,650
Acquisition of assets held for sale	12	(146,231)	-
Proceeds from maturity of investment securities at amortized cost		694,214	1,066,130
Proceeds from sale of bank premises, furniture, fixtures and equipment	11	16,930	-
Net cash used in investing activities		(1,747,799)	(375,728)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from bills payable	16	10,085,244	-
Payments of bills payable	16	(647,534)	-
Net cash generated from financing activities		9,437,710	-
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(21,160,810)	(39,078,480)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
Cash and other cash items		12,761,274	13,290,585
Due from Bangko Sentral ng Pilipinas		10,339,931	10,516,943
Due from other banks		78,890,282	117,262,439
		101,991,487	141,069,967
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
Cash and other cash items		15,650,782	12,761,274
Due from Bangko Sentral ng Pilipinas		10,167,031	10,339,931
Due from other banks		55,012,864	78,890,282
	8	80,830,677	101,991,487

See Notes to Financial Statements.

## 1. CORPORATE INFORMATION

**RURAL BANK OF PARACALE (CAMARINES NORTE), INC.** (the "Bank") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 16, 1978 with Registration No. 78752.

The Bank was formed to carry and engage in the business of extending rural credits to small farmers and tenants and to deserving rural industries or enterprises; to have and exercise all authorities and powers; to do and perform all acts; to transact all business which may legally be had or done by rural banks organized under and in accordance with the Rural Banks' Act, as it exists or may be amended; and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the BSP.

The Bank's product and services are traditional deposits such as regular and special savings deposits. The Bank also offers various types of loans such as commercial, agricultural, and various consumer loans and microfinance loans.

The Bank's registered office address and principal place of business is located at San Antonio Street, Poblacion Norte, Paracale, Camarines Norte. The Bank is domiciled in the Philippines.

In addition to its Head Office, the Bank currently has two (2) branches and three (3) branch-lite units (BLUs) located as follows:

Offices	Address
Daet Branch	RBP Bldg., Vinzons Avenue, Brgy. Vinzon, Daet, Camarines Norte
Labo Branch	RBP Bldg., Maharlika Highway, Brgy. Kalamunding, Labo, Camarines Norte
Jose Panganiban BLU	Purok 5, Brgy. South Poblacion, Jose Panganiban, Camarines Norte
Calauag BLU	Arguelles Street, Brgy. Poblacion, Calauag, Quezon
Tagkawayan BLU	Eleazar Street Corner, Brgy. Poblacion, Tagkawayan, Quezon

## 2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

### 2.01 Statement of Compliance

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

PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC, except for the requirements of the following standard:

- PAS 19R Employee Benefits – The Bank has not adopted the provisions of PAS 19R for the current reporting period and continues to measure and accrue the retirement benefit obligation based on Republic Act No. 7641, otherwise known as *The Philippine Retirement Pay Law*.
- PFRS 9 Financial Instruments - For impairment, the Bank adopted Appendix 15 of Manual of Regulations for Banks (MORB) that provides guidelines for provisioning based on number of days past due, collaterals, and type of loan.

### 2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except where a Financial Reporting Standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements.

### **2.03 Presentation and Functional Currency**

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

### **2.04 Use of Judgments and Estimates**

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

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

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

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

### **2.05 Going Concern Assumption**

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

## **3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS**

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

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

#### **3.01.01 PFRS 17 Insurance Contracts**

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

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

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

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

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

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

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

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

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

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

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

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

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

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

3.01.05 Amendments to PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments to PAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

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

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

### 3.02 New and Amended Standards Issued But Not Yet Effective

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

#### 3.02.01 Amendments to PAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current

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

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

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

#### 3.02.02 Amendments to PAS 1 Presentation of Financial Statements—Non-current Liabilities with Covenants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 3.03 Deferred Effectivity

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

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

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

## 4. MATERIAL ACCOUNTING POLICIES

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

### 4.01 Financial Assets

The Bank recognizes financial assets when the Bank becomes a party to the contractual provision of the financial instruments.

#### 4.01.01 Initial Recognition and Measurement

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

#### 4.01.02 Classification

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

#### Financial Assets at Amortized Cost

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

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

As of December 31, 2023, the Bank's cash and cash equivalents, due from BSP, due from other banks, investment securities and loans and receivables are classified under this category as disclosed in Notes 8, 9 and 10.



Cash and cash equivalents include cash on hand, cash in bank, and short-term placements. These are highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial assets at FVOCI

Financial assets at FVOCI include debt and equity securities.

*Debt Instruments at FVOCI*

For debt instruments that are not designated at FVPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met: (1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (2) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment gains or losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

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

*Equity Instruments at FVOCI*

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

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

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

Financial Assets at FVPL

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

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

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

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

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

#### 4.01.03 Reclassification

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

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

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

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

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

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

#### 4.01.04 Derecognition

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

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

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

#### 4.01.05 Impairment of Financial Assets

At the end of the reporting period, the Bank assess its expected credit losses (ECL). The Bank recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. The Bank being categorized as having simple and non-complex operations adopted the basic guidelines in setting up of allowance for credit losses provided for in Appendix 15 of the Manual of Regulations for Banks in recognizing ECL for its loans and other receivables. The Bank looks beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses.

The Bank considers a financial asset in default when contractual payments, i.e. last amortization paid are more than 30 days past due. However, upon loan quality review, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Moreover, the Bank has established a threshold for segmentation of loans subject to individual and collective assessment. For individual assessment, the amount of threshold is above ₱300,000, and credit grading system or post-evaluation process is used in the evaluation of borrowers' financial condition, risk rating, collateral and business status.

#### **4.02 Bank Premises, Furniture, Fixtures and Equipment**

Bank premises, furniture, fixtures and equipment (BPFEE) are measured at cost less any accumulated depreciation and impairment losses. Cost consists of purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

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

Depreciation is computed on the straight-line method based on the estimated useful lives of the assets as follows:

Building	–	1 – 30 years
Furniture, fixtures and equipment	–	1 – 5 years
Transportation equipment	–	1 – 5 years

Land is not depreciated. Leasehold improvements are depreciated over the shorter between the improvements' estimated useful life or the lease term.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Fully depreciated assets still in use are retained in the financial statements. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the financial statements and any resulting gain or loss is credited or charged to statement of comprehensive income. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in statement of comprehensive income.

#### **4.03 Assets Held For Sale**

Assets held for sale include real and other properties (chattels) acquired through repossession or foreclosure that the Bank intends to sell within one year from the date of classification as held for sale.

The Bank classifies an asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The Bank shall recognize an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized.

If the Bank has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the Bank shall cease to classify the asset as held for sale and will reclassify it as investment properties for land and building, or other properties for chattel and other assets. For building under investment properties or other properties, this would be subject to depreciation.

The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in the statement of comprehensive income.

#### **4.04 Investment Properties**

Properties that are held either to earn rental income or for capital appreciation or both, and are not significantly occupied by the Bank, are classified as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed using straight-line method based on the estimated useful lives of the assets of 10 years. Land is not depreciated. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher between the property's fair value less cost to sell and value in use.

Investment properties are derecognized by the Bank upon disposal or when the investment property is permanently withdrawn from use and no future benefit is expected to arise from the continued use of the asset. Any gain or loss on derecognition of an investment property, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income in the period in which the property is derecognized.

Transfers are made to investment properties when there is a change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers to and from investment property do not result in gain or loss.

#### **4.05 Other Assets**

Other assets not classified as financial assets, bank premises, furniture, fixtures and equipment and assets held for sale include prepaid assets, deferred charges, supplies and the likes. These other assets qualifying into the definition of assets under PAS 1, Presentation of Financial Statements are resources controlled by the Bank as a result of past events and from which future economic benefits are expected to flow to the entity. Other assets are recognized on an accrual basis of accounting.

#### 4.06 Impairment of Non-financial Assets

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

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

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense.

#### 4.07 Financial Liabilities and Equity Instruments

A financial liability is any liability that is:

- a. a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- b. a contract that will or may be settled in the entity's own equity instruments and is
  - (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

##### 4.07.01 Classification as Financial Liability or Equity Instrument

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

##### 4.07.02 Equity Instruments

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

- Capital stock

Capital stock represents the nominal value of shares that have been issued and are classified as equity instruments. Capital stock is classified as equity instruments.

- Surplus reserves

Surplus reserve is a portion of earnings that are appropriated for specific purposes as approved by the Board of Directors.

- Surplus free

Surplus free represents all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amounts of dividend declared if any.

Dividends on equity are recognized when they are declared and approved by BSP.

#### 4.07.03 Financial Liabilities

Financial liabilities of the Bank include deposit liabilities, bills payable, accrued interest and other expenses, and other liabilities (excluding government-related payables and non-financial liabilities).

Financial liabilities are recognized when the Bank becomes a party to the contractual agreements of the instrument where the substance of the arrangement result in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Financial liabilities are initially recognized at fair value, except for financial liabilities at FVTPL, plus transaction costs, and subsequently measured at amortized cost less payments. Amortized cost is calculated by taking into account any discount or premium, if any, on the issue and fees that are an integral part of the effective interest rate.

#### 4.07.04 Derecognition of Financial Liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

### **4.08 Related Party Relationships and Transactions**

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

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

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

Further, Section 131 of the MORB states that related parties shall cover the BSFI's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the BSFI exerts direct/indirect control over or that exerts direct/indirect control over the BSFI; the BSFI's DOSRI, and their close family members, as well as corresponding persons in affiliated companies. These shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the BSFI, hence, is identified as a related party.

The above definition shall also include direct or indirect linkages to a BSFI identified as follows:

- (1) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;
- (2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
- (3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the BSFI and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or
- (4) Permanent proxy or voting trusts in favor of the BSFI constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

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

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

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

#### **4.09 Revenue Recognition**

##### 4.09.01 Revenue Recognition for Revenues within the scope of PFRS 15

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

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

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

##### Income from Assets Sold or Exchanged

Income from assets sold or exchanged is 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 as part of "other operating income" account in the statement of profit or loss.

##### Fees, Commissions, and Other Income

Fees, commissions and other income are generally recognized on an accrual basis when the service has been provided. Penalties are recognized only upon collection or where there is a reasonable degree of certainty as to their collectability.

##### 4.09.02 Revenue Recognition for Revenues outside the scope of PFRS 15

For revenues outside the scope of PFRS 15, the following specific recognition criteria must also be met before revenue is recognized:

##### Interest income on loans receivables

Interest income on loans and discount with advanced interest are recognized periodically using the effective interest method of amortization. On the other hand, interest income on loans and discount with no advanced interest are recognized on accrual basis.

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

##### Loan fees and service charge

The Bank earns fees from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. Service fees are collected from borrowers to cover direct and indirect expenses in processing credit applications.

Interest income on due from other banks and investment securities at amortized cost

Interest on due from other banks and investment securities at amortized cost are recognized in the statement of comprehensive income using the effective interest method.

#### **4.10 Cost and Expense Recognition**

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized in profit or loss in the following manner:

- On the basis of a direct association between costs incurred and the earning of specific items of income;
- On the basis of a systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and association with income can only be broadly or indirectly determined; or
- Immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

#### **4.11 Leases**

The Bank as Lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

#### **4.12 Employee Benefits**

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

4.12.01 Short-term Employee Benefits

The Bank recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses, non-monetary benefits, and other short-term benefits.

4.12.02 Retirement Benefits

The Bank has an unfunded, noncontributory, defined benefit retirement plan covering all qualified employees. Employees' normal retirement benefits will be computed equal to 100% of plan salary for every year of credited service. Retirement from service of the Bank shall be compulsory upon employees' attainment of the age of sixty (60) years with completion of at least five (5) years of service.

The Bank recognizes its retirement benefit obligation using the accrual approach. Under the accrual approach, the accrued monthly benefit that will be recognized is equivalent to a one half (1/2) of monthly salary for every year of service of each employee with at least five (5) years of service.

#### **4.13 Borrowing Costs**

Borrowing costs are generally expensed when incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset.

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred, and ceases when the assets are ready for their intended use.



#### **4.14 Income Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

##### **4.14.01 Current Income Tax**

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

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### **4.14.02 Deferred Income Tax**

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

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

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

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

#### **4.15 Provisions, Contingent Liabilities and Contingent Assets**

##### **4.15.01 Provisions**

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

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

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

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

#### 4.15.02 Contingent Assets and Contingent Liabilities

Contingent assets and liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are disclosed only when an inflow of economic benefits is probable.

#### **4.16 Fair Value Measurement**

The Bank measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal and the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market price in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges. (For example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.);
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market prices in its valuations where possible.

Basis of fair value measurements are further discussed in Note 7.

As of December 31, 2023 and 2022, there were no transfers between Level 1 and Level 2 fair value measurements.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

#### **4.17 Events after the Reporting Date**

The Bank identifies events after the reporting date as events that occurred after the reporting date but before the date the financial statements were authorized for issue. Any event that provides additional information about the Bank's financial position at the reporting date is reflected in the financial statements. Non-adjusting events are disclosed in the notes to the financial statements when material.

### **5. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS USED**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements and related disclosures. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### **5.01 Critical Judgments in Applying Accounting Policies**

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

##### 5.01.01 Determination of Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Bank, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the normal operations of the Bank.

##### 5.01.02 Classification of Financial Assets

The Bank follows the guidance of PFRS 9 starting January 1, 2020 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss.

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

Management assessed that there is no change in the objective of holding the investments. The carrying amounts of investment securities at amortized cost are ₱34,599,343 and ₱33,141,912 as of December 31, 2023 and 2022, respectively, as disclosed in Note 9.

##### 5.01.03 Determining Whether or Not a Contract Contains a Lease

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

#### **Identified Asset**

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

#### **Substantive Substitution Rights**

Even if the asset is specified, the Bank does not have the right to use an identified asset, if, at inception of the contract, a supplier has the substantive right to a substitute the asset throughout the period of use (i.e., the total period of time that an asset is used to fulfill a contract with the Bank, including the sum of any non-consecutive periods of time).

A supplier's right to substitute an asset is substantive when both of the following conditions are met:

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

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

#### **Right to Obtain Substantially all of the Economic Benefits from the Use of the Identified Asset**

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

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

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

#### **Right to Direct the Use of the Identified Asset**

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

The Bank has assessed that that all of its lease contracts are under operating leases due to its terms of a year or less.

5.01.04 Determining Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. The Bank takes into consideration its present, legal or constructive obligations, if any in accordance with its policies and management's assessment.

5.01.05 Determining Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models was taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

5.01.06 Determining Fair Value Acquired Assets Classified as Assets Held for Sale

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

5.01.07 Classifying Real and Other Properties Acquired (ROPA)

The Bank acquires properties in settlement of loans through foreclosure or dation in payment. These properties are recognized in accordance with Section 382 of the MORB, as follows:

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

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

5.01.08 Determining Asset Impairment

The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of BPFPE and assets held for sale, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that BPFPE and assets held for sale associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations. The preparation of the estimated future cash flows involves significant judgment and estimations. While the Bank believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under generally accepted accounting principles in the Philippines.

Management has determined that the Bank's BPFPE and assets held for sale are not impaired, hence, no additional impairment loss were recognized in both 2023 and 2022.

5.01.09 Determining Method of Computing ECL

As stated in BSP Circular No. 1011, BSP-supervised financial institutions with credit operations that may not economically justify the adoption of simple loan loss estimation methodology that is compliant with PFRS 9, shall, at a minimum, be subject to regulatory guidelines in setting up allowance for credit losses prescribed under Appendix 15 of the BSP MORB.

Following the guidance of BSP Circular No. 1011 and Appendix 100 of the BSP MORB, in adopting PFRS 9 impairment requirements, the Bank assessed the ECL in accordance with the said standard and based on management judgement it was determined that the amount recognized as allowance based on Appendix 15 of BSP MORB is reasonable.

## **5.02 Key Sources of Estimation Uncertainty**

### **5.02.01 Estimating Allowances for Credit Losses**

The Bank estimates the allowance for credit losses related to its loans and receivables based on assessment of specific accounts where the Bank has information that certain customers are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors. The Bank used judgment to record specific reserves for customers against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated, notwithstanding the provisioning requirements under Manual of Regulations for Banks (MORB).

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for credit losses would increase the recognized operating expenses and decrease current assets.

As of December 31, 2023 and 2022, loans and other receivables amounted to ₱403,493,397 and ₱349,145,504, respectively, net of allowance for credit losses amounting to ₱39,600,158 and ₱37,513,641, respectively, as disclosed in Note 10.

### **5.02.02 Estimating Useful Lives of Assets**

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment (BPFPE) based on the period over which the assets are expected to be available for use. The estimate useful lives of BPFPE 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 BPFPE is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results 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 property and equipment would increase recorded operating expenses and decrease non-current assets.

The Bank has BPFPE stated at carrying value of ₱20,165,508 and ₱20,276,265 as of December 31, 2023 and 2022, respectively, as disclosed in Note 11.

### **5.02.03 Determining Realizable Amount of Deferred Tax Assets**

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

The Management believes that it is highly probable they will generate taxable profit to allow part of the deferred tax assets to be utilized. Thus, they decided to recognize deferred tax asset for temporary differences starting the year ended December 31, 2019. The Bank's deferred tax assets amounted to ₱12,842,554 and ₱11,860,494 as of December 31, 2023 and 2022, respectively, as disclosed in Note 24.

## 6. RISK MANAGEMENT OBJECTIVES AND POLICIES

### 6.01 General Risk Management Principles

The Bank's financial instruments comprise cash and cash equivalents, investment securities at amortized cost, loans and receivables, other assets, and other financial liabilities such as savings deposit liabilities, bills payable and accrued interest and expenses and other financial liabilities to finance the Bank's operations.

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

	Notes	2023	2022
<b>Financial assets</b>			
Cash and other cash items	8	₱ 15,650,782	₱ 12,761,274
Due from Bangko Sentral ng Pilipinas	8	10,167,031	10,339,931
Due from other banks	8	55,012,864	78,890,282
Investment securities at amortized cost	9	34,599,343	33,141,912
Loans and other receivables – net	10	403,493,397	349,145,504
Other assets*	14	41,759,305	4,197,724
		₱ 560,682,722	₱ 488,476,627
<b>Financial liabilities</b>			
Deposit liabilities	15	404,119,468	367,431,536
Bills payable	16	9,437,710	–
Accrued taxes, interest and other expenses**	17	3,233,780	2,758,379
Other liabilities***	19	83,615,986	69,439,440
		₱ 500,406,944	₱ 439,629,355

\*excluding non-financial assets amounting to ₱1,633,716 and ₱1,964,889 in 2023 and 2022, respectively, as disclosed in Note 14.

\*\*excluding accrued taxes amounting to ₱1,338,184 and ₱1,517,986 in 2023 and 2022, respectively, as disclosed in Note 17.

\*\*\*excluding non-financial liabilities amounting to ₱234,226 and ₱234,226 in 2023 and 2022, respectively, as disclosed in Note 19.

#### 6.01.01 Credit Risk and Concentration of Assets and Liabilities and Off-balance Sheet Items

Credit risk is the risk to earnings or capital arising from a counterparty failure to perform and meet the terms of its contract with the Bank subjecting the latter to a financial loss. Credit risk may last for the entire tenor and may approximate to the full amount of a transaction and in some cases may exceed the original principal exposure.

Credit risk inherent in the lending activities and the Bank manages it in accordance with a credit risk management framework that spans for identification, measurement, control, monitoring and reporting.

To manage credit risk, the Bank conducts credit investigation and background checking and follows written manuals and procedures for loan disbursements, monitoring and collection. Policies of loan diversification like maximum loan size, types of loans, loan structures are instituted to avoid concentration in a particular sector or area to lessen portfolio risk.

The Management closely monitors the overall credit operations and acts on the identified existing and potential risks appropriately for reporting during regular meetings of the BOD.

**6.01.02 Maximum Exposure to Credit Risk before Collateral Held or Other Credit Enhancements**  
An analysis of the maximum exposure to credit risk relating to on-balance sheet assets without taking into account of any collateral held or other credit enhancements is shown below:

	Notes	2023	2022
Checks and other cash items	8	₱ 15,650,782	₱ 12,761,274
Due from BSP	8	10,167,031	10,339,931
Due from other banks	8	55,012,864	78,890,282
Investment securities at amortized cost	9	34,599,343	33,141,912
Loans and other receivables*	10	454,604,030	395,837,905
Other assets**	14	41,759,306	4,197,724
		₱ 611,793,356	₱ 535,169,028

\*gross of allowance for credit losses and unamortized discount amounting to ₱51,110,633 and ₱46,692,402 in 2023 and 2022, respectively, as disclosed in Note 10.

\*\*excluding non-financial assets amounting to ₱1,633,715 and ₱1,964,889 in 2023 and 2022, respectively, as disclosed in Note 14.

Where financial instruments are recorded at fair value, the amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

**6.01.03 Credit Quality of Financial Assets**

The following tables show the credit quality of financial assets as of December 31, 2023 and 2022.

2023	Neither past due nor impaired	Past due but not impaired	Nonperforming individually impaired	Total
Cash and other cash items	15,650,782	—	—	15,650,782
Due from BSP	10,167,031	—	—	10,167,031
Due from other banks	55,012,864	—	—	55,012,864
Loans receivable	375,259,496	9,357,055	58,418,230	443,034,781
Sales contract receivable	—	1,910,750	3,882,422	5,793,172
Accrued interest receivable	4,300,092	1,418,788	57,197	5,776,077
Investment securities at amortized cost	34,599,343	—	—	34,599,343
Other assets*	41,759,306	—	—	41,759,306
	536,748,914	12,686,593	58,475,427	611,793,356

\*excluding non-financial assets amounting to ₱1,633,716 in 2023, as disclosed in Note 14.



2022	Neither past due nor impaired	Past due but not impaired	Nonperforming individually impaired	Total
Cash and other cash items	12,761,274	–	–	12,761,274
Due from BSP	10,339,931	–	–	10,339,931
Due from other banks	78,890,282	–	–	78,890,282
Loans receivable	332,700,787	4,358,245	52,291,465	389,350,497
Sales contract receivable	6,277,255	–	–	6,277,255
Accrued interest receivable	152,956	–	57,197	210,153
Investment securities at amortized cost	33,141,912	–	–	33,141,912
Other assets*	4,197,724	–	–	4,197,724
	478,462,121	4,358,245	52,348,662	535,169,028

\*excluding non-financial assets amounting to ₱1,964,889 in 2022, as disclosed in Note 14.

Neither past due nor impaired cash on hand and in banks are working capital cash fund placed, invested, or deposited in local commercial and universal banks which are considered top tier banks in terms of capitalization as categorized by the BSP. Other neither past due nor impaired accounts are financial assets that have a very remote likelihood of default and have consistently exhibited good paying habits. Overall credit risk, if any, is not assessed to be significant.

Past due but not impaired Loans and receivables are loans and receivables where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available or status of collection of amounts owed to the Bank.

Loans with negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. In respect of some of these loans, the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

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

#### 6.01.04 Aging Analysis

An aging analysis of the Bank's loans receivables, gross of allowance for credit losses and unamortized discount, as of December 31, 2023 and 2022 are as follows:

	2023	2022
Outstanding receivables:		
Current accounts	₱ 375,259,496	₱ 332,700,787
Past due accounts:		
1 – 30 days past due	9,524,665	3,639,549
31 – 60 days past due	5,277,268	3,548,006
61 – 90 days past due	727,384	913,492
over 90 days past due	52,245,968	48,548,663
	₱ 443,034,781	₱ 389,350,497

#### **6.02 Liquidity Risk**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short-, medium- and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

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The Bank seeks to manage its liquidity profile to be able to finance its capital expenditures and cover its operating costs. The Bank's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information.

As of December 31, 2023 and 2022, the Bank's minimum liquidity ratio are 24.28% and 34.75%, respectively.

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

2023	On demand	Due within one year	Due beyond one year	Total
<b>Financial assets</b>				
Cash and other cash items	15,650,782	–	–	15,650,782
Due from BSP	10,167,031	–	–	10,167,031
Due from other banks	55,012,864	–	–	55,012,864
Investment securities at amortized cost	–	12,524,575	22,074,768	34,599,343
Loans and other receivables*	40,558,085	154,788,296	259,257,649	454,604,030
Other assets**	41,759,305	–	–	41,759,305
	<b>163,148,067</b>	<b>167,312,871</b>	<b>281,332,417</b>	<b>611,793,355</b>
<b>Financial liabilities</b>				
Deposit liabilities	245,393,490	146,929,576	11,796,402	404,119,468
Bills payable	–	5,864,130	3,573,580	9,437,710
Accrued taxes, interest and other expenses***	–	3,233,780	–	3,233,780
Other liabilities****	755,642	–	83,615,986	84,371,628
	<b>246,149,132</b>	<b>156,027,486</b>	<b>98,985,968</b>	<b>501,162,586</b>

\*gross of allowance for credit losses and unamortized discount amounting to ₱51,110,633 in 2023, as disclosed in Note 10.

\*\*excluding non-financial assets amounting to ₱1,633,716 in 2023, as disclosed in Note 14.

\*\*\*excluding accrued taxes amounting to ₱1,338,184 in 2023, as disclosed in Note 17.

\*\*\*\*excluding non-financial liabilities amounting to ₱234,226 in 2023, as disclosed in Note 19

2022	On demand	Due within one year	Due beyond one year	Total
<b>Financial assets</b>				
Cash and other cash items	12,761,274	–	–	12,761,274
Due from BSP	10,339,931	–	–	10,339,931
Due from other banks	78,890,282	–	–	78,890,282
Investment securities at amortized cost	–	10,372,930	22,768,982	33,141,912
Loans receivables and other receivables*	29,268,661	142,617,326	223,951,919	395,837,906
Other assets**	4,197,723	–	–	4,197,723
	<b>135,457,871</b>	<b>152,990,256</b>	<b>246,720,901</b>	<b>535,169,028</b>
<b>Financial liabilities</b>				
Deposit liabilities	220,528,366	123,804,130	23,099,040	367,431,536
Accrued taxes, interest and other expenses***	–	2,758,379	–	2,758,379
Other liabilities****	4,396,802	65,042,637	–	69,439,439
	<b>224,925,168</b>	<b>191,605,146</b>	<b>23,099,040</b>	<b>439,629,354</b>

\*gross of allowance for credit losses and unamortized discount amounting to ₱46,692,402 in 2022, as disclosed in Note 10.

\*\*excluding non-financial assets amounting to ₱1,964,889 in 2022, as disclosed in Note 14.

\*\*\*excluding accrued taxes amounting to ₱1,517,986 in 2022, as disclosed in Note 17.

\*\*\*\*excluding non-financial liabilities amounting to ₱234,226 in 2022, as disclosed in Note 19.

### 6.03 Interest Rate Risk

Interest rate risk is the risk to the earning or capital resulting from adverse movements in the interest rates. The Bank closely monitors the movements of interest rates in the market and reviews its asset and liability structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits. The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The Bank is not exposed to interest rate risk since its financial assets and financial liabilities have fixed rates.

### 6.04 Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility of the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- a) Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- b) Requirements for the reconciliation and monitoring of transactions;
- c) Compliance with regulatory and other legal requirements;
- d) Documentation of controls and procedures;
- e) Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- f) Requirements for the reporting of operational losses and proposed remedial action;
- g) Development of contingency plans;
- h) Training and professional development;
- i) Ethical and business standards; and
- j) Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

## 7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial assets and financial liabilities measured at amortized cost approximates their carrying values either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

### 7.01 Fair Value Hierarchy

The Bank uses the following hierarchy as guide for determining fair value of financial instruments:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchange;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data (observable inputs). This level includes equity investment (if any,) and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

The Bank has no financial instruments that fall under this category.

As of December 31, 2023 and 2022, there were no transfers between Level 1 and Level 2 fair value measurements.

### 7.02 Fair Value Determination

Basis or assumptions in determining the fair value of financial instruments are disclosed below:

#### 7.02.01 Due from BSP and Other Banks

The estimated fair value of fixed interest-bearing deposits is made based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

#### 7.02.02 Investment Securities at Amortized Cost

The fair value for investment securities at amortized cost is based on market prices. Where this information is not available, the fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or through valuation techniques using discounted cash flow analysis.

#### 7.02.03 Loans and Other Receivables

Loans and other receivables are net of provisions for credit losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at original rates to determine fair value.

#### 7.02.04 Deposit Liabilities

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of other deposits represents the estimated cash flows expected to be paid which are discounted at the current market rates.

#### 7.02.05 Bills Payable, Accrued Interest and Other Expenses, and Other Liabilities

Due to their short duration, the carrying amounts of accrued interest and other expenses and other liabilities in the statement of financial position are considered to be reasonable approximations of their fair values.

Bills payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method for those with maturities beyond one year, less settlement payments.

## 8. CASH AND CASH EQUIVALENTS

The account consists of the following:

	2023	2022
Cash and other cash items:		
Cash on hand	P 15,335,596	P 12,617,045
Checks and other cash items	315,186	144,229
	<b>15,650,782</b>	<b>12,761,274</b>
Due from Bangko Sentral ng Pilipinas	<b>10,167,031</b>	10,339,931
Due from other banks	<b>55,012,864</b>	78,890,282
	<b>65,179,895</b>	<b>89,230,213</b>
	<b>P 80,830,677</b>	<b>P 101,991,487</b>

Cash and other cash items represent actual cash in vault and those in possession of the cashier and the tellers.

Due from Bangko Sentral ng Pilipinas is the balance of demand deposit maintained in compliance with the BSP requirement for rural bank to maintain reserves on savings and time deposits and on certain deposit and deposit substitute liabilities.

On June 23, 2023, BSP issued Circular No. 1175 amending Section 251 of the MORB, decreasing the reserve requirement from 2% to 1% effective reserve week of June 30, 2023. For December 31, 2023 and 2022, the Bank is compliant with the reserve requirement as set by the BSP.

Due from other banks comprise savings deposits earning interest at prevailing bank deposit rates.

Interest earned on deposits on local banks amounted to P54,408 and P68,026 in 2023 and 2022, respectively.

## 9. INVESTMENT SECURITIES AT AMORTIZED COST

This account consists of the following:

	2023	2022
Retail treasury bonds	P 20,000,000	P 20,000,000
Agri-agra Alternative Compliance:		
Producers Savings Bank	12,524,575	10,372,930
Agrarian reform bonds – LBP (10-year bonds)	2,074,768	2,768,982
	<b>P 34,599,343</b>	<b>P 33,141,912</b>

Special time deposit in place serves as an alternative compliance with the mandatory agrarian/agricultural reform credit.

Total interest earned on these financial assets amounted to P785,090 and P717,117 for the years ended December 31, 2023 and 2022, respectively.

**10. LOANS AND OTHER RECEIVABLES – net**

The account consists of the following:

	2023	2022
Current loans	P 375,259,496	P 332,762,838
Past due loans	67,775,285	56,587,659
Loans receivable	443,034,781	389,350,497
Unearned interests and discounts	(10,852,093)	(8,593,752)
Loans receivable – net of discount	432,182,688	380,756,745
Sales contract receivables	5,793,172	6,277,255
Unearned interests and discounts	(658,382)	(585,008)
Sales contract receivables – net of discount	5,134,790	5,692,247
Accrued interest receivable	5,776,077	210,153
	<b>443,093,555</b>	<b>386,659,145</b>
Allowance for credit losses:		
Loans receivable	(39,054,779)	(37,410,944)
Sales contract receivables	(361,482)	(45,500)
Accrued interest receivable	(183,897)	(57,197)
	<b>(39,600,158)</b>	<b>(37,513,641)</b>
	<b>P 403,493,397</b>	<b>P 349,145,504</b>

The Bank's loan accounts are stated at the outstanding balance, reduced by estimated allowance for credit losses and unearned interest and discounts. Total earned interest on loans amounted to P70,203,580 and P53,876,032 for the years ended December 31, 2023 and 2022, respectively.

The promissory notes of loans receivables are pledged as security for the related bills payable, amounting to P9,412,461 and nil as of December 31, 2023 and 2022, respectively, as disclosed in Note 16.

Sales contract receivable refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

The Bank earned interest on sales contract receivable amounting to P269,006 and P154,933 for years ended December 31, 2023 and 2022, respectively.

Status of sales contract receivables are the following:

	2023	2022
Performing	P 1,910,750	P 6,277,255
Non-performing	3,882,422	–
	<b>P 5,793,172</b>	<b>P 6,277,255</b>

The changes in the allowance for credit losses on loans receivables for the years ended December 31, 2023 and 2022:

	Agri-agra loans	MSME loans	Microfinance loans	Other loans	Total
Balance, December 31, 2021	₱ 5,626,232	₱ 8,352,722	₱ 3,918,509	₱ 19,084,568	₱ 36,982,031
Provision for (reversal of) credit losses	6,474	—	278,440	—	284,914
Adjustments	15,097	(228,919)	779,801	(421,980)	143,999
Balance, December 31, 2022	5,647,803	8,123,803	4,976,750	18,662,588	37,410,944
Provision for (reversal of) credit losses	(343,948)	232,587	154,664	1,943,371	1,986,674
ACL transferred to SCR	—	(342,839)	—	—	(342,839)
<b>Balance, December 31, 2023</b>	<b>₱ 5,303,855</b>	<b>₱ 8,013,551</b>	<b>₱ 5,131,414</b>	<b>₱ 20,605,959</b>	<b>₱ 39,054,779</b>

Breakdown of the allowance for credit losses on loans and other receivables as to specific and general are disclosed below:

	Agri-agra loans	MSME loans	Microfinance loans	Other loans	Total
<b>2023</b>					
Specific loan loss provision	₱ 5,107,237	₱ 6,511,374	₱ 5,018,232	₱ 19,015,280	₱ 35,652,123
General loan loss provision	196,618	1,502,177	113,182	1,590,679	3,402,656
<b>Balance, December 31, 2023</b>	<b>₱ 5,303,855</b>	<b>₱ 8,013,551</b>	<b>₱ 5,131,414</b>	<b>₱ 20,605,959</b>	<b>₱ 39,054,779</b>
<b>2022</b>					
Specific loan loss provision	₱ 5,462,301	₱ 6,775,670	₱ 4,903,048	₱ 17,485,467	₱ 34,626,486
General loan loss provision	185,502	1,348,133	73,702	1,177,121	2,784,458
Balance, December 31, 2022	₱ 5,647,803	₱ 8,123,803	₱ 4,976,750	₱ 18,662,588	₱ 37,410,944

The changes in the allowance for credit losses on sales contract receivables for the years ended December 31, 2023 and 2022:

	2023		2022	
Balance, January 1	P	45,500	P	261,801
Transfer from loans receivable		342,839		–
Adjustment		(26,857)		(216,301)
<b>Balance, December 31</b>	<b>P</b>	<b>361,482</b>	<b>P</b>	<b>45,500</b>

The changes in the allowance for credit losses on accrued interest receivable for the years ended December 31, 2023 and 2022:

	2023		2022	
Balance, January 1	P	57,197	P	57,197
Provision for (reversal of) credit losses		126,700		–
<b>Balance, December 31</b>	<b>P</b>	<b>183,897</b>	<b>P</b>	<b>57,197</b>

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

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

In terms of collectively assessed loans, the Bank strictly adheres to the setting up of valuation allowance for risk assets based on BSP Circular No. 1011 and Appendix 15 of the MORB.

#### 10.01 Past Due Loans

Past due loans of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at maturity.

Section 304 of the MORB defined the classification of past due loans as follows:

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual date, in which case, the total outstanding balance thereof shall be considered past due.

Installment refers to principal and/or interest amortizations that are due on several dates as indicated in the loan documents. The allowance for loan losses is the estimated amount of losses in the Bank's loan portfolio, based on evaluation of the collectability of loans and prior loss experience

Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates to be present in the portfolio of loans and advances are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

The allowance is increased by provisions charged to expenses and reduced by write-offs and reversals.



## 10.02 Non-Performing Loans

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

	2023	2022
Total non-performing loans*	P 48,948,232	P 30,496,905
Less: Non-performing loans covered by allowance for credit losses	(30,809,792)	(27,518,532)
	P 18,138,440	P 2,978,373

\*excluding non-performing ACPC-sponsored loans amounting to P9,469,997 and P21,794,561 for 2023 and 2022 respectively.

Section 304 of the MORB defined non-performing loans (NPLs) as follows:

Loans, investments, receivables or any financial asset shall be considered non-performing, even without missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Information regarding the Bank's non-performing loans are as follows:

	2023	2022
Ratio of gross NPLs to gross TLP (%)	11.80%	9.10%
Ratio of net NPLs to gross TLP (%)	4.37%	0.89%
Ratio of total allowance for credit losses to gross NPLs (%)	79.79%	122.67%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	72.84%	113.54%

Computed ratios excluded non-performing ACPC-sponsored loans since no risk is involved as it is funded by the council and the Bank only serves as a partner lending conduit.

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

The carrying amounts of the Bank's BPFPE are as follows:

2023	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Building under Construction	Total
<b>Cost:</b>							
Balance, January 1	₱ 8,349,987	₱ 19,043,086	₱ 23,497,774	₱ 3,401,085	₱ 298,087	₱ –	₱ 54,590,019
Additions	–	20,000	1,795,712	–	–	282,000	2,097,712
Disposals	–	–	(2,163,423)	–	–	–	(2,163,423)
Reclassification	–	–	36,667	–	–	–	36,667
<b>Balance, December 31</b>	<b>8,349,987</b>	<b>19,063,086</b>	<b>23,166,730</b>	<b>3,401,085</b>	<b>298,087</b>	<b>282,000</b>	<b>54,560,975</b>
<b>Accumulated depreciation:</b>							
Balance, January 1	–	10,025,858	20,760,617	3,307,935	219,344	–	34,313,754
Depreciation	–	744,489	1,362,163	93,138	14,624	–	2,214,414
Derecognition	–	–	(2,163,423)	–	–	–	(2,163,423)
Adjustments	–	–	30,722	–	–	–	30,722
<b>Balance, December 31</b>	<b>–</b>	<b>10,770,347</b>	<b>19,990,079</b>	<b>3,401,073</b>	<b>233,968</b>	<b>–</b>	<b>34,395,467</b>
<b>Carrying amount</b>	<b>₱ 8,349,987</b>	<b>₱ 8,292,739</b>	<b>₱ 3,176,651</b>	<b>₱ 12</b>	<b>₱ 64,119</b>	<b>₱ 282,000</b>	<b>₱ 20,165,508</b>

RURAL BANK OF PARACALE (CAMARINES NORTE), INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

(With Comparative Figures for 2022)

In Philippine Peso

2022	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Building under Construction	Total
Cost:							
Balance, January 1	₱ 8,093,813	₱ 16,985,176	₱ 22,105,118	₱ 3,289,317	₱ 298,087	₱ -	₱ 50,771,511
Additions	256,174	2,057,910	1,392,656	111,768	-	-	3,818,508
Balance, December 31	8,349,987	19,043,086	23,497,774	3,401,085	298,087	-	54,590,019
Accumulated depreciation:							
Balance, January 1	-	9,335,479	19,495,416	3,289,306	167,084	-	32,287,285
Depreciation	-	693,667	1,269,364	18,629	47,059	-	2,028,719
Adjustments	-	(3,288)	(4,163)	-	5,201	-	(2,250)
Balance, December 31	-	10,025,858	20,760,617	3,307,935	219,344	-	34,313,754
Carrying amount	₱ 8,349,987	₱ 9,017,228	₱ 2,737,157	₱ 93,150	₱ 78,743	₱ -	₱ 20,276,265

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

No bank premises, furniture, fixtures and equipment were used as collateral for liabilities as at December 31, 2023 and 2022. Moreover, the Bank has no commitment to purchase bank premises, furniture, fixtures and equipment as of December 31, 2023 and 2022.

All additions in 2023 and 2022 were paid in cash.

During 2023, the Bank disposed several fixed assets that are fully depreciated for a cash selling price of ₱16,930, resulting to gain on sale of ₱16,930 as disclosed in Note 22.

During 2022, no disposals were made by the Bank.

Cost of fully-depreciated assets still in use amounted to ₱9,586,607 and ₱8,571,915 as of December 31, 2023 and 2022, respectively.

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

## 12. ASSETS HELD FOR SALE – net

This account pertains to real and other properties acquired (ROPA) in settlement of loans.

	Note	2023	2022
Balance, January 1		₱ 22,998,839	₱ 20,802,682
Additions		5,453,739	5,625,687
Disposals		(5,396,097)	(3,899,260)
Capitalized expenses		146,231	–
Transfer from SCR		2,500,000	–
Reclassification	13	(3,584,983)	–
Adjustments		–	469,730
		<b>22,117,729</b>	<b>22,998,839</b>
<b>Accumulated depreciation:</b>			
Balance, January 1		3,920,156	3,387,600
Depreciation		918,528	693,735
Disposals		(155,280)	(185,000)
Transfer from SCR		185,708	–
Reclassification	13	(901,656)	–
Adjustments		13,461	(18,618)
		<b>3,980,917</b>	<b>3,877,717</b>
<b>Allowance for impairment:</b>			
Balance, January 1		42,439	42,439
Adjustments		(24,527)	–
		<b>17,912</b>	<b>42,439</b>
Carrying amount		<b>₱ 18,118,900</b>	<b>₱ 19,078,683</b>

In 2023, the Bank sold assets held for sale with carrying amount of ₱5,240,817 for a selling price of ₱9,195,482, however only ₱1,785,000 received in cash, recognizing a gain amounting to ₱3,954,665, as disclosed in Note 22.

In 2022, the Bank sold assets held for sale with carrying amount of ₱3,714,260 for a selling price of ₱8,310,708 thru cash and sales contract receivable whereas the bank received total cash including downpayments amounting to ₱2,376,650 recognizing a gain of ₱4,455,740.

The fair value of the assets held for sale as of December 31, 2023 and 2022 amounted to ₱50,809,022 and ₱45,578,274. Such fair values have been determined by in-house appraisers on the basis of recent sales of similar property in the same area as the assets held for sale, which were adjusted for differences in key attributes such as property size, zoning, and accessibility, and taking into account the economic conditions prevailing at the time the valuations were made.

The Bank carried out a review of the recoverable amounts of its assets held for sale. The Bank has determined that there is no indication that an additional impairment loss has occurred on its assets held for sale.

### 13. INVESTMENT PROPERTIES – net

The carrying amounts of the Bank's investment properties are as follows:

2023	Land	Building	Total
<b>Cost:</b>			
Balance, January 1	P –	P –	P –
Reclassification (Note 12)	1,308,991	2,275,992	3,584,983
<b>Balance, December 31</b>	<b>1,308,991</b>	<b>2,275,992</b>	<b>3,584,983</b>
<b>Accumulated depreciation</b>			
Balance, January 1	P –	P –	P –
Reclassification (Note 12)	–	901,656	901,656
<b>Balance, December 31</b>	<b>–</b>	<b>901,656</b>	<b>901,656</b>
<b>Carrying amount</b>	<b>P 1,308,991</b>	<b>P 1,374,336</b>	<b>P 2,683,327</b>

The reclassified property pertains to previously recognized as assets held for sale which are being leased with the following terms:

- a) A residential building and lot situated at Brgy. Camambugan, Daet, Camarines Norte leased to Leny Dongon entered on August 31, 2022; and
- b) A residential building and lot situated at Urban Poor, Brgy. Alawihao, Daet, Camarines Norte leased to Emy Manuel entered on August 31, 2022.

Rental income earned from these lease agreements amounted to ₱71,900 and ₱57,400 as of December 31, 2023 and 2022, respectively as disclosed in Note 22.

#### 14. OTHER ASSETS

The account consists of the following:

	2023	2022
ACPC Fund	P 40,265,038	P 264,731
Accounts receivable – net	1,439,267	3,887,993
Stationery and supplies on hand	684,543	627,944
Prepayments	251,545	362,167
Petty cash fund	55,000	45,000
Deferred charges	–	109,084
Miscellaneous assets	697,628	865,694
	<b>P 43,393,021</b>	<b>P 6,162,613</b>

Miscellaneous assets pertain to other deposits and investments.

Accounts receivable consists of insurance for death claims, advance payment for maternity benefits, unreplenished POS and other transactions which are to be collected for a period of less than one year.

	2023	2022
Accounts receivable – gross	P 1,694,277	P 4,143,003
Allowance for credit losses	(255,010)	(255,010)
	<b>P 1,439,267</b>	<b>P 3,887,993</b>

#### 15. DEPOSIT LIABILITIES

This account consists of the following:

	2023	2022
Savings deposits	P 244,860,620	P 218,764,436
Special savings deposits	159,258,848	148,667,100
	<b>P 404,119,468</b>	<b>P 367,431,536</b>

Savings earn an annual interest rate of 0.50% in 2023 and 2022. Special savings deposits earn annual interest rates of 1.75% to 5.75% in 2023 and 2022, depending on the amount and term of the placement.

Total interest expense on deposit liabilities amounted to P7,002,349 and P6,169,797 for the years ended December 31, 2023 and 2022, respectively.

Under existing BSP regulations, savings deposits and special savings deposit of the Bank are subject to statutory reserve equivalent to 1.0% and 2% for 2023 and 2022, respectively, except basic deposit accounts which are subject to 0% reserve requirement. As of December 31, 2023 and 2022, the Bank is compliant with such regulations.

**16. BILLS PAYABLE**

This account represents borrowings from local financial institutions, as follows:

	2023	2022
Land Bank of the Philippines	P 9,437,710	P –

Movement of the account is disclosed below:

	2023	2022
Balance, January 1	P –	P –
Additional borrowings	10,085,244	–
Payments	(647,534)	–
Balance, December 31	P 9,437,710	P –

The payment terms of these bills payable is 30 days to 5 years.

The promissory notes of loans receivables are pledged as security for the related bills payable, amounting to P9,412,461 and nil as of December 31, 2023 and 2022, respectively, as disclosed in Note 10.

Interest rate per annum is 7.5%.

Interest expense on bills payable charged to statement of comprehensive income for the years ended December 31, 2023 and 2022 amounted to P88,756 and nil, respectively.

**17. ACCRUED TAXES, INTEREST AND OTHER EXPENSES**

Details of this account are disclosed below:

	2023	2022
Accrued interest expense	P 1,807,542	P 1,666,983
Accrued taxes	1,338,184	1,517,986
Accrued other expenses	1,426,238	1,091,396
	P 4,571,964	P 4,276,365

Accrued other expenses pertain to expenses already incurred but not yet paid as of yearend, such as management fees, professional fees, provision for fuel and other year-end expenses.

Accrued taxes pertain to gross receipts tax not yet paid as of year-end.

## 18. RETIREMENT BENEFIT OBLIGATION

The Bank has no formal retirement plan but provides retirement benefits equal to one-half (1/2) of monthly salary for every year of service of each employee, with at least five (5) years of service. Benefits will be paid in lump sum upon retirement or separation in accordance with the terms of the Plan. An employee shall have at least five (5) years of continuous service with the bank.

As of December 31, 2023 and 2022, the Bank has retirement benefit obligation as shown below:

	2023	2022
Balance, December 31	P 14,152,684	P 12,337,817

Movement of accrued retirement benefit is shown below:

	Note	2023	2022
Balance, January 1		P 12,337,817	P 11,340,541
Retirement benefit expense	23	1,989,727	1,030,007
Benefits paid from book reserves		(174,860)	(32,731)
Balance, December 31		P 14,152,684	P 12,337,817

Management believes that the difference between the retirement benefit obligation computed under the Bank's method versus an actuarial technique is not material.

## 19. OTHER LIABILITIES

This account consists of the following:

	2023	2022
Accounts payable	P 79,028,271	P 65,280,101
Withholding tax payable	1,187,955	843,463
Government contribution payables	501,246	417,362
Due to the Treasurer of the Philippines	7,740	7,740
Deposit for stock subscription	3,125,000	3,125,000
	P 83,850,212	P 69,673,666

Accounts payable refers to claims by third parties arising from the purchase of goods and services and advance remittances of borrowers for their loan obligation.

Accounts payable also includes the funds granted by the Agricultural Credit Policy Council (ACPC) to the Bank for the implementation of the following programs:

1. Production Loan Easy Access (PLEA) - special lending facility designed to address the needs of farmers and fisherfolk-borrowers that are classified as poor. The facility seeks to extend credit that is fast, convenient and at a cost affordable to the intended borrowers.
2. AgriNegosyo (ANYO) - designed to finance MSEs and farmer and fisherfolk organizations/associations, capital requirements for acquisition of machinery/equipment, construction of facilities and/or working capital requirements for agri-fishery-based income generating activities.
3. Kapital Access for Young Agripreneurs (KAYA) - designed to finance the capital requirements of start-up or existing farm/fishery business.
4. Survival and Recovery (SURE) - a quick response post-disaster support facility of the Department of Agriculture that provides immediate financial assistance package to small farmers and fisherfolk and their households in calamity-affected areas so that they may immediately regain their capacity to earn a living.

Any amount approved and released to the Bank is subject to the terms and conditions as specified in the Notice of Credit Fund Approval.



Interest income on loans which consists of finance charges prescribed by the Implementing Guidelines and specified in the Notice of Credit Fund Approval shall accrue in favor of the Bank. Such income may be used by the Bank to cover costs of social preparation, training and operating expenses incurred in administering the Program.

Total accounts payable under these programs amounted to ₱76,292,914 and ₱59,376,949 as of December 31, 2023 and 2022.

Accounts payable is also composed of deposit for redemption of acquired assets which is non-interest bearing and are to be settled for a period of less than one (1) year.

Deposit for stock subscription refers to deposit for common stock subscription of the Bank's plan to increase its capitalization from ₱50,000,000 to ₱100,000,000 per Stockholders' Resolution No. 2021-04 dated March 13, 2021.

## 20. CAPITAL STOCK

### 20.01 Common Stock

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

	2023		2022	
	Shares	Amount	Shares	Amount
Authorized capital at ₱100 par value	500,000	₱ 50,000,000	500,000	₱ 50,000,000
Issued and fully paid at ₱100 par value				
Balance, January 1	500,000	50,000,000	500,000	50,000,000
Stock dividends	-	-	-	-
<b>Balance, December 31</b>	<b>500,000</b>	<b>₱ 50,000,000</b>	<b>500,000</b>	<b>₱ 50,000,000</b>

Common stocks carry one vote per share and a right to dividends.

### 20.02 Capital Management

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

The Bank manages its capital structure, which composed of paid-up capital and surplus reserve, and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities.

Based on MORB Section 121, the Bank qualifies as a rural bank with head office in all other areas outside National Capital Region (up to 3rd class municipalities with 1 to 10 branches). This type is required to meet ₱30,000,000 minimum capitalization. On August 24, 2022, the BSP issued BSP Circular No. 1151 containing the amendments to the minimum capitalization of rural banks. Based on the new requirements, the Bank now qualifies as a rural bank with up to 5 branches. This type is required to meet ₱50,000,000 minimum capitalization.

As of December 31, 2023 and 2022, the Bank is compliant with the minimum capitalization requirements.

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

20.02.01 Capital Ratios as of December 31, 2023

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

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

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

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

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

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

CET1 Capital consists of:

- a) Paid-up common stock
- b) Surplus
- c) Undivided profits

Subject to deductions/regulatory adjustments for:

- i. Outstanding unsecured credit accommodations, both direct and indirect, to DOSRI net of allowance for credit losses; and
- ii. Deferred tax asset
- iii. Retirement benefit obligation

Tier 2 Capital consists of:

- a) General loan loss provision

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

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

Information regarding the Bank's qualifying capital as of December 31, 2023 is shown below:	
	2023
	In (000,000's)
CET1 Capital	P 98.11
AT1 Capital	-
Tier 1 Capital	98.11
Tier 2 Capital	3.40
Qualifying capital	101.51
Total risk-weighted assets	P 653.00
CET1 Ratio	15.02%
CCB	9.02%
Tier 1 Capital Ratio	15.02%
Total CAR	15.54%

20.02.02 Capital Ratios as of December 31, 2022

Under the current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk-weighted assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets is total capital funds excluding:

- (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- (b) total outstanding unsecured credit accommodations to DOSRI;
- (c) deferred tax asset;
- (d) goodwill, if any;
- (e) sinking fund for redemption of redeemable preferred stock; and
- (f) other regulatory deductions.

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

The regulatory capital is analysed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 are defined as follows:

- a. Tier 1 Capital includes the following:
  - i. paid up common stock,
  - ii. surplus

Subject to deductions for:

- i. deferred tax asset, net of deferred tax liability
- b. Tier 2 Capital includes:
    - i. general loan loss provision

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

Information regarding the Bank's "unimpaired capital" as of December 31, 2022 is shown below.

	2022	
	In (000,000's)	
Tier 1 Capital	P	74.75
Tier 2 Capital		2.79
Gross qualifying capital		77.54
Total risk-weighted assets	P	585.17
Tier 1 ratio		12.77%
Total capital adequacy ratio		13.25%

The Bank's leverage ratio, computed as total capital over total assets, is 13.63% and 13.80%, as of December 31, 2023 and 2022, respectively.

## 21. SURPLUS

### 21.01 Surplus Free

Details of the Bank's surplus free are disclosed below:

	2023		2022	
Balance, January 1	P	36,613,307	P	31,730,716
Adjustments		2,106,839		538,453
Profit		8,074,363		4,344,138
Balance, December 31	P	46,794,509	P	36,613,307

As of December 31, 2023, adjustments to surplus includes staggered payment of penalty to BSP due to non-compliance to required allocation for MSME amounting to P76,709, recognition of interest income from collections of lumpsum accounts where no accrual of interest in prior year, reversal of subscription contract receivable amounting to P1,205,383 and its forfeiture of partial payment amounting to P967,140, and other adjustments.

As of December 31, 2022, adjustments to surplus includes application of prepaid tax to 2021 tax due of which P804,603 for Provision for Income Tax – Current and P1,692,688 for Provision for Income Tax – Deferred and other adjustments.

## 22. OTHER OPERATING INCOME

This account consists of the following:

	2023		2022	
Gain on sale of non-financial assets		3,971,595		4,455,740
Bank fees and commissions	P	232,338	P	788,707
Rental income		71,900		57,400
Recovery on charged-off assets		39,990		34,627
Miscellaneous income		5,442,388		4,067,635
	P	9,758,211	P	9,404,109

Details of gain on sale of non-financial assets are shown below:

	Notes	2023	2022
Gain on sale of:			
Assets held for sale	12	₱ 3,954,665	₱ 4,455,740
Bank premises, furniture, fixtures and equipment	11	16,930	–
		₱ 3,971,595	₱ 4,455,740

Miscellaneous income pertains to bank charges, overages, passbook replacement fees, bank certification fees and others.

### 23. OPERATING EXPENSES

Details of other expenses are shown below:

	Notes	2023	2022
Compensation and other employee benefits		₱ 35,851,243	₱ 30,209,078
Taxes and licenses		4,784,512	4,123,516
Depreciation	11,12	3,132,942	2,722,454
Insurance		1,780,986	1,566,412
Transportation and travel		1,631,046	1,459,106
Security, messengerial and janitorial services		1,465,061	1,484,951
Information technology expenses		1,356,768	1,256,921
Power, light and water		1,171,663	1,257,481
Postage, telephone and telegraph		1,149,276	880,032
Management and other professional fees		863,127	645,475
Litigation		786,792	234,969
Stationery and office supplies		725,202	575,284
Repairs and maintenance		575,181	386,264
Representation and entertainment		507,877	500,824
Fees and commission		471,233	389,610
Rent expense		389,508	408,397
Fuel and lubricants		284,440	341,428
Donation and charitable contributions		188,303	173,013
Supervision fees		96,191	91,754
Advertising and publicity		39,500	12,000
Membership fees and dues		39,280	39,560
Documentary stamps used		13,734	–
Periodicals and magazines		4,095	7,655
Fines, penalties and other charges		1,000	–
Bad debts written off		–	1,467,595
Miscellaneous		3,282,469	2,247,455
		₱ 60,591,429	₱ 52,481,234

Compensation expense consist of:

	Note	2023	2022
Salaries and wages		₱ 12,295,459	₱ 11,249,329
Other benefits – officers and employees		15,840,512	12,529,156
Directors' fees		3,240,000	3,225,000
Government contributions		2,414,212	2,029,382
Retirement expense	18	1,989,727	1,030,007
Medical, dental, and hospitalization		71,333	146,204
		₱ 35,851,243	₱ 30,209,078

Miscellaneous expenses pertain to meetings and conferences, freight costs, souvenirs and giveaways, and other expenses.

The Bank has elected not to recognize a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

## 24. INCOME TAX

Under Philippine tax laws, the Bank is subject to percentage and other taxes (included in taxes and licenses in the comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax. The Bank's liability will be based on regulations to be issued by tax authorities.

Income taxes include the corporate income tax, discussed below, and final tax paid which represents the final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as provision for income tax in the statements of income.

Under current tax regulations, the applicable income tax rate is twenty-five percent (25%). Interest allowed as a deductible expense is reduced by an amount equivalent to twenty percent (20%) of interest income subjected to final tax. Also, entertainment, amusement and recreation (EAR) expense is limited to one percent (1%) of net revenues, as defined, for sellers of services beginning September 1, 2002. The current regulations also provide for MCIT of 2% on modified gross income and allow a three year NOLCO. Any excess of the MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability while NOLCO can be applied against taxable income, both in the next three years from the year of occurrence.

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

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

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

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

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

#### 24.01 Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

	2023	2022
Income tax expense – current	P 4,182,084	P 1,413,462
Income tax benefit – deferred	(982,060)	(473,328)
	P 3,200,024	P 940,134

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

	2023	2022
Accounting profit	P 11,274,387	P 5,284,272
Tax expense at 25%	2,818,597	1,321,068
Tax effect of income that is subject to lower rate:		
Interest income subject to final tax	(209,875)	(196,286)
Tax effect of expenses that are non-deductible:		
Disallowed interest expense	52,469	80,968
Other non-deductible expenses	47,326	–
Other non-taxable income	–	(265,616)
Tax effects of adjustments or others	491,507	–
	P 3,200,024	P 940,134

#### 24.02 Deferred Tax Assets

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

	Allowance for credit losses – loans receivable	Retirement benefit obligation	Total
Balance, December 31, 2021	P 10,991,556	P –	P 10,991,556
Profit or loss			
Origination	473,328	–	473,328
Adjustment	395,610	–	395,610
Balance, December 31, 2022	11,860,494	–	11,860,494
Profit or loss			
Origination	528,344	453,716	982,060
Adjustment	–	–	–
<b>Balance, December 31, 2023</b>	<b>P 12,388,838</b>	<b>P 453,716</b>	<b>P 12,842,554</b>

Prior to 2020, the Bank did not recognize deferred tax assets since management believes that future taxable income will not be available to allow such deferred tax assets to be utilized.

The Bank has unrecognized deferred taxes as follows:

	2023	2022
Retirement benefit obligation	P 3,084,454	P 3,084,454
Allowance for credit losses – sales contract receivable	90,371	11,375
Allowance for credit losses – accounts receivable	63,753	63,753
Allowance for credit losses – accrued interest receivable	14,299	14,299
Allowance for impairment loss – assets held-for-sale	4,478	4,478
	P 3,257,355	P 3,178,359

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

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

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

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

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

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

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



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

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

Under the proposed law, effective July 1, 2020, the corporate income tax will be reduced from the current 30% to 20% for domestic corporations with total assets not exceeding P100 million, excluding land, and total net taxable income of not more than P5 million. The corporate income tax of all other corporations (domestic and resident foreign), meanwhile, will be lowered to 25%. The bill would also lower the minimum corporate income tax (MCIT) from 2% to 1% effective July 2020 until June 30, 2023.

Other key provisions of the CREATE bill include:

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

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

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2023 continued to be computed and measured using the applicable income tax rates as of December 31, 2023 (i.e., 25% RCIT / 1.50% MCIT) for financial reporting purposes.

## 25. RELATED PARTY TRANSACTIONS

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

### 25.01 Loans to DOSRI

The General Banking Act and BSP regulations limit the amount of the loans to each DOSRI as follows:

- 1) The individual ceiling for credit accommodations of a bank to each of its DOSRI shall be equivalent to his outstanding deposits and book value of his paid-in capital in the lending bank. The unsecured credit accommodations to each of the Bank's DOSRI shall not exceed 30% of his total credit accommodations.
- 2) The aggregate ceiling for credit accommodations, whether direct or indirect, to DOSRI of a bank shall not exceed 15% of the total loan portfolio of the Bank or its combined capital accounts net of deferred income tax, unbooked valuation reserves and other capital adjustments required by the BSP, whichever is lower. The total unsecured direct and indirect borrowings of DOSRI shall not exceed 30% of the aggregate ceiling or the outstanding direct/indirect credit accommodations thereto, whichever is lower.

The Bank has no DOSRI loans and related party loans as of December 31, 2023 and 2022.

### 25.02 Remuneration of Key Management Personnel

The key management compensation of the Bank is shown below:

	2023	2022
Short-term employee benefits	P 9,233,870	P 8,694,040
Post-employment benefits	227,990	118,022
	<b>P 9,461,860</b>	<b>P 8,812,062</b>

Short-term employee benefits is comprised of basic salary, COLA, medical and other benefits. While post-employment benefits refers to provision for retirement.

## 26. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank is not aware of any pending or threatened litigation, claims or assessments or unasserted claims of assessments that are required by PAS 37 to be accrued or disclosed in the financial statements and the Bank has not consulted a lawyer concerning litigation, claims or assessments. The Bank has complied with all aspects of contractual agreements that could have a material effect on the accounts in the event of non-compliance.

## 27. EVENTS AFTER THE REPORTING DATE

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

**28. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements for the year ended December 31, 2023 was approved and authorized for issue by the Board of Directors (BOD) on March 8, 2024.

**29. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 15–2010**

Revenue Regulations (RR) No. 21-2002 prescribing additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR 15-2010. The amendment that became effective on December 28, 2010 requires the inclusion in the notes to financial statements, information on taxes and license fees paid or accrued during the year in addition to what is required under the Philippine Financial Reporting Standards and such other standards and/or conventions.

Below is the additional information required by RR 15–2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

**29.01 Gross Receipts Tax**

	2023	2022
Gross receipts tax paid	P 4,278,092	P 3,398,951
Gross receipts tax payable	1,338,184	1,517,986
	P 5,616,276	P 4,916,937

**29.02 All Other National and Local Taxes**

All other local and national taxes paid by the Bank and presented as part of operating expenses for the periods ended December 31, 2023 and 2022 consist of:

	2023	2022
National tax:		
Percentage tax	P 4,248,679	P 3,535,769
Documentary stamp taxes	13,734	–
Local taxes:		
Business permit and other fees	403,245	380,284
Registration	15,146	16,288
Others	117,441	191,175
	P 4,798,245	P 4,123,516

### 29.03 Withholding Taxes

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

2023	Paid	Accrued	Total
Final withholding tax	P 1,164,197	P 595,745	P 1,759,942
Withholding tax on compensation	312,647	37,119	349,766
Expanded withholding tax	257,744	27,069	284,813
	<b>P 1,734,588</b>	<b>P 659,933</b>	<b>P 2,394,521</b>
2022	Paid	Accrued	Total
Final withholding tax	P 788,832	P 495,907	P 1,284,739
Withholding tax on compensation	426,744	37,033	463,777
Expanded withholding tax	274,566	28,455	303,021
	<b>P 1,490,142</b>	<b>P 561,395</b>	<b>P 2,051,537</b>

### 29.04 Tax Assessments

The Bank has no on-going tax assessments as of December 31, 2023 and 2022.

### 29.05 Tax Cases

The Bank has no outstanding tax cases in any other court or bodies outside of the BIR as of December 31, 2023 and 2022.

## 30. SUPPLEMENTARY INFORMATION UNDER BSP CIRCULAR NO. 1074

On January 8, 2020, the Monetary Board (MB), through Resolution No. 48, approved the amendments to the relevant provisions of the MORB. Subsequently, on February 7, 2020, the BSP issued Circular No. 1074 requiring banks to include the following information in their audited financial statements:

### 30.01 Basic Quantitative Indicators of Financial Performance

	2023	2022
Return on average equity	8.80%	5.16%
Return on average assets	1.39%	0.82%
Net interest margin	12.42%	10.05%

### 30.02 Description of Capital Instruments Issued

Description of capital instruments issued is disclosed in Note 20.

### 30.03 Significant Credit Exposures

Disclosures as to industry/economic sector are as follows:

	2023			2022		
	Peso Amount	% to TLP	% to Tier 1	Peso Amount	% to TLP	% to Tier 1
Household use	140,830,236	32.59	143.55	96,824,120	25.43	129.52
Construction	90,028,147	20.83	91.77	52,768,326	13.86	70.59
Wholesale and retail trade, repair of motor vehicles and motorcycles	66,087,445	15.29	67.36	67,942,016	17.84	90.88
Agriculture, forestry and fishing	55,596,110	12.86	56.67	80,790,766	21.22	108.08
Other service activities	21,167,342	4.90	21.58	32,778,419	8.61	43.85
Mining and quarrying	18,585,473	4.30	18.94	18,819,799	4.94	25.17
Education	15,478,829	3.58	15.78	12,789,964	3.36	17.11
Accommodation and food service activities	11,676,456	2.70	11.90	7,606,585	2.00	10.18
Transportation and storage	4,119,605	0.95	4.20	3,845,855	1.01	5.15
Manufacturing	2,815,752	0.65	2.87	389,615	0.10	0.52
Real estate activities	2,316,653	0.54	2.36	3,684,900	0.97	4.92
Human health and social work activities	2,447,448	0.57	2.49	998,354	0.26	1.33
Water supply, sewerage, waste management and remediation activities	711,680	0.16	0.73	779,256	0.20	1.04
Arts, entertainment and recreation	293,277	0.07	0.30	6,694	0.00	0.00
Administrative and support service activities	28,235	0.01	0.03	632,298	0.17	0.84
Information and communication	-	0.00	0.00	95,557	0.03	0.13
Professional, scientific and technical activities	-	0.00	0.00	4,221	0.00	0.00
<b>Total</b>	<b>432,182,688</b>	<b>100.00</b>		<b>380,756,745</b>	<b>100.00</b>	

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio or 10% of Tier 1 Capital, which is equivalent to ₱98.11 million and ₱74.75 million as of December 31, 2023 and 2022, respectively.

In 2023 and 2022, the Bank is exposed household use, construction, wholesale and retail trade, agriculture, forestry, and fishing, other service activities, mining and quarrying, education, and accommodation and food service activities amounting to more than 30% of the total loan portfolio or 10% of Tier 1 Capital.

### 30.04 Breakdown of Total Loans

#### 30.04.01 As to Security

Loan portfolio, net of unamortized discounts, classified as to security follows:

	2023	2022
Secured by real estate mortgage	₱ 167,916,879	₱ 152,634,871
Secured by chattel mortgage	24,592,473	7,507,898
Secured by others	103,312	413,171
Secured	192,612,664	160,555,940
Unsecured	239,570,024	220,200,805
	₱ 432,182,688	₱ 380,756,745

Others include deposit hold-out/back-to-back.

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30.04.02 As to Status per Product Line

Breakdown of loan receivables, net of unamortized discounts, categorized as to status, are disclosed below:

Loan Product	2023				Total
	Performing		Non-performing		
	Current	Past Due	Past Due	Under Litigation	
AGRA-MLDLP	-	-	927,571	-	927,571
AGRARIAN REFORM	1,585,588	-	2,550	-	1,588,138
AGRI -AGFP	5,498,170	340,200	2,824,975	-	8,663,345
AGRI NEGOSYO	5,889,770	129,294	1,976,414	-	7,995,478
AGRICULTURAL LOAN	12,595,566	5,438	1,778,917	-	14,379,921
BF & SHORT TERM LOAN	29,969,327	-	-	-	29,969,327
CREDIT LINE	11,269,301	1,500,000	-	-	12,769,301
ENHANCE MICRO EXPANDED SURE AID	8,383,755	-	3,843,762	-	12,227,517
FBL-SALARY	8,519,810	923,977	2,568,368	-	12,012,155
HAPPY LOAN	4,561,928	-	-	-	4,561,928
HOLD OUT ON DEPOSIT	23,701	-	-	-	23,701
HOUSING FBL LOAN	103,312	-	-	-	103,312
KABUHAYAN MCRO GROUP	526,325	-	-	-	526,325
KAYA-ACPC	1,290,876	-	439,463	-	1,730,339
LIOP-CL	147,968	99,770	-	-	247,738
LIOP-VENDOR SEASONAL	27,437,984	2,864,171	5,777,508	-	36,079,663
LIOP-VENDORS	138,143	-	-	-	138,143
LIPPUP OTHER SALARY	1,582,474	-	604,755	-	2,187,229
LIPPUP- PENSION	7,372,426	216,196	1,165,881	-	8,754,503
LIPPUP- SALARY BONUS	364,720	43,052	298,615	-	706,387
LIPPUP-COMPUTER	1,267,230	-	22,544	-	1,289,774
LIPPUP-EL	-	-	8,526	-	8,526
LIPPUP-GADGET LOAN	-	-	2,937	-	2,937
LIPPUP-HL	277,853	-	72,585	-	350,438
LIPPUP- HONORARIUM	-	-	87,122	-	87,122
LIPPUP-LGU/PROV	58,661,610	109,199	4,322,333	-	63,093,142
LIPPUP-Motorcycle	12,806,988	124,925	2,297,682	-	15,229,595
LIPPUP-OFW	538,195	-	-	-	538,195
LIPPUP-OPL	2,134,131	-	1,108,173	-	3,242,304
LIPPUP-OSA	35,009,626	74,107	3,582,523	-	38,666,256
LIPPUP-Teachers Loan	-	-	22,941	-	22,941
MEDIUM SCALE ENT.	3,326,083	69,301	235,846	-	3,631,230
MICRO GROUPING	71,863,127	-	13,812,375	-	85,675,502
MICROFINANCE PLUS	339,385	-	1,146,715	-	1,486,100
PRODUCTION LOAN EASY	1,439,053	-	237,245	-	1,676,298
SMALL SCALE ENT.	-	-	49,999	-	49,999
SURE- CALAMITIES	47,159,264	2,726,728	3,530,319	-	53,416,311
VAN LOAN	2,806,662	-	4,829,113	-	7,635,775
	-	-	488,222	-	488,222
<b>Total</b>	<b>364,890,351</b>	<b>9,226,358</b>	<b>58,065,979</b>	<b>-</b>	<b>432,182,688</b>

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Loan Product	2022				Total
	Performing		Non-performing		
	Current	Past Due	Past Due	Under Litigation	
AGRA-MLDLP	-	-	953,571	-	953,571
AGRARIAN REFORM	1,619,789	-	2,550	-	1,622,339
AGRI -AGFP	4,543,410	137,630	2,733,817	-	7,414,857
AGRI NEGOSYO	8,633,687	70,647	3,124,945	-	11,829,279
AGRICULTURAL LOAN	12,286,505	379,897	2,933,356	-	15,599,758
BF & SHORT TERM LOAN	20,000,000	-	-	-	20,000,000
CREDIT LINE	10,718,959	-	-	-	10,718,959
ENHANCE MICRO EXPANDED SURE AID	6,406,344	-	3,460,980	-	9,867,324
FBL-SALARY	12,224,081	889,211	4,988,913	-	18,102,205
HAPPY LOAN	3,486,386	-	-	-	3,486,386
HOLD OUT ON DEPOSIT	-	-	-	-	-
HOUSING FBL LOAN	413,171	-	-	-	413,171
KABUHAYAN MCRO GROUP	-	-	-	-	-
KAYA-ACPC	-	-	-	-	-
LIOP-CL	353,371	-	887,293	-	1,240,664
LIOP-VENDOR	33,199,197	924,704	4,552,880	-	38,676,781
SEASONAL	87,915	-	-	-	87,915
LIOP-VENDORS	1,435,876	18,438	428,177	-	1,882,491
LIPPUP OTHER SALARY	4,346,384	41,857	1,139,239	-	5,527,480
LIPPUP- PENSION	265,806	-	128,294	-	394,100
LIPPUP- SALARY BONUS	922,465	-	23,490	-	945,955
LIPPUP-COMPUTER	-	-	8,526	-	8,526
LIPPUP-EL	-	-	2,937	-	2,937
LIPPUP-GADGET LOAN	935,434	19,015	33,723	-	988,172
LIPPUP-HL	-	-	87,422	-	87,422
LIPPUP-HONORARIUM	32,065,393	36,243	3,875,614	-	35,977,250
LIPPUP-LGU/PROV	11,169,174	221,081	2,325,310	-	13,715,565
LIPPUP-Motorcycle	524,017	-	-	-	524,017
LIPPUP-OFW	724,143	26,723	1,056,173	-	1,807,039
LIPPUP-OPL	27,175,586	70,796	3,086,304	-	30,332,686
LIPPUP-OSA	539,615	-	22,941	-	562,556
LIPPUP-Teachers Loan	1,832,276	-	160,794	-	1,993,070
MEDIUM SCALE ENT.	60,679,480	-	-	-	60,679,480
MICRO GROUPING	525,941	-	1,179,315	-	1,705,256
MICROFINANCE PLUS	351,819	-	250,285	-	602,104
PRODUCTION LOAN EASY	-	-	122,261	-	122,261
SMALL SCALE ENT.	57,358,369	1,434,066	1,321,530	-	60,113,965
SURE- CALAMITIES	9,647,258	-	12,479,112	-	22,126,370
VAN LOAN	-	-	644,834	-	644,834
<b>Total</b>	<b>324,471,851</b>	<b>4,270,308</b>	<b>52,014,586</b>	<b>-</b>	<b>380,756,745</b>

### 30.05 Information on Related Party Loans

Details of the Bank's DOSRI loans and related party loans as of December 31, 2023 and 2022 are disclosed in Note 25.

**30.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security**

As of December 31, 2023 and 2022, bills payable amounting to ₱9,437,710 and nil, respectively, are secured by a pledge of certain assets as follows:

	2023	2022
Loans receivables	P 9,412,461 P	-

**30.07 Nature and Amount of Contingencies and Commitments**

In the normal course of the Bank's operations, there are various commitments to extend credit which are not reflected in the Banking financial statements. As at December 31, 2023 and 2022, management believes that liabilities or losses, if any, arising from these commitments will not have a material effect on the financial position and results of operations of the Bank.

The following is a summary of the Bank's contingent accounts as of December 31, 2023 and 2022:

	2022	2021
Items held as collateral	-	-