

ANNUAL REPORT

2023





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Corporate Profile

Our Mission

The Bank aims to utilize its financial resources in providing quality banking services, adopting a market driven strategy, and obtaining sustained and competitive return on investments toward economic development of the countryside to improve rural economy.

Our Vision

To serve as a dependable provider of credit and other value-added financial services to support economic growth in the community through the development of farmers and local economies by way of prudent investment that support the agriculture sector and rural businesses.

Our History

The Rural Bank of Sanchez Mira (Cagayan) Inc., was incorporated on 6 July 1971 and was registered with the Security and Exchange Commission (SEC) under registration number 45926 on 25 November 1971. Likewise, the Bank was granted authority to operate by the Bangko Sentral ng Pilipinas (BSP) on March 13, 1972 and started its operation on March 16, 1972 with an authorized capital of P 1 million divided into 5 thousand shares of common and 5 thousand shares of preferred stock, both with par value of P 100.00.

On October 22, 1998, the P 3 million authorized capital was increased to P 15 million increasing the common shares with a total of P 14.5 million and P 0.500 million preferred stocks. On December 31, 2006, the Bank has a total paid up capital of common stock of P 4.800 million and preferred stock of P 0.100 million. On June 15, 2007, the LBP preferred shares of P 0.100 million was redeemed/paid including interest. Rural Bank of Sanchez Mira (Cagayan) Inc., now operates with an authorized capital stock of P 15 million with a paid-up capital of P 15 million owned by 29 private individuals.

Its primary purpose is to engage in the business of extending rural credits to small farmers and tenants and to deserving industries or enterprise, to have and exercise all authority and powers to do and perform all acts, and to transact all business which may legally be had or done by rural banks organized under or maybe amended; and to do all other things incident thereto that are necessary and proper in connection with the said purpose and within such territory, as maybe determined by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP).

The Bank's principal place is located at., Lagasca St., Centro 1, Sanchez Mira, Cagayan.



Rural Bank of Sanchez Mira (Cagayan), Inc. 2023 Annual Report

The Rural Bank of Sanchez Mira (Cagayan), Inc. Board of Directors is composed of five (5) members; one (1) executive director, two (2) non-executive directors, and two (2) of them are Independent Directors.

In pursuance to the objectives of the Bank, the stockholders recognize that it plays a very important role in the countryside development and to a broader sense to our nation's development thereby uplifting the quality of life for all. Hence, its mission is to provide sufficient financial assistance and make them available and readily accessible to those in need of financial assistance at reasonable terms especially to the rural community.

The RBSMI Brand

For over 50 years, RBSMI has been branded as basically as an agriculture-oriented bank. RBSMI also has established itself as a "Bangko ng Masa"- a stable, unswerving, and service-oriented financial institution serving generations of Filipinos in the rural community of Sanchez Mira, Cagayan, and its nearby municipalities. Aside from the challenges inherent in dealing with small farms cultivated by small farmers vulnerable to all sort of interruptions, like theses cyclical patterns of production that makes trade operations an overriding concern for small agricultural producers who are often left at the mercy of middlemen in commodity pricing. Small farmers are always in weak position to negotiate with traditional traders. Knowing fully well these challenges, banks are wary on how small agricultural producers deal with this issue and this leads to aversion to open their lending window in favor of this sector The Rural Bank of Sanchez Mira remains committed to its mandate of servicing this sector.

The RBSMI Model

Agricultural production and Agri-based industries remain to be the priority of the Bank in the rural community lending and funding is mostly derive from customer deposits. RBSMI has been a long-time partner of the Agricultural Guarantee Fund Pool (AGFP) in catering the needs of the small farmers and fisher folks. RBSMI also acknowledges the role of MSME's on their contribution to economic growth; thus, just like other sectors, the Bank supported budding entrepreneurs who has potential for growth.

RBSMI keeps its good standing to continue providing financial services for the low-income groups. RBSMI believes that the community needs the services of the rural banks especially in trying times.

Overall, the portfolio mix of RBSMI is a demonstration of its mission in adopting a market driven strategy, and obtaining sustained and competitive return on investments toward economic development of the countryside to improve rural economy.



Rural Bank of Sanchez Mira (Cagayan), Inc. 2023 Annual Report

In order to pursue its business model of promoting its three winning loan types- loan to Agriculture, Small and Medium Enterprise (MSME), Personal Consumption Loans, RBSMI plans to expand its network. It will search and reach out for frontier markets where there is concentration of people from its targeted sectors to have a greater performance in mission implementation.

The RBSMI Strategy

RBSMI's strategy focuses on building its brand to attain sustainability, deliver financial services to its targeted sectors, expanding market coverage to advance its campaign to reach out to as many clients in as many locations.

The Bank's strategy is focused on three (3) core areas namely:

- Expanding physical presence and building a strong client acquisition; targeting the nearby towns for branch lite unit at Abulug, Cagayan and Pagudpud, Ilocos Norte.
- Inclusion to financial technology and sees every opportunity it brings to its banking operations.
- Prudently managing its assets by conservatively provisioning for risk assets and ensuring sufficient capital to support growth.



Message from the President

“Withstanding all challenges that will come our way and growing to be a more resilient, sustainable and established rural bank is a goal that RBSMI can achieve as one true family.”



Dear Stockholders,

I am pleased to report to you the performance of Rural Bank of Sanchez Mira (Cagayan), Inc. for the year 2023.

Emerging from the distress caused by the pandemic in the past year 2020 to 2021 and accepting to live by the “new normal” in 2022, Rural Bank of Sanchez Mira (Cagayan), Inc. continued its excellent service in providing support to economic growth and rural development during the previous year.

2023 has been a great opportunity for us in catering our products and services to our clientele as the economy reopened and travel restrictions were lifted. Empowered with our journey of uplifting lives of our small farmers, tenants, fisher folks and small industries, we proved their unwavering trust in us as evidenced by the increase of our loan portfolio by 7.23% from 2022 and as our savings deposit liabilities stabilized above P80 Million. Moreover, our past due ratio remained on a single digit at 6.61%. We also surpassed the target net income for 2023 of P2.411 Million by 19.67%, providing a buffer for the target capital accretion from net income of P1.809 Million intended for the CBUP. We had a total of P26 Million capital for the year, which is halfway through the required minimum capitalization of P50 Million.

Undoubtedly, our employees contributed to these accomplishments all throughout the year with their hard work, commitment and perseverance. To hasten their full potential and facilitate their personal and professional growth, our Bank provided them continuing education through attendance in seminars and trainings conducted by different related organizations. Additionally, with the objective of rekindling camaraderie and strengthen professional relationship among the employees, the Senior Management and the Members of the Board after the past years of being at home due to pandemic, we held a team-building activity. Also, with establishment of branch lite units (BLU), our Bank will continue to nurture the competencies of our human resource and future hires. Our gratefulness is beyond words to our employees for their commitment for the 52 and counting years of our Bank in the industry.



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As we continue to pursue our mission and vision, various challenges and opportunities will still come along our way. We – the Stockholders, Management, Board of Directors and our employees – and with our determination to fulfil our future commitments, can deal with these adversities and seize the opportunities with the same energy, eagerness and passion.

With the guidance of our Stockholders and Board of Directors, with prudence and with integrity, we will continue to demonstrate our resiliency, sustainability and quality service in providing dependable and efficient financial services to support economic growth and rural development of our stakeholders, clientele, small farmers, tenants, fisher folks, small industries and the rural community as a whole.

Moving forward, RBSMI will remain to be more analytical in dealing with economic crises and impact to its business models and business contingency plans. With the steadfast support of its stockholders in its funding needs and risk mitigation strategy; the technological innovations adopted to continue quality service to its targeted sectors; and the lessons learned from various challenges faced for more than fifty years of rural banking, the Bank proves its resiliency, sustainability and stability. With competence, professionalism and dedication, the leaders of RBSMI continue to be role models to the entire organization and help the employees adopt with the unceasing changes in its environment. As we will continue to nurture our people, their engagement and development to become more effective and more efficient will be an edge as the Bank welcomes the future with a positive mindset. With full support from our board of directors, and the rest of the bank's leadership team, we will proceed making significant transformations to our ways of working.

Our gratefulness to all our stakeholders, Board of Directors, clients, partners, and friends for their unending support is beyond words. Our dedicated officers and staff with their excellent services to cater our client's financial needs are more to be grateful of. Withstanding all challenges that will come our way and growing to be a more resilient, sustainable and established rural bank is a goal that RBSMI can achieve as one true family.

Praise and honor in God's glory for we are the Rural Bank of Sanchez Mira (Cagayan), Inc., where the past serves as our foundation, the present as our moment and the future as our goals!

ALEJANDRO M. PULIDO JR.
President



2023 Financial Summary

		Year		Increase
		2023	2022	(Decrease)
Profitability				
Total Net Interest Income	P	10,152,965	8,774,543	1,378,422
Total Non-Interest Income		2,756,875	2,588,348	168,527
Total Non-Interest Expenses		9,082,730	9,205,204	-122,474
Allowance for Credit Losses		643,342	333,151	310,191
Net Income		2,411,444	1,313,271	1,098,173
Selected Balance Sheet Data				
Liquid Assets	P	42,353,655	44,379,917	-2,026,262
Gross Loans Receivables		74,723,961	69,685,098	5,038,863
Total Assets		114,371,815	115,894,125	-1,522,310
Deposits		82,343,912	87,094,733	-4,750,821
Total Equity		26,571,197	24,159,753	2,411,444
Selected Ratios				
Return on Equity		9.51%	5.34%	4.17%
Return on Assets		2.09%	1.16%	0.93%
Capital Adequacy Ratio		24.00%	19.32%	4.68%
Minimum Liquidity Ratio		48.33%	48.44%	-0.12%
Per Common Share Data				
Earnings Per Share		16.08	8.83	7.25
Book Value per Share (Ordinary Shares)		177.14	161	16.14
OTHERS				
Cash Dividends Declared		-	2,500,000	-2,500,000
Headcount		14	15	-1
Officers		6	6	0
Staff		8	9	-1



2023 Quick Review

Profitability

2.411 Million Pesos
Net Income

9.51%
Return on Equity

2.09%
Return on Assets



Capital Adequacy

24.0%
Capital Adequacy Ratio

114.372 Million Pesos
Total Assets

69.720 Million Pesos
Net Loan Portfolio



2023 Financial Highlights

128.411 Million Pesos
Total Loan Releases

74.724 Million Pesos
Gross Loans

7.23%
Increase in Loan Portfolio

82.344 Million Pesos
Deposit Liabilities

26.571 Million Pesos
Total Equity

13.806 Million Pesos
Gross Income

14
Number of Employees

643 Thousand Pesos
Booked ACL

680 Thousand Pesos
General Loan Loss Provision

2.251 Million Pesos
ACL-Specific



Financial Condition and Results of Operation

Earnings

RB Sanchez Mira earned a total revenue of P 13.807 million and a net profit after tax of P2.411 million in 2023. Net interest income was P10.153 million, up by 15.71 percent from the previous year of P8.776 million. The bank achieved a net income of P2.411 million in 2023, which considerably increased by 45.54 percent from previous year. The bank is grateful for a positive income.

Loan Portfolio

Loan portfolio continues to increase by 7.23 percent to P 74.724 million in 2023 from P 69.685 million in 2022 as a result of the collaborative efforts of the officers and employees under the leadership of the Board of Directors to improve the marketing schemes of the bank. Total loans extended to 538 accounts for the year and aggregated to P114.731 million which is 13.62 percent higher from previous year of P 100.974 million.

The Bank continuously shows its support to economic growth and rural development as it posted the highest loan release for the Small and Medium Enterprise Sector amounting to P 56.664 million, which is 44.13% of the total loan releases catering to 61 loan accounts. Loan releases were granted to the following projects:

Purpose	Number of Accounts		Amount of Loans Granted	% to total releases
Agri-Agra	New Loan:	21	32,891,000	25.61%
	Reloan/Renewal:	175		
	Total:	196		
Medium Scale Enterprises	New Loan:	1	40,853,000	31.81%
	Reloan/Renewal:	12		
	Total:	13		
Small Scale Enterprises	New Loan:	2	15,811,000	12.31%
	Reloan/Renewal:	46		
	Total:	48		
Salary Loan	New Loan:	56	16,990,000	13.23%
	Reloan/Renewal:	161		
	Total:	217		
Loans to Individuals for Housing Purposes	New Loan:	4	9,630,000	7.50%
	Reloan/Renewal:	25		
	Total:	29		



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Personal Consumptions	New Loan:	3	10,991,000	8.56%
	Reloan/Renewal:	22		
	Total:	25		
Loans to Individuals for Other Purposes	New Loan:	1	1,245,000	0.97%
	Reloan/Renewal:	9		
	Total:	10		
Total	New Loan:	88	128,411,000	100.00%
	Reloan/Renewal:	450		
	Total:	538		

RBSMI will continue to serve the community with the same commitment as it expands its market area coverage and takes initiatives in improving its products and services while maintaining to be financially feasible despite limiting situations. RBSMI will continue to work with improved productivity and efficiency across the entire organization.

Gross Loan Portfolio

As of 31 December	Gross Loan Portfolio	% of increase (decrease) from previous year
2023	74.724 million	7.23%
2022	69.685 million	13.67%
2021	61.304 million	17.38
2020	52.228 million	0.11
2019	52.170 million	-16.21

While it continues meeting challenges in dealing with clients severely affected by the typhoon Egay and rising inflation, the Bank sustains an increase its loan portfolio last year. For the year 2023, loan portfolio increased by 7.23 percent from previous year of P 69.685 million.

Past-Due Loans

As of 31 December	Past Due Not yet non-performing	Non-Performing and Loans in Litigation	Total Past Due Loans	Past Due Ratio
2023	0.768 million	4.171 million	4.939 million	6.61%
2022	2.809 million	2.158 million	4.697 million	5.73%
2021	2.839 million	2.159 million	4.998 million	8.15%
2020	3.077 million	3.034 million	6.111 million	11.70%
2019	1.999 million	0.904 million	2.903 million	5.57%



The Bank recorded a reasonable average past due ratio of 7.55% for the past five years. Over the last two (2) years- 2021 and 2022, past due ration decreased as a manifestation that the economy is progressively recovering from the pandemic last 2020. The Bank's past due ratio remained at a single digit of 6.61 percent for 2023 which is still below the RB's industry of 9.77 percent despite the increase of 0.88% from 2022's 5.73 percent. The Board and Senior Management committed to prioritize the following measures to reduce past due.

- Constant communication and continuous monitoring of all loan borrowers: Personnel from the loan department are communicating with all existing borrowers in order to determine their current status and payment capacity, still due to the impact of the recent pandemic. Communication with the borrowers is directly reported to the Senior Management in order to address the root cause of delinquency and determine remediation measures or actions to lessen reoccurrence of being past due. The Loans department may recommend to the Senior Management for restructuring of loans based on the result of investigation or analysis on the borrower's capacity.
- The Board and Senior Management resolved to further strengthen the Bank's Credit Risk Management by considering borrower's resilience to withstand economic crisis and the soundness and adaptability of the business industry they are engage in.

Deposit

As of 31 December	Type of Deposit		Total
	Regular	Special	
2023	50.644 million	31.700 million	82.344 million
2022	53.821 million	33.272 million	87.094 million
2021	51.606 million	30.595 million	82.202 million
2020	51.320 million	26.094 million	77.413 million
2019	39.965 million	20.762 million	60.727 million

Deposit liabilities decreased by 16.94% from P87.094 million of 2022 to P82.344 million of 2023. Dormant deposit increased by 129% from P 271 thousand to P 621 thousand even with persistent and constant follow-up of the savings clerk to the dormant deposit accounts. Nevertheless, having the deposit liabilities steadied at above P 80 million indicates that the trust and confidence of our depositors in our Bank is unwavering.



Capital

The Bank's capital adequacy ratio remains strong at 24 percent above the BSP's 10 percent minimum requirement, and the liquidity buffers stayed sufficient. Minimum Liquidity Ratio stood at 48.33 percent which is twice the 20 percent minimum liquidity ratio requirement on all rural banks. As of 21 December 2023, the Bank's adjusted capital stood at P26.571 million.

Operational Highlights

Financial Condition

Total Assets Distribution for CY 2023 and CY 2022.

ASSETS	2023	2022	Variance
Cash	2,539,822	2,155,670	384,152
Due from BSP and Other Banks	39,813,833	42,224,247	-2,410,414
Held to Maturity Investment	-	2,000,000	(2,000,000.00)
Loans and receivables, Net	69,720,143	67,235,196	2,484,947
Bank Premises, Furniture, Fixtures and Equipment, net	990,658	1,199,609	-208,951
Investment Properties	-	-	-
Deferred Tax Assets	451,203	330,857	120,345.65
Other Assets	856,156	748,546	107,610
TOTAL ASSETS	114,371,815	115,894,125	-1,522,311

**The Financial Condition and result of operation are based on the Audited Financial Statement of the bank as at December 31, 2023 and 2022.*

RBSMI's total assets stood at P114.372 million. A decrease in the total asset is caused by the expiration of the held to maturity investment of the Bank amounting to P 2.0 million. Even so, the Bank recorded an increase in loans and receivable-net of 3.70% percent from 2022. This was the result of the persistence of the Bank to achieve its strategy specifically on increasing the loan portfolio.

LIABILITIES & SHAREHOLDERS' EQUITY

LIABILITIES	2023	2022	Variance
Deposit Liabilities	82,343,912	87,094,733	-4,750,821
Accrued Interest taxes and other expenses Payable	248,065	226,941	21,124
Other liabilities	1,681,470	1,691,336	-9,866
Income Tax Payable	367,671	181,362	186,309
Deposit for Capital Subscription	3,159,500	2,540,000	619,500
TOTAL LIABILITIES	87,800,618	91,734,372	-3,933,754

**Total Liabilities of the bank is made up of deposits generated, accrued interest and other expenses payable.*



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Total liabilities decreased by 4.29 percent due to the decreased on the deposit liabilities by 16.94 percent. Deposit Liabilities were recorded at P82.344 million and represented 93.79 percent of total liabilities. Deposit for capital subscription which comprised of the payment of net income deficiency and the subscription for the increase in authorized capital is still booked as liability on the Balance Sheet which will be reclassified to the capital account upon the approval on the increase on authorized capital to P50 million. Amendment on the By-laws and Articles of Incorporation is still up for submission to the BSP and SEC.

Showing the capital accounts for CY 2023 and 2022.

SHAREHOLDERS' EQUITY

Capital Stock	2023	2022	Variance
Common Stock	15,000,000	15,000,000	-
Retained Earnings	11,571,197	9,159,753	2,411,444
TOTAL SHAREHOLDERS' EQUITY	26,571,197	24,159,753	2,411,444

The Bank's authorized capital stock has already been achieved by the Bank since 2020. Retained earnings increased by 26.33 percent last year.

Authorize ordinary share capital as of December 31, 2023 amounted to P 15,000,000.00 divided into 150,000 shares with a par value of P100.00 each. Total subscribed and paid-up ordinary shares amounted to P 15 million or 150,000 shares. The Bank looks forward to the approval of the increase in authorized capital stock amounting to P 50 million.

The Bank submitted a revised five (5) year-Capital Build-Up Program to increase capitalization to P 50,000,000.00 in accordance with BSP Circular 1151: Amendments to the Minimum capitalization for Rural Banks incorporating thereof the comments and observations in the evaluation made by the BSP.

The following are the computed capital ratios of the Bank as prescribed under BSP Circular 1079 issued on 9 March 2020 on the Amendments to the Risk-Based Capital Adequacy Framework for Stand-Alone Thrift banks, Rural Banks and Cooperative Banks.

	2022	2023
Tier 1 Capital	23,828,896	26,119,994
Tier 2 Capital	658,500	680,417
Total Qualifying Capital	24,487,397	26,800,411
Net Risk weighted Assets	126,736,749	111,679,012
Tier 1 Capital Ratio	18.80%	23.39%
Tier 2 Capital Ratio	0.52%	0.61%
Total CAR	19.32%	24.00%



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A. Calculation of Qualifying Capital	2022	2023
A.1 Tier 1 Capital		
Core Tier 1 Capital		
Paid-up Capital- Ordinary	15,000,000	15,000,000
Retained Earnings	9,159,753	11,571,197
Deductions from Core Tier 1 Capital		
Deferred Tax Assets, Net of Deferred tax Liability	330,857	451,203
Total Outstanding unsecured credit accommodations to DOSRI	-	-
Total Tier 1 Capital	23,828,896	26,119,994
A.2 Tier 2 Capital		
Upper Tier 2 Capital		
General Loan Loss Provision	658,500	680,417
Total Upper Tier 2 Capital	658,500	680,417
Total Qualifying Capital	24,487,396	26,800,411

BSP Circular No. 688, Revised Risk-Based Capital Adequacy Framework for stand-alone Thrift Banks, Rural Banks and Cooperative which took effect on January 1, 2012 represents BSP's commitment to align existing prudential regulations with international standards, which is consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system. BSP Circular 688 (Basel 1.5) superseded BSP Circular No. 280 which is primarily based on Basel 1.

Under current banking regulations, the combined capital accounts of each 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 ratio to total equity excludes:

- Un-booked valuation reserves and other capital adjustments as may be required by the BSP;
- Total outstanding unsecured credit accommodations to DOSRI;
- Deferred tax assets or liability; and
- Accumulated equity in net earnings of investee where the bank holds 50% or less but where the equity method of accounting has been applied, and
- Appraisal increment on property and equipment other than those allowed to be recognized in accordance with merger or consolidation
- Other regulatory deductions

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

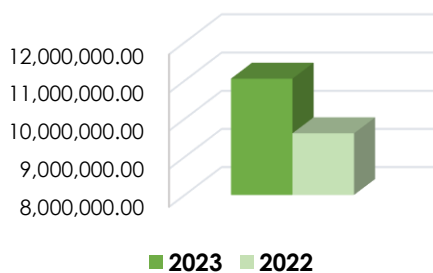


Performance Review

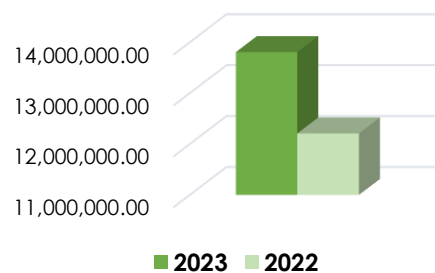
Showing the Total Income and expense accounts and the percentage of distribution for CY 2023 and 2022.

		Year		Increase (Decrease)
		2023	2022	
Income Accounts				
Interest Income	P	11,048,880	9,619,046	1,429,834
Non-Interest Income		2,756,875	2,588,348	168,527
Gross Income		13,805,755	12,207,394	1,598,361
Expense Accounts				
Interest Expenses		895,915	844,503	51,412
Provision for Credit Losses		643,342	333,151	310,191
Compensation and Fringe Benefits		5,964,511	6,003,458	-38,947
Other Operating Expenses		1,988,014	2,095,290	-107,276
Depreciation and Amortization		322,602	364,195	-41,593
Taxes and Licenses		807,603	742,262	65,341
Total Expenses		10,621,987	10,382,859	239,128
Net Income Before Income Tax		3,183,768	1,824,536	1,359,232
Income Tax Expenses		772,324	511,265	261,059
Net Income after Tax		2,411,444	1,313,271	1,098,173
Earnings per share		16.08	8.76	7.32

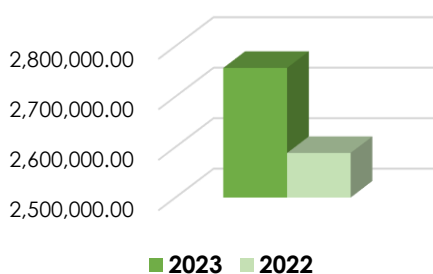
Interest Income



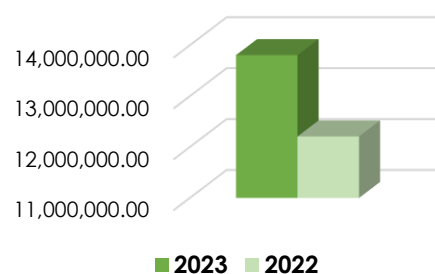
Gross Income



Non-interest Income



Net Income Before Tax





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The interest income for the year 2023 increased by 14.86 percent from the previous year. Non-interest income slightly increased by 6.51 percent due to the increase number of accounts on the loan releases and increase in the VIP Payment system customers for the year 2023. Generally, gross income increased by 13.09 percent from P 12.207 million to P13.806 million of 2023.

Interest expense on deposit liabilities went up a bit by 6.09 percent or P 51 thousand. 2.14 percent is directed to the interest expense on regular savings deposit or P1 thousand and 97.86 percent is directed to special savings deposit or P 50 thousand.

The Bank's allowance for credit losses of P 643 thousand, up by 93.11 percent represented 6.06 percent of the total operating expenses. The increase is due to the qualitative review made by our external auditors based on the MORB's Appendix 15.

The earnings per share measures Bank's profitability. It indicates how much profit the Bank makes for each share of stock. The Bank's EPS significantly increased from 8.76 percent to 16.08 percent which has been the result of the increase on the net income this year.

Rural Bank of Sanchez Mira (Cagayan), Inc., in compliance with BSP Circular 1151: Amendments to the Minimum Capitalization for Rural Banks, chose Track 4 (Capital Build-Up Program) to meet the minimum required capital of P50 million. As of the year ended 31 December 2023, the capital of the bank stood at P26.572 million which is below the aforesaid minimum capital for head-office only or a capital deficiency of P23.428 million.

Early of 2023 we submitted our Five-Year Capital Build-up Program (CBUP) stipulating our strategies, financial projections with underlying assumptions and other relevant information in order to achieve the minimum capitalization of P50 Million as set by the Bangko Sentral ng Pilipinas with the intention to strengthen rural banking. Though it has not yet been approved by the BSP, our Bank already faced a setback with the early demise of one of our Stockholders, who was supposed to be one of the major contributor in the capital infusion for the CBUP. Despite this, we stood hand in hand and came up with a resolution to push through with and conquer any encounters impeding our aim to attain the said capitalization. The confidence of our Stockholders in the leadership of our Board of Directors and Senior Management is a vital factor in being a sustainable bank that would bring in steady returns to them. With this, we submitted a Revised Five-Year Capital Build-Up Program to the BSP last September 22, 2023.

Part of the bank's 5-year CBUP consist of infusion of fresh capital from stockholders who subscribed amounting to P 14 million pesos to be infused for a period of five years and accretion from income amounting to P12.320 million with breakdown as follows:



Year	Fresh Capital Infusion	Capital Accretion from Net Income
2023	1.00 million	1.809 million
2024	1.500 million	1.998 million
2025	2.000 million	2.284 million
2026	2.000 million	2.575 million
2027	7.500 million	3.655 million
Total	14.000 million	12.321 million

The stockholders are expected to make their first capital infusion last 21 September 2023. However, with the CBUP still pending for approval under the BSP, the Board and Senior Management resolved the acceptance of payment for the capital subscription be delayed until such approval has been received.

Strategic Directions

2023 is the first year of the 5-Year Capital Build-up Program of the Bank. However, the Amendments of Articles of Incorporation and infusion of fresh capital amounting to P 1.0M is yet to be completed since there is a delay in the approval of the Capital Build-Up Program of the Bank. With the envisioned establishment of branch lite units, the Senior Management already conducted a scoring on the proposed site for 2024 as part of its new growth opportunities and increase in market area coverage. RBSMI also surpassed the target net income for 2023 of P2.411 Million by 19.67%, providing a buffer for the target capital accretion from net income of P1.809 Million intended for the CBUP.

For the second year of the CBUP of the Bank, the following strategies are aligned:

1. Assess the direction of the financial services industry and its customers and develop and maintain expertise in new financial products, services, and technology;
2. Establish a Branch Lite at Pagudpud, Ilocos Norte to cater to the municipalities of Ilocos Norte and Sta. Praxedes, Cagayan on or before the 4th quarter of 2024 to prepare the required documents needed in the establishment to be submitted to the appropriate Supervising Department of the Bangko Sentral for their approval;
3. Maintain or otherwise review the interest rates on loans at their current level which will stand at the same rate with peer banks, cooperatives, and other financial institutions;
4. Accreditation or partnering of the Bank with Philippine Crop Corporation (PCIC) to provide insurance protection to the main clients of the bank-the farmers against losses arising from natural calamities;
5. Infuse Fresh Capital of P1.500 million;
6. Attain at least a net income after tax of P 1.999 million for CY 2024.



Risk Management

With the goal of providing quality products and services to its clientele while supporting economic growth and rural development, RBSMI adopts a sound and prudent risk management methodologies which shall provide a framework to identify, measure, control, monitor and mitigate risks associated to its operations, which may disrupt business continuity.

Overall Risk Management Culture and Philosophy

As the Bank takes that opportunities are associated with risks, a prudent risk management is embedded on the Bank's strategy; adequacy of framework, policies and procedures, internal controls, risk management systems and procedures.

A strong independent oversight has been established at all levels within the Bank. A clear and defined Risk Management Policy is in place that includes the following:

- A comprehensive risk management approach;
- A detailed structure of limits, guidelines and other parameters used to govern risk-taking;
- A clear explanation of lines of responsibilities for managing risks;
- An effective internal controls and comprehensive monitoring and risk-reporting process; and
- Adherence to standards and regulations.

Risk Management Principles

- Sound Liquidity Management
- Sustainable Earnings Generation
- Capital Adequacy

Risk Appetite and Strategy

RBSMI's risk appetite is the level of risk that it is prepared to accept in pursuit of its business goals and objectives. The Bank's principle on risk appetite is expressed as risk tolerance and is embedded throughout the Bank's departments. Risk threshold emphasizes that "the risk should not go beyond" the Bank's capacity to manage risk, thus risk management is everyone's responsibility. The Bank ensures that credit, market, interest rate, and liquidity risks are within Board-approved operating limits.

Moreover, the Bank ensures:

- To pursue business objectives by accepting risks up to the level where it remains aligned with its risk appetite.
- To avoid possible risk on financial loss as a result of regulatory fines/sanctions and deviations.
- To remain compliant with Philippine laws and regulatory bodies and its public mandate.





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Per BSP statements in MORB, the Bank's Risk Appetite, should be clearly understood by the members of the Board of Directors, senior management, employees, shareholders, the public and the BSP itself, as the regulator. As defined, the risk appetite has to be contained in a statement made to present "the individual and aggregate level and types of risks" that the Rural Bank of Sanchez Mira is willing to assume, in order to achieve its business objectives and considering its current capacities in managing those risks.

As Risk Management is simply a practice of systematically selecting cost-effective approaches for minimizing the effect of actual threats realized by the bank. All risks can never be fully avoided or mitigated simply because of financial and practical limitations. Therefore, all organizations must accept some level of residual risks.

Factors in determining Risk Appetite

- 1) Credit quality of potential/existing borrowers as basis for loan approval
- 2) Fluctuations in investment values, prices of commodity and interest rates
- 3) Adaptation to the IT innovations to support business operation
- 4) Management of bank's cash flows to meet obligations when due
- 5) Retirement & resignation of employees which may affect business continuity

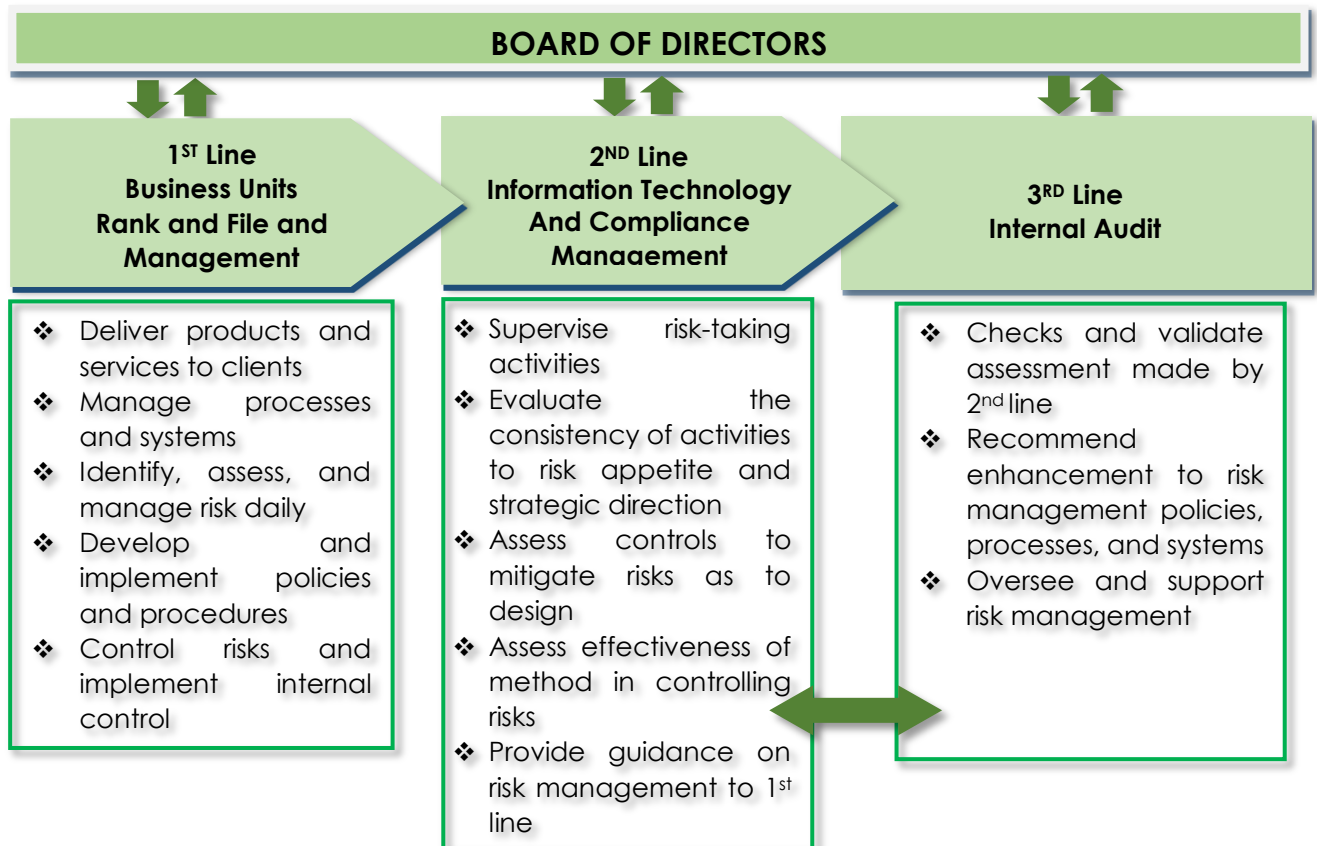
Bank-wide Risk Governance Structure

Risk management involves the oversight function covering risk identification, assessment, measurement, control, monitoring and reporting of risks inherent in all operations of the Bank.

Risks are managed by all units of the bank as it adopted the Three Lines of Defense Method. The process, systems, compliance risks and controls are identified by its Business Units (1st Line). The controls to mitigate the risks are assessed as to design and effectiveness of the method, Information Security and Compliance (2nd line). The assessments are validated by the Internal Audit (3rd line). Tying all this up is an active oversight function by the Board of Directors. The Board of Directors is also responsible for establishing a sound risk management system. Regular review and approval of Bank's risk appetite, as well as its business strategy and risk philosophy. The Bank maintains transparent dealings with both external auditors and regulators in relation to the business, vision, plans and objective of the bank.

The appropriate strategies to manage risks include the following:

- Avoiding the risks;
- Reducing the negative effects of the risks;
- Accepting some or all of the consequences of a particular risks.



Risk Management Process

The evaluation, analysis, and control performed by the bank constitute the risk management. The goal of the risk management process is to ensure rigorous adherence to the Bank's standards for precision in risk measurement and reporting to make possible, in-depth analysis of the deployment of capital and the returns that are delivered to the shareholders.

Credit Risk Management

Credit risk is defined as the risk of partial loss or the complete collapse of the value of assets, including off -balance sheet assets, due to the factors such as the deterioration of a borrower's financial condition. The risk is a natural accompaniment to the provision of credit, which is the core function of the banking business. Credit risk is said to be the most basic risk related to finance. The Bank carries out an efficient and optimal risk operation through a quantified measurement of risk while paying close attention to the Bank's control over the provision of credit.

Credit risk management aims to adequately manage the risk of financial loss arising from the failure of borrowers to settle their obligations in accordance with the terms and conditions of the duly approved contractual agreement.



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RBSMI established a credit risk management system which involves identification, measurement and monitoring of actual or possible losses. This also involves implementation of appropriate measures to keep credit risk exposures within the Bank's risk appetite in pursuit of its lending operations.

Moreover, the Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subjected to annual or more frequent review, when considered necessary. Limits on the level of credit risk by industry sector are set out in the credit policy. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and of potential borrowers to meet interest and principal repayment obligations and by charging these lending limits where appropriate.

The criteria that the bank uses to determine that there is objective evidence of an impairment loss includes:

- Delinquency in contractual payments of principal interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position, and
- Deterioration of the value of collateral

The Bank adopts a Board approved credit risk management framework under its Lending Manual, which delineates practices and minimum set of standards to strengthen its lending operations while managing credit risks. The said manual also sets out lines of authority, establishes accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

Accordingly, approval of credit application goes through recommended loan approving authorities which, depending on the transaction or amount of loan applied, could be elevated to the Credit Committee and Board of Directors, whenever applicable. Approval process also includes proposed remedial measures aimed to help problematic accounts recover.

Credit Risk Measurement, Validation and Stress Testing

RBSMI adopts a sound and appropriate risk measurement methodologies which shall provide a framework to control and monitor the quality of credit as well as total loan portfolio.

The Internal Risk Rating System of the Bank is an integral part of the process of evaluation and review of prospective and existing exposures where credit underwriting criteria become progressively more stringent as credit rating declines. It



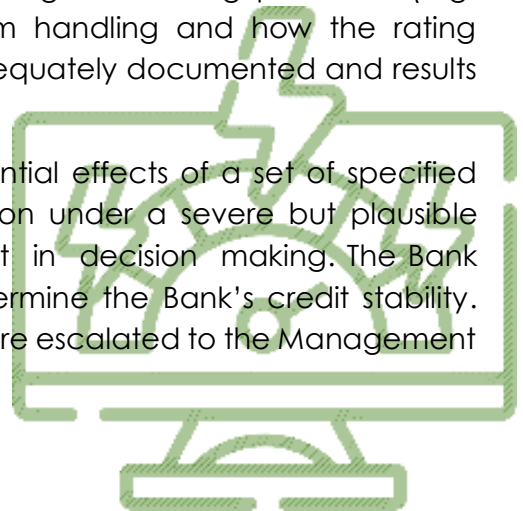
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is fully documented and addresses topics such as coverage, rating criteria, responsibilities of parties involved in the ratings process, definition of what constitutes a rating exception, parties that have authority to approve exceptions, frequency of rating reviews, and management oversight of the rating process. Sufficient information on the risk rating process and implementation are reported to the Board of Directors for review and adjustment if necessary.

A credit scoring model, known as the Borrower's Risk Grading System and Borrower's Risk Grading, is utilized by the Bank to determine credit worthiness of borrowers. It sufficiently captures the credit behavior and characteristics of the targeted borrowers. It covers the 5 C's credit standards to determine which among the loan applications deserve to be granted. Likewise, the scoring system is developed to have reasonable level of confidence that credit-granting decisions based on credit scoring are made fairly.

Validation is the process to assess the performance of risk competent measurement systems consistently and meaningfully, to ensure that the realized risk measures are within an expected range. It does not only increases the reliability of a model, but also promotes improvements and a clearer understanding of a model's strengths and weaknesses among management and user groups. Validation in the Bank is done by an independent unit to ensure effectiveness of the rating system. This includes review of model design/developmental evidence, back testing, and assessment of the discriminatory power of the ratings and rating processes (e.g. review of data quality, internal reporting, problem handling and how the rating system is used by the credit officer). This is adequately documented and results are reported to appropriate level of the Bank.

Stress testing is a tool to evaluate the potential effects of a set of specified changes in risk factors on a bank's financial position under a severe but plausible scenario to assist the Board and Management in decision making. The Bank conduct a regular credit risk stress testing to determine the Bank's credit stability. Results of the stress testing, as well as action plans, are escalated to the Management and Board of Directors.



Market Risk Management

RBSMI is exposed to risks resulting from changes in the value of assets and liabilities (including off-balance sheet assets and liabilities) due to fluctuations in risk factors such as interest rates and the risk of loss resulting from changes in earnings generated from assets and liabilities. Market risk commonly arises from movements in stock prices, interest rates, exchange rates, and commodity prices.



Interest rate risk in the banking book (IRRBB) is the current and prospective risk to earnings and capital arising from adverse movements in interest rates that cause a mismatch between the rates banks set on assets and liabilities.

The Bank manages market risk through a risk management framework taking into consideration the sensitivity and the speed of change of market factors. The Bank has its interest rate policy in which risk limits are laid down. It is developed to minimize the interest rate cash flow risk exposure. Stress testing is also designed and done to provide information on the kinds of conditions under which the bank's strategies or positions would be most vulnerable. Tailored to the risk characteristics of the Bank, several stress scenarios include conditions under which key business assumptions and parameters break down and take into account the risk of a significant deterioration in market liquidity.

Gap analysis is in placed identify maturity and repricing mismatches between assets, liabilities, and off-balance sheet instruments where gap schedules segregate rate-sensitive assets (RSA), rate-sensitive liabilities (RSL), and off-balance sheet instruments according to their repricing characteristics. The analysis then summarizes the repricing mismatches for defined time horizons.

Liquidity Risk Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from a bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources.

Funding liquidity risk appears when the Bank cannot fulfill its payment obligations because of an inability to obtain new funding. It is the risk that a bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the bank.

Market liquidity risk appears when the Bank is unable to sell or transform its Liquidity Buffer into cash without significant losses. It is the risk that a bank cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

RBSMI sets its target survival horizon or liquidity risk tolerance at 12 months. With the set liquidity risk tolerance, the Bank uses stress testing to calculate the liquidity requirements corresponding to different scenarios. Conducted quarterly, the stress testing is done based on the Bank's expected cash-in and outflows during a specified period. Likewise a funding gap or maturity mismatch analysis based on contractual maturities as well as behavioral assumptions of cash inflows and outflows is used to identify potential structural funding gaps that may need to be bridged.



To mitigate the funding liquidity risk, the Bank has established a high-quality Liquidity Buffer which can be used to meet payment obligations while continuing normal banking activities without obtaining new funding. The bank additionally ensures that its funding is diverse and that the maturity profiles does not create a significant gap. Furthermore, the Bank has a defined Contingency Funding Plan (CFP) that clearly sets out strategies for addressing emergency situations or when the bank encounters a serious liquidity crisis. The activation of the contingency plan should be considered if the survival horizon drops below nine months, there is a crisis situation of a bank-specific nature or a significant general market disruption occurs.

Operational Risk Management

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the bank and across the different entities in a banking group or conglomerate where the bank belongs.

Embedded in its Manual of Operations is the Bank's operational risk management system used in identifying, assessing, monitoring and controlling or mitigating operational risk commensurate with the complexity of its operations, range of products and services, organizational structure, and risk profile. Operational risk management covers processing errors, fraudulent activities, inappropriate behavior of staff, systems failure, inability to deliver products and services to customers, and natural and man-made disasters.



The Manual of Operations of the bank provides a clear framework of objectives and guidelines for conducting operations to maintain the Bank's solvency, liquidity and viability. An independent review of the framework as well as its implementation, and whenever there are material changes in the bank operational risk profile is conducted periodically. Additionally, operational risk-related information are adequately and timely communicated or coordinated for risk monitoring and reporting to the Senior Management and/or Board.

Money Laundering (ML) and Terrorist Financing (TF) Risk Management

RBSMI adopts a comprehensive and risk-based Money Laundering and Terrorist Financing and Prevention Program (MTTP) geared toward the promotion of high ethical and professional standards and prevention from being used, intentionally or



unintentionally, for ML/TF activities. The MTPP includes policies, controls and procedures enabling the Bank to manage and mitigate the risks that have been identified in their risk assessment, including taking enhanced measures for those classified as posing higher risks. The MTPP incorporates all relevant legal and regulatory updates for AML and CFT released by the BSP and the Anti-Money Laundering Council (AMLC). The Bank constantly reviews and updates the MTPP to ensure compliance with the latest regulatory developments. This also includes refinements in the client's acceptance and identification policy, as well as ongoing monitoring of client's accounts, and transactions. In addition, the MTPP incorporates the Compliance Testing Framework as supported by testing program guides used in compliance testing and the procedural guidelines for reportorial requirements, together with other major AML compliance functions and processes.

Board and Senior Management Oversight

It shall be the ultimate responsibility of the Board of Directors to ensure full compliance with the provisions of the MTPP manual, the AMLA and its implementing rules and regulations, as amended. The Senior Management holds the responsibility over day-to-day oversight of the operations of the Bank and ensures effective implementation of board approved AML/CFT policies and alignment of activities with the strategic objectives, risk profile and Corporate Values set by the BOD. Senior management shall establish a management structure that promotes accountability and transparency and upholds check and balance.

Review and updating of the Compliance Manual and the MTPP

An enhanced MTPP of the Bank aims to foster greater due diligence benchmarked on global practices in combating money laundering and financing terrorism. The Bank has adopted a risk-based assessment methodology for AML and anti-terrorism financing that considers all relevant risk factors, enables adequate documentation of results and findings and is periodically reviewed and updated to ensure effectiveness.

The Board of Directors approved the Bank's Compliance Program that sets out the compliance function's planned activities which include among others, the review and implementation of regulations, policies, procedures, regulatory risk assessment, and educating Bank Personnel on regulations and compliance matters.

The manual includes management of the implementation of the covered person's Money Laundering and Terrorist financing Prevention Program (MTPP) is primarily tasked to the compliance office, to ensure the independence of the office, it shall have a direct reporting line to the Board of Directors or any board-level approved committee on all matters related to AML and TF compliance and the risk management.



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As part of the reporting process, the Chief Compliance Officer regularly conducts compliance checking which covers, among others, evaluation of existing processes, policies, and procedures including on-going monitoring of performance by staff and officers involved in ML and TF prevention, reporting channels, effectiveness of the electronic laundering transaction, monitoring system and record retention system through sample testing and review of audit examination reports. It shall also report compliance findings to the Board or any Board-Level committee.

Reporting of Covered and/or Suspicious Transactions

The Compliance officer being the AMLA officer identifies all Covered Transactions (CTs), and Suspicious Transactions (STs) in coordination with the various units inside the bank. The bank ensures that the identification, monitoring, and reporting mechanism is in place and work efficiently to ensure that reports to its regulatory agencies are submitted within the prescribed period.

AML Training and Compliance-Related Activities

RBSMI continuously pursues initiatives aimed at promoting awareness embedding a strong compliance culture among all level of management inside the Bank. The Bank, through the compliance office, always maintains a collaborative communication and constructive working relationship with various regulatory agencies by fostering open and transparent communication and holding consultation to clarify specific concerns. AML/CFT awareness and consciousness through ongoing employee training is being practiced within the Bank.

Anti-Money Laundering Training Program

- Definition of key terms under the AMLA
- Know your Customer (KYC) and Customer Diligence
- Covered and Suspicious Transaction Reporting
- Record Keeping and Retention Requirements
- Penalties, Fines, and Administrative Sanctions for Violation of the AMLA, its revised Implementing Rules, and Regulations
- Anti-Money Laundering/Counter-Terrorism Financing Fundamentals
- AMLC Registration and Reporting Guidelines
- Targeted Financial Sanctions

Corporate Governance

Rural Bank of Sanchez Mira (Cagayan), Inc. upholds its utmost commitment with the highest standard to promote good corporate governance practices as embodied in the regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities



and Exchange Commission (SEC) that may properly guide the Bank in attaining corporate goals and objectives, of which increasing shareholder value, giving excellent service to customers, and complying with laws, rules, and regulations.

The Shareholders, Board of Directors and Senior Management believe that the corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness and ensure compliance with corporate governance policies and practices of the Bank.

RBSMI, being branded as an agriculture-oriented bank and recognized to be a "Bangko ng Masa", established its good market reputation over the 52 years through its strong base of an ethical corporate culture and responsible business conduct, supported by a well-organized and effective system of governance.



Governance Structure

Board of Directors

Responsibility for good governance lies within the Board. Its key responsibility includes providing leadership in the Board of Directors and ensuring effective functioning of the Board in its committees, and individual directors. It oversees the business affairs of the Bank, reviews the strategic plans and performance targets, financial plans and budgets, key operational initiatives, capital expenditures, annual financial statements, and corporate governance.

The Board is composed of 5 members. The members of the Board are all professionals with various expertise in fields relevant to RBSM business and strategic plans such as banking, accounting and finance, strategy formulation and bank regulations. Non-executive Directors, which includes Independent Directors, comprise 80% of the Board, more than the requirement of the BSP of at least majority of the Board. This provides independent and objective judgement on significant corporate matters and ensures that key issues and strategies are objectively reviewed, constructively challenged, thoroughly discussed, and rigorously examined.

Board Snapshot

5 Directors

- 4 non-executive (including 2 independent directors)
- 1 Executive

Director Diversity

- 2 Females
- 3 Males



Selection Process for Board of Directors

The bank adheres to MORB 132 on the selection of qualified Board of Directors and key personnel of the bank to administer the bank's affairs effectively and soundly. The bank has five (5) directors wherein two (2) are independent directors. To the extent practicable, the members of the board of directors shall be selected/ voted by the stockholders from a board pool of qualified candidates during the Annual Stockholder's Meeting.

The criteria for the nomination and election of Board Members comprise of knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in the light of the Bank's business and risk profile; a record of integrity and good reputation; and the ability to promote smooth interaction between board members.

The elected board of directors shall have the minimum qualifications of a director and he/she must prove that he/she possesses all the minimum qualifications and none of the cases mentioned under Section 138 of the MORB. The members of the Board of Directors shall possess the foregoing qualifications in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations. Also, he must have attended a seminar on Corporate Governance for Board of Directors (BOD).

Selection Process for Senior Management

It is the primary responsibility of the BOD to select and appoint competent senior management of the bank. The BOD should apply fit and proper standards on key personnel. Integrity, technical expertise, and experience in the institution's business, either current or planned, should be the key considerations in the selection process. And because mutual trust and a close working relationship are important, the Board's choice should share its general operating philosophy and vision for the institution. The Board of Directors shall establish an appropriate compensation package for all personnel which shall be consistent with the interest of all stakeholders.

Board's Overall Responsibility

The Board of Directors (BOD) is primarily responsible for defining the Bank's vision and mission. The board of directors has the fiduciary responsibility to the Bank and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework. The board of directors shall approve the selection of the President and key members of senior management and control functions and oversee their performance.



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During the year, the Board approved, reviewed, and supervised the Bank's budget, business targets and strategies, and release of 2022 Audited Financial Statements.

The duties and responsibilities of the Board stipulated by law, Articles of Incorporation and By-Laws and resolutions of the shareholders, include the following:

- Defining the Bank's corporate culture and values. It shall establish a code of conduct and ethical standards in the bank and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body.
- Responsible for approving the Bank's objectives and strategies and in overseeing management's implementation thereof.
- Responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel.
- Responsible for approving and overseeing implementation of the Bank's Corporate Governance framework.
- Responsible for approving the Bank's governance framework and overseeing management implementation thereof.

Roles and Contributions

Chairman of the Board of Directors

In accordance with MORB 132, the Chairperson of the Board of Directors shall provide leadership in the Board of Directors. He shall ensure effective functioning of the Board of Directors, including maintaining a relationship of trust with members of the Board of Directors.

He shall:

- Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- Ensure a sound decision making process;
- Encourage and promote critical discussion;
- Ensure that dissenting views can be expressed and discussed within the decision-making process;
- Ensure that members of the Board of Directors receive accurate, timely, and relevant information;
- Ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors;
- Ensure conduct of performance evaluation of the Board of Directors at least once a year.



Qualifications of the Chairperson of the Board of Directors

To promote check and balance, the chairperson of the board of directors shall be a non-executive director or an independent director, and must not have served as CEO of the Bank within the past three (3) years. The positions of chairperson and CEO shall not be held by one (1) person. In exceptional cases where the position of chairperson of the board of directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a lead independent director shall be appointed.

Executive Directors

The Executive Directors are, the ones steering the Bank and the Organization and are handling and managing the operations themselves, even to the extent of conducting and incurring handling of the day-to-day operations. The President is the executive director of the Bank.

Non-Executive Directors

Non-executive Directors are members of the Bank's Board of Directors but who are not part of the executive team. A non-executive director does not engage in the day-to-day management of the Bank but is involved in policy-making and planning exercises. The bank has two (2) Non-Executive Directors.

Independent Directors

Independent directors are persons who are director-members of the board but who do not have material relationships or interest with the bank. The Independent Director's role is to provide independent oversight and constructive challenges to the executive directors. The independent director may only serve as such for a maximum cumulative term of nine (9) years. The Bank has two (2) Independent Directors.

Board Composition

Pursuant to Sections 15 and 17 of R.A. No. 8791, there shall be at least five (5) members of the board of Directors. RBSMI Board of Directors is composed of five (5) members; two (2) of them are independent directors. They are elected by the shareholders during the Annual Stockholder's Meeting and hold office for the ensuing year until the successors are elected and qualified. The Bank's Directors possess all the qualifications and none of the disqualifications under existing laws and BSP regulations.



Name	Type of Directorship	Number of years served as director	Number of direct and indirect shares held	Percentage of shares held to total outstanding shares of the bank
Carlo A. Cachapero	Independent Director	8	2	0.001
Michael P. Asanias	Member/Non-Executive	15	27,134	18.09
Alejandro M. Pulido Jr.	Member/Executive	29	5,754	3.84
Arlene A. Pulido	Member/Non-Executive	3	1	0.001
Virginia B. Pacris	Independent Director	8	2	0.001

The President who has the executive responsibility of day-to-day operations, is elected as an executive director while the other members are non-executive directors who do not perform any work related to the operations of the Bank.

Among the Board Members are two (2) Independent Directors: Carlo A. Cachapero and Virginia B. Pacris. They are independent of management and free from any business or other relationship which could materially interfere with the exercise of independent judgement in fulfilling their responsibilities as independent directors.

Board of Directors Qualification

The Bank adheres to Circular 1129 dated 12 November 2021 ensuring that a director shall have the following minimum qualifications:

He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities and concurrent positions in the same Bank and interlocking positions in other entities that may pose conflict of interest.

The Bank has two (2) female directors in the Board, one (1) of whom is independent.

The Board Members also have diverse educational background, expertise, corporate qualifications, and professional experience including accounting, auditing, banking, finance, economics, general management expertise, marketing, and legal expertise and all are Filipino Citizens.

In relation to age diversity, an optimal mix of young and well-seasoned Board members is in place. Eighty percent (80%) of the Board are below 60 years old, who bring fresh ideas and perspectives into the table.



Our Board of Directors

Mr. Carlo A. Cachapero has been a member of the Board of Directors of RBSMI since 2016 and currently serves as Chairperson of the Board. He is also a member of the Audit Committee of the Bank. He was first appointed as Independent Director on 5 October 2016 and eventually sits as Chairman on 27 November 2019. He does not hold any directorship in other listed companies.

CARLO A. CACHAPERO

Chairperson
Independent Director
Filipino, 61 years old



Mr. Cachapero is a graduate of San Beda College with a degree in Bachelor of Science in A.B. Economics (1984); and Master of Public Administration (2012) and Bachelor of Laws (4th year) at Far Eastern University (1986). He served as a member of the Sanggunian Bayan of the Local Government Unit of Sta. Praxedes from July 1, 2013 to June 30, 2022. His past experiences as Chairman of Sta. Praxedes Multi-Purpose Cooperative (2010-2012), Teller II at PNB San Lorenzo (1992-1995), Credit Investigator at Jade Bank (1995-1996); Loans/Documentation at Far East Bank and Trust Co. (1987-1991) bring to the board a diverse expertise in banking and finance.



VIRGINIA B. PACRIS

Director
Independent Director
Filipino, 58 years old

Pstr. Virginia B. Pacris, CPA was elected as Independent Director of Rural Bank of Sanchez Mira (Cagayan), Inc. on 19 March 2016. She is currently the Manager of Triple Seven V-Star Accounting Firm. She was a former instructor of Auditing, Accounting and Taxation at CSU-Sanchez Mira (2007-2016); Municipal Accountant of LGU Sta. Praxedes (1998-2001); Accountant of Masisit-Dacal Livelihood (1996-1997); DECS Accountant (1997-1998) and was an accounting instructor at Northwestern University (1990-1994).

She is concurrently the Chairman of the Audit Committee of RBSM. She graduated at Mariano Marcos State University with a degree in accounting (1986).

Ms. Arlene E. Pulido was elected to the Board of Directors on 20 June 2020. Her directorship was confirmed by the BSP on 16 February 2021. She is also a member of the Credit Committee since June 19, 2023. She does not hold any directorship in other listed companies. She was a graduate of Guzman Institute of Electronics.

ARLENE E. PULIDO

Director
Non-Executive Director
Filipino, 49 years old





MICHAEL P. ASANIAS

Director
Non-Executive Director
Filipino, 60 years old

Dr. Michael P. Asanias was elected to the Board of Directors on January 2009 and serves as Chairman of the Board on 19 March 2016 until October 2019. He is concurrently the Chief of Hospital of Asanias Polyclinic and the President of Saint Michael Institute of Lifelong Education. He holds a degree Bachelor of Science in Zoology (1981) University of Sto. Tomas and Medicine at Lyceum Northwestern.

Mr. Alejandro M. Pulido, Jr. is the President of Rural Bank of Sanchez Mira (Cagayan), Inc. He was elected to the Board of Directors on 31 March 1989. He is also a member of the Credit Committee of the Bank. In addition, he is the Chairman of the Board at Shining Light Academy.

ALEJANDRO M. PULIDO JR.

Director
Executive Director
Filipino, 64 years old



He was a graduate of San Beda College holding a degree of Bachelor in Science in Commerce major in Marketing (1981).

Directors' Attendance at Board and Committee Meetings

Name of Directors	Board Meetings		Audit Committee Meetings		Credit Committee Meetings	
	Attended	%	Attended	%	Attended	%
1. Carlo A. Cachapero	13	100%	12	100%	Not a Member	-
2. Michael P. Asanias	13	100%	12	100%	Not a Member	-
3. Alejandro M. Pulido Jr.	13	100%	Not a Member	-	12	100%
4. Virginial B. Pacris	13	100%	12	100%	Not a member	-
5. Arlene E. Pulido	13	100%	Not a member	-	6	50%
Total Number of Meetings Held During the Year	13	100%	12	100%	12	75%

All members of the board were present in all twelve (12) regular board meetings and one (1) special board meeting for the year 2023. Members of the Audit Committee attended all meetings. Dir. Arlene E. Pulido's appointment as a member of the Credit Committee was only in June regular board meeting thus she only attended 6 regular meetings of the said committee during the year.



Annual Performance Evaluation

With the support of the Compliance Office, the bank performs the annual assessment of the Board of Directors, as a collegial body and individually as Directors, the different Board -level Committees. Performance assessment guidelines are continuously enhanced to strengthen the review mechanism and ensure accuracy of performance evaluation. The current profile of the BOD is reviewed to ensure conformity with the set qualification standards and appropriate skills are aligned with the strategic objectives of the Bank. The assessment covers full compliance with the provisions and requirements of the Bank's manual on Corporate Governance.



The nominees for Board positions are endorsed to the shareholders for election during the annual meeting of stockholders.

Board Level Committees

Audit Committee

Composition		No. of Meetings Attended	% Rating
Virginia B. Pacris	Chairperson	12	100%
Michael P. Asanias*	Member	12	100%
Carlo A. Cachapero	Member	12	100%
Total No. of Meetings 2023	12 meetings for 2023		

Function

Review of internal control and risk management systems, processes for financial control, internal and external audits, and compliance with laws and regulations.

Accomplishments

- ✓ Reviewed the performance of the Head of the Audit and the External Auditor.
- ✓ Reviewed the effectiveness of internal controls including financial, operational and compliance controls and risk management.
- ✓ Monitored outstanding internal and external audit issues.
- ✓ Reviewed Audit Plan in compliance with regulatory requirements.
- ✓ Approved the retention of External Auditor.
- ✓ Approved and endorsed to the Board the results of Audit Engagements.
- ✓ Approved and endorsed to the Board the results of Audit report and Self-Assessment in compliance with regulatory directives.
- ✓ Reviewed the adequacy of the Committee Charter.



Credit Committee

Committee Members		No. of Meetings Attended	% Rating
Alejandro M. Pulido, Jr.	Member	12	100.00%
Rafael V. Pulido	Member	12	100.00%
Arlene E. Pulido	Member	6	75.00%
Total No. of Meetings		12 meetings for 2023	

The primary objective of the credit committee is to oversee, direct and review the management of credit risk within the loan portfolio.

The Credit Committee consists of three members consisting of a chairman, another member with an alternative, and the manager of the bank (as a permanent member). As of 31 December 2022, there were only two (2) members of the CC Dir. and President Alejandro M. Pulido, Jr. and the Manager, Rafael V. Pulido. Dir. Arlene E. Pulido was appointed by the Board as a member of the committee to complete the required number of members.

The Committee meet on a monthly basis or as needed, to pass upon all recommendations of the Manager for the grant or denial of loans. Moreover, all loans passed by the CC is affirmed by the BOD.

List of Officers and Senior Management



President The President, Mr. Alejandro M. Pulido, Jr., Filipino, 64, married, has executive responsibility for the day-to-day operation of the Bank and is elected as an executive Director. He has the responsibility for planning, directing, and controlling the activities of the Bank. He was a graduate of San Beda College holding a degree of Bachelor of Science in Commerce major in Marketing (1981). Alejandro M. Pulido, Jr., is the President of the Bank since 2017 and is currently the Chairman of the Board of Shining Light Academy since 2012.



Corporate Secretary The Corporate Secretary assist the Board of Directors and the Board Committees in the conduct of their meetings. She plays a significant role in supporting the Board in discharging its responsibilities. Functions include the safekeeping of and the preservation of the integrity of the minutes and ensuring that the Board Members have accurate information that will enable them to form sound decisions on matters that require approval. Board Members are always given separate and independent access to Corporate Secretary's bank records.



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The Acting Corporate Secretary of the Bank is Ms. Guillene A. Valdez, a Filipino, 30 years old, and a resident of the Philippines. She studied Bachelor of Science in Business Administration major in Management Accounting. She assumes the position of Acting Corporate Secretary in May 2023. She was as well employed as General Bookkeeper in 2023.



Chief Compliance Officer The Chief Compliance Officer (CCO) establishes a charter or other formal document approved by the Board of Directors that defines the compliance function's standing, authority, and independence. The CCO has the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy, and directly report to and have direct access to the Board of Directors or appropriate Board-level Committees. The Bank's CCO is Ms. Vigilina C.

Cocson, Filipino, 62 years old, assumed the position on March 12, 1998. She worked as Internal Auditor, Compliance Officer, Corporate Secretary, and Bookkeeper during the year 1992 to 2012. She is currently holding the position of AMLA Officer and Chief Compliance Officer. She is a graduate of Bachelor of Science in Business Administration major in Accounting at the Philippine School of Business Administration-Manila.



Internal Auditor The Head of the Internal Audit is responsible for developing and managing a broad, comprehensive program of internal auditing covering the Bank to provide the Board of Directors with an independent assessment that key organizational and procedural controls and risk management systems are adequate, effective, and complied with.

The Officer-in-Charge (OIC) of the Internal Audit is Ms. Charmaine A. Tapia, a Filipino, 29 years old, married and a resident of the Philippines. She studied Bachelor of Science in Business Administration major in Management Accounting and was conferred in 2014. She assumed the positions of Acting Corporate Secretary in 2017 and Accounting Clerk during the year 2017. She was later promoted to General Bookkeeper in 2019 and Acting Internal Auditor in April 2023. In her year of service, she has already experience in legal matters and company secretarial practices.

Performance Assessment Program

As part of the management function to oversee the performance of the bank and to ensure whether it complied with the rules, standards and regulations set by the different regulatory agencies embodying the overall system of the bank, the BOD on its regular meeting approved BR No. 2017-130 on the Performance Evaluation.



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It provides needed input for determining both individual and organizational training and development needs.

RBSMI conducts a performance assessment program to evaluate performance of Board of directors, senior management, officers, and staff. Regular employees' performance is evaluated annually. The newly recruited probationary officers are to undergo training on basic training course (both practical and theoretical) for at least six months from the time of joining.

Appraisal form used for the lower-level employees contains appraisal criteria like knowledge of job, amount of work, quality of work, dependability, ability to learn, capacity and ambition for future growth. Each of these items is well defined. Evaluation is done on each of the items on a five-point scale-Outstanding (5), Excellent (4), Very Satisfactory, (3) Satisfactory, (2) Unsatisfactory, Poor (1). According to this rating procedure, reporting officer appraises annual performance of the employee.

The appraisal form used for the board of directors, senior management and officers are quite lengthy and comprehensive. Appraisal criteria includes such things as –personal knowledge, reliability, commitment, sense of belonging and responsibility, quality and quantity of work, analytical ability, power of judgement and decision, leadership, enthusiasm, awareness to rule and banking regulations and its implementation and administrative and disciplinary action.

Orientation and Education Program

The Bank believes that in order to maintain a current and effective Board of Directors, proper orientation and ongoing education are critical to ensure that members of the Board are well equipped in their role as stewards of the bank. The Board of Directors values on-going professional development and actively participates in training programs annually to keep abreast of key issues and development in the industry. Corporate Governance best practices, changes in regulatory and business environment, and the duties and responsibilities of the Board and Board-level Committees, including risk oversight, audit, RPT's, and corporate governance are discussed during orientations.

Continuing refresher and education are also given to the board of directors and employees such as the annual AML Seminar and other training program as deemed fitting and necessary.

Orientation Programs for New Directors

The formal program consists of meeting with the President and Corporate Secretary to discuss the roles and responsibilities of the BOD and the corporate governance of the bank. The corporate secretary will welcome the new directors and a letter will follow containing an information kit that includes the following:



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- Corporate powers and limitations
- Board committees and Board Structure and composition
- Code of Conduct and other relevant policies adopted by the board

New Employee Orientation

Learning starts the moment an employee is welcomed into the company. This orientation not only provides briefing on the company's vision and mission, values, cultures but also primer on the bank's products and services. This program aids new hires to move on transition with ease and established knowledge about their institution.

Compliance Training

In order to ensure that all the Bank's daily operations are in accordance to BSP's regulations, all personnel and Board of Directors attended Anti-Money Laundering Seminar.

External Trainings

The Bank provides opportunities for its employees to widen their experiences and perspectives by sending them to training programs and seminars outside the company.

Product and Services Orientation

Aside from the initial orientation prior to on-boarding, all employees are provided with updates on new products and services.

Monitoring Assessment of Continuing Education and Training Program

Date	Training Attended	Sponsoring Agency	Board of Directors	Officer and Staff
February 8-9, 2023	RBAP Compliance Officer and Internal Auditor Convention	RBAP		VIGILINA C. COCSON <i>Chief Compliance Officer</i>
February 8-9, 2023	RBAP Compliance Officer and Internal Auditor Convention	RBAP		SHIERY ANN O. GALLA <i>Internal Auditor</i>
May 9, 2023	Anti-Money Laundering/Counter-Terrorism Financing Fundamentals Webinar	AMLC		HYDIE DIANE B. TAPAT <i>Savings Clerk/CAO</i>
May 9, 2023	Anti-Money Laundering/Counter-Terrorism Financing Fundamentals Webinar	AMLC		GUILLENE A. VALDEZ <i>General Bookkeeper</i>
May 17, 2023	AMLC Registration and Reporting Guidelines Webinar	AMLC		HYDIE DIANE B. TAPAT <i>Savings Clerk/CAO</i>
May 17, 2023	AMLC Registration and Reporting Guidelines Webinar	AMLC		GUILLENE A. VALDEZ <i>General Bookkeeper</i>
May 25, 2023	Targeted Financial Sanctions Webinar	AMLC		HYDIE DIANE B. TAPAT <i>Savings Clerk/CAO</i>
May 25, 2023	Targeted Financial Sanctions Webinar	AMLC		GUILLENE A. VALDEZ <i>General Bookkeeper</i>



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June 7-8, 2023	RBAP's 70th Annual Convention and General Membership Meeting	RBAP	CARLO A. CACHAPERO <i>Chairman, Independent Director</i>	
June 15, 2023	Managing Compliance Risks in 2023	ICA/ABA		CHARMAINE A. TAPIA <i>Acting Internal Auditor</i>
June 15, 2023	Managing Compliance Risks in 2023	ICA/ABA		VIGILINA C. COCSON <i>Chief Compliance Officer</i>
June 15, 2023	Managing Compliance Risks in 2023	ICA/ABA		RAFAEL V. PULIDO <i>Manager</i>
June 15, 2023	Managing Compliance Risks in 2023	ICA/ABA	ALEJANDRO M. PULIDO JR. <i>President, Director</i>	
June 15, 2023	Managing Compliance Risks in 2023	ICA/ABA	ARLENE E. PULIDO <i>Director</i>	
June 23, 2023	1-Day Briefing On Strengthening BSP Reportorial Procedures: FRP and CAR	RBAP		GUILLENE A. VALDEZ <i>General Bookkeeper</i>
June 23, 2023	1-Day Briefing On Strengthening BSP Reportorial Procedures: FRP and CAR	RBAP		CHARMAINE A. TAPIA <i>Acting Internal Auditor</i>
June 26-27, 2023	Compliance Risk Assessment and Testing Framework	DREAMS BANK		CHARMAINE A. TAPIA <i>Acting Internal Auditor</i>
June 27-28, 2023	Corporate Secretary as Corporate Governance Professional Training	RBAP		GUILLENE A. VALDEZ <i>General Bookkeeper</i>
July 5, 2023	Drug Trafficking Threat Assessment and AML/CTF Considerations	ABA & Fintelekt		CHARMAINE A. TAPIA <i>Acting Internal Auditor</i>
July 19, 2023	Disaster Risk Reduction and Management Summit	MDRRMC	ALEJANDRO M. PULIDO JR. <i>President, Director</i>	
July 31, 2023	Effective Responses to BSP Report on Examination	DREAMS BANK		CHARMAINE A. TAPIA <i>Acting Internal Auditor</i>
August 18, 2023	A Walkthrough on Internal Audit and Reporting Processes	DREAMS BANK		CHARMAINE A. TAPIA <i>Acting Internal Auditor</i>
October 12, 2023	Taxation on Banks	Alas, Oplas & Co., CPAs		HYDIE DIANE B. TAPAT <i>Savings Clerk/CAO</i>
October 12, 2023	Taxation on Banks	Alas, Oplas & Co., CPAs		GUILLENE A. VALDEZ <i>General Bookkeeper</i>
October 12, 2023	Taxation on Banks	Alas, Oplas & Co., CPAs		MARILYN D. MARQUEZ <i>Accounting Clerk</i>
October 18-19, 2023	Enhancing RB Cybersecurity: IT Risk Management Awareness Course	RBAP		RAFAEL V. PULIDO <i>Manager</i>
November 22-23, 2023	66th Charter Anniversary Symposium and Special General Membership Meeting	RBAP		RAFAEL V. PULIDO <i>Manager</i>
November 22-23, 2023	66th Charter Anniversary Symposium and Special General Membership Meeting	RBAP	ARLENE E. PULIDO <i>Director</i>	
November 22-23, 2023	66th Charter Anniversary Symposium and Special General Membership Meeting	RBAP	MICHAEL P. ASANIAS <i>Director</i>	
December 1, 2023	DATA PRIVACY TRAINING FOR RURAL BANKS (WEBINAR)	RBAP		CHARMAINE A. TAPIA <i>Acting Internal Auditor</i>



Retirement and Succession Policy

Succession and Refreshment Plan for Board of Directors

The Bank, through its corporate governance manual, established the succession plan and board refreshment policy that would ensure continuity of leadership of the Bank in case of retirement or separation:

Succession Plan

1. The Succession Plan shall consider the following:
 - A. The regular Board Members are those with stake or shareholdings in the Bank.
 - B. The Succession Plan of the President, who is a mandatory member, is covered by the Succession Plan for Senior Management.
 - C. The independent director may only serve as such for a maximum cumulative term of nine (9) years. After which, an independent director shall be perpetually barred from serving as independent director in the same bank, but may continue to serve as regular director.

Board of Directors

Name of Incumbent	Position	Standing Assignee	Alternate Assignee
Carlo A. Cachapero	Chairman – Ind. Director	Michael P. Asanias	Alejandro M. Pulido, Jr.
Michael P. Asanias	Member		
Arlene E. Pulido	Member		
Alejandro M. Pulido Jr.	Member		
Virginia B. Pacris	Member – Ind. Director		

Key Officers

Name of Incumbent	Position	Standing Assignee	Alternate Assignee
Alejandro M. Pulido Jr.	President	Rafael V. Pulido	Any member of the BOD
Rafael V. Pulido	Manager	Alejandro M. Pulido, Jr.	Any member of the BOD
Vigilina C. Cocson	Chief Compliance Officer	Charmaine A. Tapia	Guillene A. Valdez
Anabelle M. Bangalan	Cashier/ Teller	Rafael V. Pulido	Melody B. Florida
Charmaine A. Tapia	Acting Internal Auditor/Data Protection Officer	Guillene A. Valdez	By Appointment
Vigilina C. Cocson	AMLA Officer	Jose Mari O. Macalma	By Appointment
Guillene A. Valdez	Acting Corporate Secretary	Hydie Diane B. Tapat	By Appointment



Succession and Retirement Policy for Officers

Succession Planning Program

The Bank recognizes retirement benefit obligation using the provision of RA 764. The bank believes that building a bank of enduring greatness entails building a strong base of leaders who can steer the bank towards digital transformation. The BOD approved the Succession Policy of the bank. This policy aims to ensure that the bank's leadership direction has adequate information and strategy to effectively manage the bank in the event of vacancy, retirement, resignation, or quitting positions in its executive management positions. The Board of Directors authorizes the President to implement the term of this emergency succession plan in the event of planned or unplanned temporary or final vacancy of positions.

The Bank's Succession Plan primarily covers the following major activities:

1. Identification of successors from existing officers based on endorsement;
2. Set of criteria for identifying potential successor;
3. Investment in seminar and training to enhance leadership skills of identified successors;
4. Periodic review of the potential successor's performance;
5. Execution of the Succession Plan

The temporary assignment of the key officers and management staff in the temporary planned or unplanned absence follows:

Management Staff

Name of Incumbent	Position	Standing Assignee	Alternate Assignee
Moises R. Sadama	Loan Officer	Melody B. Florida	Michael A. Labrador
Guillene A. Valdez	Bookkeeper	Melody B. Florida	Hydie Diane B. Tapat
Melody B. Florida	Loans Bookkeeper	Rolando N. Marumi	Recruitment
Marilyn D. Marquez	Accounting Clerk	Hydie Diane B. Tapat	Recruitment
Jose Mari O. Macalma	Info. Tech. Personnel/Cyber Security Officer	Hydie Diane B. Tapat	Recruitment
Rolando N. Marumi	Collector/ Credit Investigator	Michael A. Labrador	Recruitment
Michael A. Labrador	Appraiser	Rolando N. Marumi	Recruitment
Hydie Diane B. Tapat	Savings Clerk/Consumer Assistance Officer	Marilyn D. Marquez	Recruitment
Rafael V. Pulido	Security Officer	Recruitment	Recruitment
Rexalino Y. Domingo	Utility/Prop. Custodian	Recruitment	Recruitment

Retirement Policy

1. RBSMI has a retirement plan for its employees that provide funds for the payment of separation benefits to employees who are eligible for eligible under the Bank's Retirement Plan, including cases of disability or death while on service.



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2. Early Retirement: with the consent of the Bank, an employee who has not yet reached the normal retirement requirement may opt to avail of the early or optional retirement benefits under the Plan upon reaching (i) 55 years of age and rendering at least 10 years of continuous service; and
3. Late Retirement: Any employee may offer his or her service to the Bank beyond the normal retirement date, but not beyond 65 years of age. Such retirement, however, shall be subject to the approval of the Bank on a case-to-case basis. Employees who intend to resign from service but do not meet the prescribed eligibility requirements are not entitled to any separation pay.

Remuneration Policy

RBSMI aims to sustain a strong, performance-conducive environment that would attract, motivate, and retain the best talents. For this purpose, the Bank maintains a Remuneration Policy that commensurately compensates its officers for high levels of performance. Such policy complements the Bank's efforts to hire and develop the best talents through its competitive recruitment program and continuing learning programs.

The RBSMI Remuneration Policy provides a sustainable compensation structure and fringe benefits program for directors and officers. The policy allows the Bank to be competitive with the industry. It identifies basic compensation, incentives, and rewards.

Board and Non-Executive Directors Remuneration and Fringe Benefits

The remuneration and fringe benefits of Board members consist of per diem for every Board and Board committee meeting. The directors have no other compensation plan or arrangement with the Bank.

The total per diem given to the Board, as well as the total compensation of the President and the four most highly compensated officers, is disclosed and approved during annual stockholders meeting. The senior Management receive salaries, bonuses, and other usual bank benefits. There has been no proposal on remuneration for directors presented to the shareholders for approval in the 2023 Annual Stockholders Meeting.

The Board of Directors approves a remuneration Policy that is appropriate and consistent with the Bank's operating and risk culture, long-term business and risk appetite, performance, and control environment.

Board and Non-Executive Directors Remuneration and Fringe Benefits

Also, RBSMI maintains a remuneration policy that rewards good performance and is internally equitable and externally competitive. This policy enables the Bank to attract and retain its pool of quality and competent employees.



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The compensation package for officers and employees consists of monetary and non-monetary benefits, fringe benefits such as the following:

- Overtime pay with food allowance- employees and officers
- 13th Month Pay- employees and officers
- Longevity Pay- employees and officers with 10 years of service
- Cost of Living Allowance- employees and officers
- Performance Bonus- employees and officers
- Group Insurance/ Life Insurance- employees and officers
- Leave with pay (Vacation, Sick, Maternity, Paternity)-employees and officers
- Salary Loan, Fringe/ Benefit Program- employees with 2 years of service
- Provident Fund Loan-employees with 2 years of service
- Cash Gift-employees and officers
- RATA-Manager/Cashier/President/Acting Corporate Secretary/Acting Internal Auditor
- Insurance- employees and officers
- Travelling allowance- employees
- Yearly Uniform Allowance- employees
- Incentives for marketing/ product targets-marketer
- Communication Allowance
- Hazard Pay- collector

Procedures and Schedule of Compensation

- a. Salaries, wages and other compensation of all employees of RBSMI shall be at least strictly be in accordance with the applicable provisions of the Labor Code of the Philippines as well as the other legislation that may be promulgated.
- b. For the purpose of classifying employees based on the mode of payments, the Bank has classified its employees into monthly-paid employees. Monthly paid employees refer to those who are paid every day of the month, including unworked rest days, special days, and regular holidays.
- c. Salary shall be paid on the 15th and 30th/31st of every month. If the salary day falls on Saturday or Sunday or any non-working holiday, the salary shall be paid in advance

Salary Increase

Under normal conditions or unless authorized herein the Bank shall effect salary increase upon regularization and every year thereafter. The first annual increase shall be given to a regular employee a year after his regularization. The succeeding annual increase shall be given on the conditions as the Bank deems it fit. The annual increase shall always be in consideration of the employee's performance and contribution he has made to the bank. Employee's salary structure shall be established to determine the range of salary an employee has in accordance with his position title.

Type of Salary Increase

1. Increase after probation. After passing a sound performance evaluation, the employee whose probationary employment status has been adjusted to regular



employment status shall receive salary adjustment based on the established salary structure of the Bank.

2. Annual Increase. This shall take effect and commence a year after the employees' regularization. The adjustment shall be based on employee's regularization. The adjustment shall be based on employee's performance evaluation, and in consideration also of the range as established by the Bank per position title.
3. General/Across the Board Increase. This is a general increase on the employees in compliance with any new wage implementation as mandated by the government. This is applicable only to employees receiving minimum wage or shall be effected to employees receiving above the minimum pay nut upon the discretion of the management.

Related Party Transactions

The Rural Bank of Sanchez Mira (Cagayan), Inc. recognizes the need to strengthen its policy on related-party transactions and other similar situations so as to prevent conflict of interest and mitigate abusive transactions with related parties.

Thus, the Board has established an overarching policy tasked with reviewing all Related Party Transactions of the Bank. Related parties shall cover the Bank's Directors, Officers, Stockholders and Related Interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interest may pose potential conflict with the interest on the financial institution. The Board ensures that transactions with related parties and Directors, Officers, Stockholders, and their Related Interest (DOSRI) are handled in sound and prudent manner, with integrity and in compliance with applicable laws and regulations to protect the interest of depositors, creditors, and other stakeholders.

Close family members related to the bank's Directors, Officers, and Stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparents, grandchild parent-in-law, son-/daughter-in-law, brother-/sister-in-law of the FI's DOS.

Material RPTs or significant transaction shall refer to dealings that could pose material/significant risk to the Bank. Significant transaction would refer to the transactions of value amounting to P2.5 million or 3.5 percent on an on-time transaction for individual exposures and 5M or 10% for aggregate exposures to all related parties; such as in the provision and delivery of services on per project basis to a single related party.

Evaluation of RPT's shall also cover identification and prevention management of potential or actual conflicts of interest which may arise.

- The members of the Board, stockholders, and management shall disclose to the Board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction. The disclosure shall include a description of his material interest, the nature of the RPT and the amount involved



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- Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the Bank.
- However, where there is no Director or officer involved or will be involved in the RPT, it shall be the primary responsibility of the person -in-charge with handling client accounts in the respective operations unit of the Bank to ensure that RPT's are properly identified.

As of the year ended December 31, 2023, there is no material RPT's of the Bank.

Self-Assessment Functions

Compliance

The Compliance function is established by a charter or other formal documents approved by the Board of Directors that defines the compliance function's standing, authority, and independence.

The Chief Compliance Officer of the Bank has the right to obtain access to information necessary to carry out its duties and responsibilities, conduct investigations and possible breaches of the compliance policy.

The compliance function is headed by the Chief Compliance Officer (CCO), who functionally reports to the BOD and the President. The CCO is independent from the line of business.

The CCO advises the Board of Directors and senior management on relevant laws, rules and standards, including keeping them informed on developments in the area; appraises bank's personnel on

compliance issues, and acts as a contact point within the Bank for compliance queries; establishes written guidance to staff on the appropriate implementation of rules and standards; identifies, documents and assesses the compliance risk; assesses the appropriateness of the bank's compliance procedures and guidelines; monitors and tests compliance by performing sufficient and representative compliance testing; maintains a constructive working relationship with BSP and other regulators.

The Compliance Program fosters adherence to banking laws, rules and regulations and is ultimately aimed to promote the safety and soundness of RBSMI's operation.

The accomplishment of the Compliance Function in 2023 include the approval of the revised Compliance Program.



Internal and External Audit

The Internal Audit Head of the bank is an independent, objective assurance and consulting function established to examine, evaluate, and improve the

effectiveness of internal control, risk management and governance systems and process of the bank, which helps



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management and the board of directors in protecting the bank and its reputation.

The Internal Audit function of RBSMI both assesses and complements operational management, risk management, compliance, and other control functions, independent of the activities audited and from the day-to-day internal control process. The Internal Audit is free to report audit results, opinions, appraisals, and other information through a clear reporting line to the board of directors or audit committee. It has the authority to directly access and communicate with any officer or employee, to examine any activity of the banks, as well as its records, whenever relevant to the exercise of its assignment.



The Internal Auditor directly reports to the Audit Committee (AC) on a monthly basis. The Audit Committee is responsible for the appointment and reappointment of the Head of Internal Audit. The responsibility of the AC shall include the annual performance review of the Internal Auditor, accepting the

resignation and/or dismissal subject to due process. It also reviews, evaluates, and approves the Annual Audit Plan as well as the audit reports to the extent that the AC Chairman may issue directives to the Senior Management to develop and implement necessary corrective actions in a timely manner.

The Internal Audit function also informs the senior management of the results of its audits and assessment. Senior management may consult the internal auditor on matters related to risks and internal controls without tainting the latter's independence.

The Board of Directors of the bank adheres to Circular 871 in ensuring the effectiveness and adequacy of the internal control system. It ensures that senior management establishes an adequate, effective, and efficient control framework commensurate with the size, risk profile and complexity of operations of the bank. The BOD also ensures that the internal audit function has an appropriate stature and authority within the bank and is provided with adequate resources to enable it to effectively carry out its assignments with objectivity.

Further, the BOD, during regular meetings, conduct discussions with management on the effectiveness of the internal control system, review evaluations made by the AC on the assessment of the effectiveness of internal control made by the management, internal auditors and external auditors and ensures that the management has promptly followed up on recommendations and concerns expressed by auditors.

Likewise, the Audit Committee (AC) has the sole authority to select, evaluate, appoint, dismiss, and re-appoint the external auditor (subject to shareholder ratification) and shall approve in advance all audit engagement fees and terms and all audit-related and tax compliance engagements with the external auditor.



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The external auditor of the Bank for the Financial Year 2023 (Alas, Oplas & Cos., CPAs) undertakes an independent audit of the Bank and provides an objective assurance regarding the manner under which the financial statements are prepared and presented to the shareholders. The external auditor also ensures the establishment and maintenance of an environment of good corporate governance as reflected in the financial records and reports of the Bank.

Dividend Policy

The bank adheres to Section 57 R.A No. 8791, wherein banks shall not declare dividends greater than their accumulated net profits then on hand, deducting there from its losses and bad debts. Neither shall the bank declare dividends if, at the time of declaration, it has not complied with the provisions of Section 124 of the MORB.

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

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

The bank have no dividend declaration for the year 2023.

Corporate Social Responsibility Initiatives



Our commitment to corporate social responsibility (CSR) and sustainability initiatives in our operations is primarily driven by our aspirations to make a positive contribution to society as partner in social development and nation building.

Socio-Economic and Environmental Compliance

Beyond regulatory compliance, RBSMI is committed to contribute to the environment of the social, economic, and environmental areas of its business and operations as parts of its continuing journey towards sustainability.

To demonstrate this commitment, and in compliance with BSP Circular 1085, the Bank adheres to economic, social, and environmental laws, rules, regulations, and policies of the locality where the Bank is situated. The Bank shall always ensure that the necessary business, labor, and environmental permits, and approvals are complied.

Moreover, social and environmental risk management is incorporated in the Bank's overall risk management framework, which is evaluated to adjust and adhere to new regulations on socio-economic and environmental issuances of the local and national government.



Caring for Our Employees

The Bank's employees are the most important resources and stakeholders. As such, the Bank continues to commit to their overall improvement and well-being by adhering to strict labor laws and regulations, providing safe and secure environment, implementing fair employment practices, promoting work-life balance, and cultivating engagement, gender equality, and inclusion.

Likewise, the Bank prompts for continuous employee growth and development through attendance of various seminars conducted by different regulatory agencies and institutions.

Consumer Protection Services



The Board of Directors of the Bank is ultimately responsible in ensuring that consumer protection practices are embedded in the

Bank's business operations. The Bank adheres to the highest service standards and embrace culture of fair and responsible dealings in the conduct of their business through adoption of the Bank's Financial Consumer Protection framework. The Bank's financial consumer protection framework is embodied in its board-approved financial consumer protection manual.

RBSMI aims to provide the best customer experience to our clients. The Bank provides various channels for their inquiries, requests, and complaints: email, texts or calls, Facebook, and private messaging.

Our Customer Protection Policy ensures that any reported complaint is recorded, monitors, and addressed in a timely manner. In accordance with the BSP

requirement in reporting complaints, a consolidated complaints report is submitted monthly to the RBSMI's Management and quarterly to the BSP. As per 2023 records, no customer complaints we received by the Bank from its clients.

Consumers have the right to be informed of the benefits as well as the risks involved regarding the products and services they availed from the Bank. Throughout the banking relationship, the following standards of conduct are observed: (a) disclosure and transparency, (b) protection of client information, (c) fair treatment, (d) effective recourse, (e) financial awareness and education.

Consumer assistance mechanisms are made available in various forms: face-to-face support from RBSMI'S personnel; and electronic or digital channels. Each inquiry, request or complaint is acknowledged and processes within the standard turnaround time. Complaint management processes handled by the Customer Assistance Officer which provides priority in resolving customer concerns.



Role and responsibility of the Board and Senior Management

- They are both responsible for developing the Bank's consumer protection strategy establishing an effective oversight over the bank's consumer protection programs.
- The Board shall be primarily responsible for approving and overseeing the implementation of the Bank's consumer protection policies as well as the mechanism to ensure compliance with said policies.
- Senior Management is responsible for the implementation of the consumer protection policies approved by the Board.
- The BOD shall be responsible for monitoring and overseeing the performance of senior management in managing the day-to-day consumer protection activities of the Bank.
- The Board may also delegate other duties and responsibilities to Senior management and/or committees created for the purpose of overseeing compliance with the BSP-prescribed consumer protection framework and the Bank's own consumer protection framework.



The Bank ensures that the Basic Consumer Rights are being adhered by the bank:

- Right to equitable and fair treatment. The financial consumer has the right to be treated fairly, honestly, and professionally at all stages of its relationship with the Bank. The Bank shall not discriminate against clients on the basis of race, age, financial capacity, ethnicity, origin, gender, disability, health condition, sexual orientation, religious affiliation, practice, or political affiliation.
- Right to disclosure and transparency of financial products and services. The Bank ensures that financial consumers have a reasonable comprehensive understanding of the financial products and services which they may be acquiring or availing.
- Right to protection of consumer assets against fraud and misuse. The Bank to the extent allowed by existing laws, rules, and regulations provides necessary assistance, including the provision of relevant information relating to fraudulent or unauthorized transactions. Further, the Bank provides clear information on the actions taken or to be taken on a complaint, inquiry or request from a financial consumer involving fraudulent or unauthorized transactions.
- Right to data privacy and protection. The Bank adheres to the general data privacy principles of transparency, legitimate purpose and proportionality under R.A No. 10173 or the Data Privacy Act of 2012 and its IRRs.
- Right to timely handling and redress of complaints. The financial consumer has the right to be provided with accessible, independent, fair, accountable, timely, and efficient means for resolving concerns, inquiries and requests about their financial transactions.

The BOD and Senior Management are responsible for the implementation of the Consumer Protection policies approved by the BOD and the Board shall be responsible in monitoring and overseeing the performance of Senior Management in managing the day-to-day Consumer Protection activities of the bank.



Financial Protection Standards

RBSMI takes an active role in safeguarding the rights of its creditors. Since deposit-taking is one of the Bank's principal banking activities, special treatment is placed on the protection of depositors who serve as our main creditors. The Bank recognizes that creditors have the right to safeguard their transactions with the Bank and be heard through appropriate channels when they escalate feedback and concerns.

The bank provides its depositors with ready to access information that accurately represents the fundamental benefits and risks, as well as the terms and conditions of a financial product, or services. Moreover, the bank is one with the Philippine Deposit Insurance Corporation (PDIC) in promoting public confidence and stability in the economy. As such, the Bank advertises

PDIC's deposit insurance protection in appropriate and accurate manner by including the official PDIC Insurance Statement (Deposits are insured by PDIC up to P500, 000.00 per depositor) in general advertisements of the bank and advertisements relating to deposit products and services appearing in print ads, and official website, and other forms of marketing communications.

Disclosure and Transparency

The bank takes affirmative action to ensure that their consumers have a reasonable holistic understanding of the products and services which they may be acquiring or availing. In this context, full disclosure and utmost transparency are the critical elements that empower the consumer to make informed financial decisions. The Bank makes sure to provide readily the consumers with ready access to information that accurately represents the nature and structure of the products or service, its term and conditions as well as its fundamental benefits and risks.

Advertising and Promotional Materials

The Bank ensures that advertising and marketing materials do not make false, misleading or deceptive statements that may materially and/ or adversely affect the decision of the customer to avail of a service or acquire a product. The bank also ensures that promotional materials are easily readable and understandable by the general public. It should disclose clear, accurate, updated, and relevant information about its product and services.

Conflict of Interest

The Bank discloses properly to the consumer prior to the execution of the transaction that the Bank or their staffs has an interest in a direct/cross transaction with a consumer. The Bank also readily discloses the limited availability of products to consumers when the Bank only recommends products which are issued by their related companies particularly when commissions or rebates are the primary basis for recommending the product to consumers.



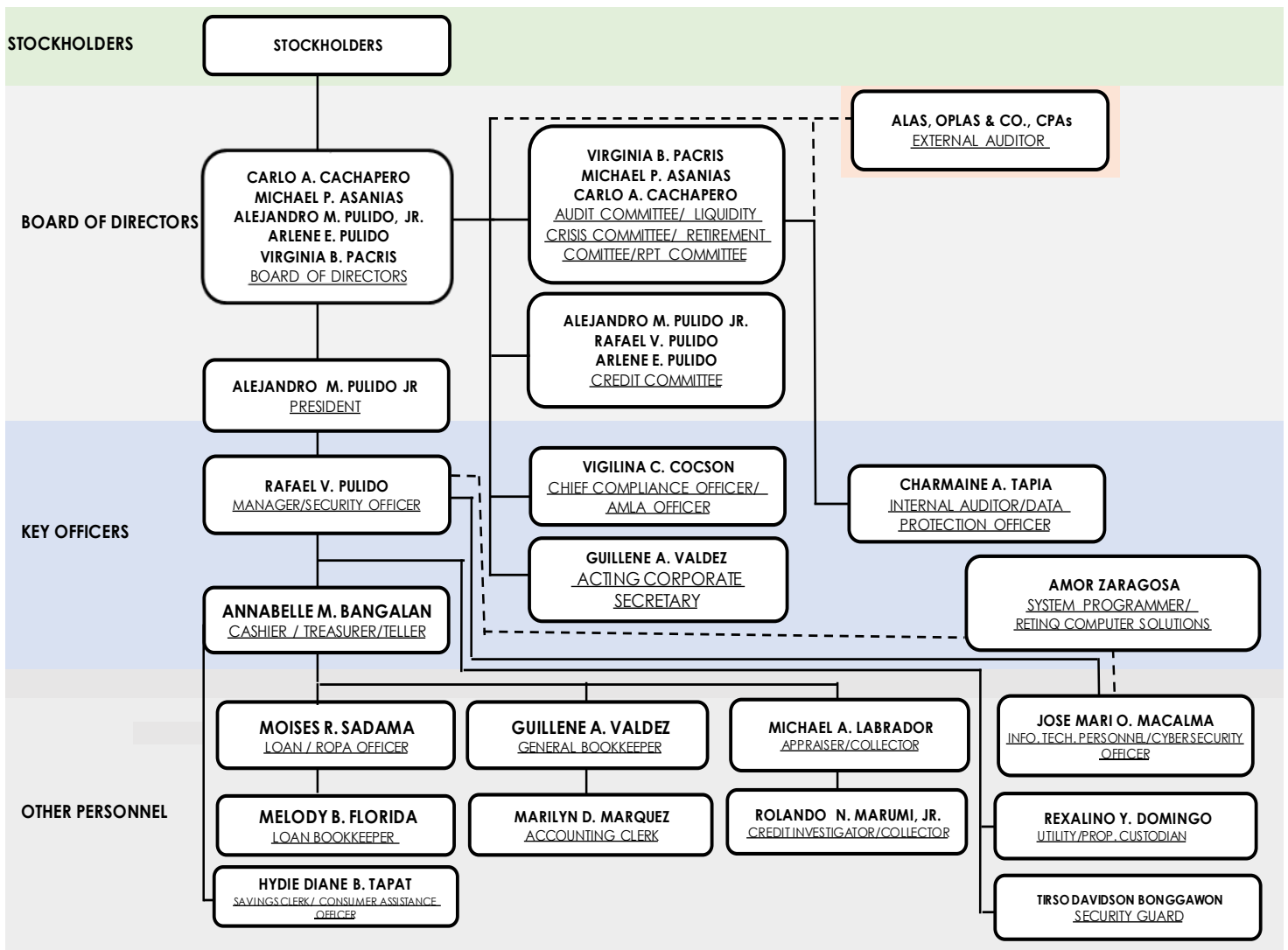
Protection of Client Information

Financial consumers have the right to expect that their financial transactions as well as relevant personal information disclosed during a transaction are kept confidential. The Bank ensures that they have well-articulated information security guidelines as well as defined protocols, a secure database, and periodically revalidated procedures in handling the personal information of their financial consumers.

Corporate Information

Organizational Structure

RBSMI's organizational structure defines how activities such as task allocation, coordination and supervision are directed toward the achievement of organizational aims. The structure is developed to establish how the Bank operates and assist the Bank in obtaining its goals to allow for future growth. The organizational structure/chart of the Bank:





Our Stockholders

Stockholders are the owners of the company. Because shareholders are the Bank's owners, they reap the benefits of the company's success in the form of dividends. Stockholders are not personally liable for the bank's debts and other obligations. They rely to the Board of Directors and Senior Management to run things-meaning the shareholders do not have much say in the day-to-day operation of the business.

There are 29 shareholders as of December 31, 2023. The Top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each are as follows:

Stockholders	Nationality	No. of Shares	Percentage of Ownership	Voting Status
1. Danilo V. Pulido	Filipino	36,123	24.08	*
2. Michael P. Asanias	Filipino	27,134	18.09	*
3. Heirs of Ignacio Jao Tayag	Filipino	26,718	17.81	*
4. Eulalio Pangilinan	Filipino	8,131	5.42	*
5. Lilybell A. Fuertes	Filipino	7,981	5.32	*
6. Alejandro M. Pulido, Jr.	Filipino	5,754	3.84	*
7. Rafael V. Pulido	Filipino	5,315	3.54	*
8. Rafaela V. Pulido	Filipino	4,836	3.22	*
9. Ricky Mario V. Pulido	Filipino	4,627	3.08	*
10. Ramon M. Pagayatan	Filipino	4,423	2.95	*
11. Salustiano M. Pulido	Filipino	3,873	2.58	*
12. Ma. Angela A. Pulido	Filipino	3,873	2.58	*
13. Abdiel A. Cac	Filipino	3,672	2.45	*
14. Emilio A. Pulido	Filipino	3,182	2.12	*
15. Emma A. Picazo	Filipino	2,757	1.84	*
16. Vigilina C. Cocson	Filipino	569	0.38	*
17. Thelma M. De La Cruz	Filipino	264	0.18	*
18. Annabelle M. Bangalan	Filipino	221	0.15	*
19. Arnold A. Saddam	Filipino	129	0.09	*
20. Emelie A. Pulido	Filipino	109	0.07	*
21. Gemy Sherra R. Apostol	Filipino	103	0.07	*
22. Jocelyn H. Angala	Filipino	103	0.07	*

**Pursuant to the Bank's By-Laws, every stockholder shall be entitled to one (1) vote for each share of common stock in his name in the books of the Bank. The right to vote or direct the voting of the Bank's shares held by the foregoing stockholders is lodged in their respective Board of Directors.*

Rights of Shareholders

RBSMI's shareholders have the following rights and privileges: (a) right to inspect corporate books and records; (b) right to information; (c) right to dividends; (d) opportunity to place agenda items prior to and raise questions during the stockholder's meeting; and right to vote on all matters that require their consent or approval.



All shareholders have the right to nominate and elect candidates for the Board of Directors (BOD). They also have the right to remove and replace directors and vote on certain corporate acts in accordance with the Revised Corporation Code, including, but not limited to: amendment in the Bank's articles of incorporation and by-laws, and authorization of additional shares. The rights and responsibilities of the shareholders are discussed in detail in the Corporate Governance Manual of the Bank.

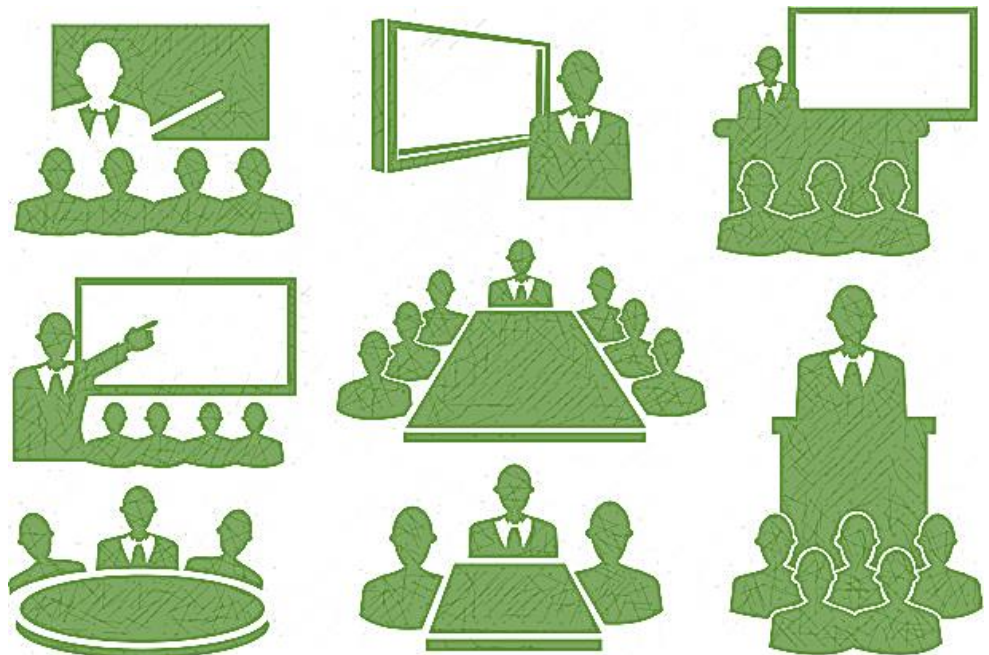
Annual Meeting of the Stockholders

RBSMI's shareholders are the highest authority in the Bank's governance structure. The stockholders' meeting serves as an avenue to make decisions based on the interests of the bank in a fair and transparent manner.

The stockholders' meeting consists of the annual stockholders' meeting held once a year and special meetings may be held as needed.

Pursuant to the Bank's By-Laws, the annual meeting of the shareholders shall be held at the principal office of the Bank or any other place within Sanchez Mira, Cagayan as may be determined by the majority of the Board, on every 31st of March each year unless such day is a legal holiday, in which case, the meeting shall be held on the following business day.

Special meetings may be called by the Chairperson of the Board, by the President, and by the majority of the Board or on demand, in writing, of the shareholders who own majority of the voting stocks. The Annual Stockholders Meeting was held on March 25, 2023.





Our Products and Services

Loan Products

Agrarian Reform Loans

Refers to the amortized cost of production and other type of loans granted to the beneficiaries of agrarian reform to finance activities relating to agriculture, and processing, marketing, storage, and distribution of products resulting from these activities.

Other Agricultural Loans

Refers to the amortized cost of loans granted to farmers who are not beneficiaries of agrarian reform, to purchase farm equipment/implement and other commodities, to finance activities relating to agriculture and processing, marketing, storage, and distribution of products resulting from these activities.

Loans to Individuals for Housing Purposes Loans

Refers to the amortized cost of loans granted to individuals for housing purposes, which may be for the acquisition of lot, construction or improvement of a residential unit/housing.

Small and Medium Enterprises Loan

These are the loans granted to any business activity or enterprises engaged in industry, agribusiness and/or services, whether single proprietorship, partnership, cooperative or corporation whose total assets (exclusive of the land on which the particular entity's business is situated) must have a value falling under secured or unsecured loans.

Loans to Individuals Primarily for Personal Use

Refers to loans granted to individuals for personal use purposes such as:

a. Salary-Based General Purpose Consumption Loans

Refers to the amortized cost of unsecured loans for a broad range of consumption purposes, granted to individuals mainly based on regular salary, pension or other fixed compensation, where repayment would come from such future cash flows, either through salary deductions, debit from the borrower's deposit account, mobile payments, through collections, over-the-counter payments or other type of payment arrangement agreed upon by the borrower and the Bank.

b. Other Consumptions

Refer to amortized cost of loans granted to individuals to finance other personal and household needs such as purchase of household appliances, furniture, fixtures and equipment, hospital and educational bills on the basis and under a repayment scheme other than those described under-salary based general purpose consumption loans.



Rural Bank of Sanchez Mira (Cagayan), Inc. 2023 Annual Report

Loans to Individuals for Other Purposes

Refers to loans granted to individuals that cannot be classified under any of the foregoing classifications.

Deposit Products

Savings Deposits

Refers to interest-bearing deposit which are withdrawable upon presentation of a properly accomplished withdrawal slip together with corresponding passbook.

Gold Savings Account (GOSA)

Interest-bearing deposit with initial placement of P 100, 000.00 which shall be automatically renewed by the bank based on the maturity date until the depositor decides to terminate or withdraw by presenting the passbook.

Other Services

GO-VIP Payment Center

The Bank entered into a Franchise Agreement with ACM Business Solutions involving the resale of VIP's e-loading, Bills payment, and other online payment services.

POS Services

The bank entered into a Provisional Agreement with agent for the POS Cash-Out Service operated by ENCASH and a Memorandum of Agreement (MOA) with Land Bank of the Philippines (LBP) to operate Point of Sale (POS) service in the Bank which aims to provide electronic access to their funds maintained in different banks at a distant location. At present, the Bank has two (2) POS installed inside the Bank.

Bank Website

The Bank makes sure that its identity is well-known and its coverage expansion is on track given that digitalization is already widespread. The bank utilizes its website (<http://www.rbsanchezmira.com/>) in order to build its online presence and as an easy way of communicating information to its stakeholders.



Capital Structure and Capital Adequacy

The risk-based Capital Adequacy Ratio of a Bank, expressed as percentage of qualifying Capital to risk-weighted assets for both stand-alone basis (head office and branches) and consolidated (Parents and Subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less 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 determined by the Monetary Board (MB) of the BSP.

The CAR of the Bank as at December 31, 2023 and 2022, as reported to the BSP, is shown in the table below:

	2022	2023
Tier 1 Capital	23,828,896	26,119,994
Tier 2 Capital	658,500	680,417
Total Qualifying Capital	24,487,397	26,800,411
Net Risk weighted Assets	126,736,749	111,679,012
Tier 1 Capital Ratio	18.80%	23.39%
Tier 2 Capital Ratio	0.52%	0.61%
Total CAR	19.32%	24.00%

The regulatory qualifying capital consists of Tier 1 (core), which comprises paid-up common stock, retained earnings, current year profit less required deductions to DOSRI. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes general loan loss provision. The amount of surplus funds available for dividend declaration also based on regulatory net worth after considering certain adjustments. As at December 31, 2023 and 2022, RBSMI has fully complied with the CAR requirement of the BSP.

A. Calculation of Qualifying Capital	2022	2023
A.1 Tier 1 Capital		
Core Tier 1 Capital		
Paid-up Capital- Ordinary	15,000,000	15,000,000
Retained Earnings	9,159,753	11,571,197
Deductions from Core Tier 1 Capital		
Deferred Tax Assets, Net of Deferred tax Liability	330,857	451,203
Total Outstanding unsecured credit accommodations to DOSRI	-	-
Total Tier 1 Capital	23,828,896	26,119,994
A.2 Tier 2 Capital		
Upper Tier 2 Capital		
General Loan Loss Provision	658,500	680,417
Total Upper Tier 2 Capital	658,500	680,417
Total Qualifying Capital	24,487,396	26,800,411



Rural Bank of Sanchez Mira (Cagayan), Inc. 2023 Annual Report

The BSP implements minimum capital ratios of 6.0 percent Common Equity Tier 1 (CET1) ratio, 5 percent Tier 1 ratio, and 10.0 percent Total Capital Adequacy Ratio (CAR). A capital conservation buffer (CCB) of 2.5 percent, comprised of CET1 capital was also prescribed. As of December 31, 2022, the Bank meets the total CAR, Tier 1 ratio and Common Equity Tier 1.

The Bank maintains an actively managed capital base to cover risks in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios adopted by the BSP in supervising the Bank.

Sustainability Strategic Objectives and Risk Appetite

The Sustainable Finance Framework governs RBSMI's approach to sustainable finance, and confirms the Bank's commitment to responsible banking practices. The policy governs the Bank's efforts to meet the expectation of the Bangko Sentral ng Pilipinas (BSP) in pursuing sustainable and resilient growth by enabling environmentally and socially responsible business decisions consistent with the aspirations set out for the Filipinos.

Strategy

The bank's Sustainability Framework defines the strategies that serve as guideposts in the Bank's journey towards sustainability.

- **Product Sustainability Strategy**
The Bank creates financial products and services that anticipate the evolving needs of the Bank's customers.
- **Sustainability Contribution Strategy**
The Bank supports the achievement of national economic goals through financial inclusion and impact financing in infrastructure, ecofriendly solutions, and disaster resilience initiatives.
- **Human Capital Sustainability Strategy**
The Bank develops leaders in the sustainability movement. The Bank aims to grow a "can lead" workforce that adapts a sustainability mind-set and thrives with innovative thinking and a customer-focused attitude.
- **Disaster Response Sustainability Strategy**
We leverage the Bank's Resources towards the relief, rehabilitation and recovery of disaster-stricken communities.
- **Governance-Based Sustainability Strategy**
The Bank continuously enhance the Bank's corporate governance framework to sustain superior business performance anchored on the principles of accountability, transparency, integrity, and fairness.



Overview of E&S Risk Management System

RBSMI adopts an Environmental and Social Risk Management Policy articulating the Bank's strategic commitment towards Environmental and Social (E&S) Risk management and makes this an integral part of its Risk Management Practices. This policy is aligned with the environmental and social risk management framework as per Monetary Board, in its Resolution No. 1443 dated 21 October 2021, approving the guidelines that shall govern the integration of environmental and social (E&S) risks in the enterprise-wide risk management frameworks of banks that shall amend the provisions of Section 1531 of the Manual of Regulations for Banks (MORB) on the Sustainable Finance Framework.

The said policy was developed with the following objectives:

- Setting strategic E&S objectives, such as offering new products that address E&S sustainability;
- Incorporating E&S Risk considerations into all financing activities;
- Excluding financing clients whose business activities do not meet the Bank's principles;
- Communicating to improve the overall E&S performance of its portfolio through enhanced risk management;
- Committing to continually building the capacity of the Bank's staff to identify E&S risks.

ESRM System refers to policies, procedures, and tools to identify, assess, monitor, and mitigate exposures to E&S risks. The climate-related risks comprise of physical and transition risks:

Physical risk refers to the potential loss or damage to tangible assets arising from climate change and/or other weather-related conditions such as floods, typhoons, droughts, extreme weather variability, and rising sea levels.

Transition risk refers to the potential economic adjustment cost resulting from policy, legal, technology, and market changes to meet climate change mitigation and adaptation requirements.

Through the implementation of E&S Management System, the Bank can enhance its management of E&S risks associated with each transaction, which can be included in the credit appraisal, conducting due diligence on the borrower at the inception of the client relationship and an ongoing part of assessment of the E&S risk profile and credit worthiness.



International Industry Standards and ESRM best practices alignment

The bank's primary ESRM commitment is aligned with the Equator Principles standard. The equator principles are a framework established by the industry to determine, assess, and manage social and environmental risks and impacts associated with large scale projects globally. Statements principles are:

Principle 1. Review and Categorization

When a project is proposed for financing, the Bank will, as part of its internal environmental and social review and due diligence, categorized based on the magnitude of potential environmental and social risk impacts. Including those related to human rights, climate change, and biodiversity. Such categorization is based on the International Finance Corporation's environmental and social categorization process.

Principle 2: Environmental and Social Assessment

The Bank will require the client to conduct an appropriate assessment process to address the EP's satisfaction, the relevant environmental and social risks and scale of impacts of the proposed project. The Assessment Documentation should propose measures to minimize, mitigate, and where residual impacts remain, to compensate, offset/remedy for risks and impacts to workers affected communities, and the environment, in a manner relevant and appropriate to the nature and scale of the project.

Principle 3: Applicable Environmental and Social Standards

The Assessment process should, in the first instance, address compliance with relevant laws, regulations and permits that pertain to environmental and social issues.

Principle 4: Action Plan on Environmental and Social Management System

An Environmental and Social Management Plan will be prepared by the client to address issues raised in the assessment process and incorporate actions required to comply with the applicable standards are not met to the Bank's satisfaction, the clients and the EPFI will agree to an Equator Principles Action Plan.

Principle 5: Stakeholder Engagement

For all Category A and Category B Projects, the Bank will require the client to demonstrate effective stockholder engagement, as an ongoing process in a structure and culturally appropriate manner, with affected communities, workers and where relevant, other stakeholders.



Principle 6: Grievance Mechanism

The Bank will require the client as part of the ESRM, to establish effective grievance mechanism which are designed for use by affected communities and workers, as appropriate, to receive and facilitate resolution of concerns and grievances about the project's environmental and social performance.

Principle 7: Independent Review (Project Finance and Project-Related Corp. Loans)

For all category A and B projects, an Independent Environmental and Social Consultant will carry out an Independent Review of the assessment process, and the stakeholder engagement process documentation in order to assist the Bank's due diligence and determination of Equator Principles compliance. The Independent consultant will also propose of orpine on a suitable Equator Principles and Action Plan capable of bringing the project into compliance with the equator principles, or indicate where there is a justified deviation from the applicable standards. The independent consultant must be able to demonstrate expertise in evaluating the types of environmental and social risks and impacts relevant to the project.

Principle 8: Covenants

An important strength of the Equator Principle is the incorporation of covenants linked to compliance.

For all projects, where a client is not in compliance with its environmental and social covenants, the Bank will work with the client on remedial actions to bring the project back into compliance. If the client fails to re-establish compliance with an agreed grace period, the Bank reserves the right to exercise remedies, including calling an event of default, as considered appropriate.

Principle 9: Independent Monitoring and Reporting

(Project Finance ad Project-related Corporate Loans) In order to assess project compliance with the Equator Principles after financial close and over the life of the loan, the Bank will require independent monitoring and reporting provided by an independent monitoring and reporting provided by an independent Environmental and Social Consultant; alternatively, the Bank will require that the client retain qualified and experienced external experts to verify its monitoring information, which will be shared with the bank in accordance with the frequency required in Principle 8.

Principle 10: Reporting and Transparency

(For all category A and, as appropriate, Category B Projects) The client will ensure that at a minimum, a summary of the Environmental and Social Impact Assessment is accessible and



available online and that it includes a summary of Human Rights and Climate Change Risks and impacts when relevant; the client will report publicly, on annual basis, GHG emission levels during the operational phase for projects emitting over 100,000 tons of CO2 equivalent annually; The Bank will encourage the client to share commercially non-sensitive Project-specific biodiversity data with the Global Biodiversity Information Facility and relevant national and global repositories, using formats and conditions to enable such data to be assessed and global re-used in future decisions and research applications.

Risk Identification and Assessment

Historically, the bank had very limited transactions falling within the scope of the above Equator Principles. The scope of Risk Identification and assessment is based solely on the IFC's categorization process as category A, B, and C.

Category A: A project with potential significant adverse environmental and social risk and/or impacts that are diverse, irreversible or unprecedented, such as:

- a. Oil and gas operations
- b. Thermal Power
- c. Coal and metal mining
- d. Arms and armaments
- e. Cement and lime manufacturing
- f. Base metal smelting and refining
- g. Foundries
- h. Pulp and paper mills

Category B: Projects with potential limited environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures, and

Category C: Projects with minimal or no adverse environmental and social risk and/or impacts.

Retail Bank Products	Product Category
Consumer Lending	
1. Loans to Individuals Primarily for Personal Use	
1.1 Salary based consumption loans	C
1.2 Other Consumption Loans	C
2. Loans to Individuals for other purposes	
2.1 Fringe Benefit	C
2.2 Other Purposes Loans	C
3. Micro, Small and Medium Enterprises (SME)	
3.1 Small Scale Enterprises Loans	C
3.2 Commercial Loan	C
4. Agricultural Credits	
4.1 Facility/Farm Machineries	B
4.2 Farm Inputs	C
4.3 Production/Crop Loan	C



Economic Dimension

The Bank contributes to the Bank's sustained economic growth through the delivery of the various banking products and services that help create a dynamic business environment. Promote local and, accelerate economic activity. The bank's efforts include the following:

- Support infrastructure development through loans to contractors for national and local projects including road networks, schools, farm-to market roads;
- Promote the development of small and medium enterprises through SME loans;
- Empower Filipino consumers with affordable and flexible consumer loan packages;
- Fosters banking habits through creation of innovative banking practices and financial products to meet needs of small entrepreneurs, farmers, fisher folks and private individuals;

Environmental Dimension

- Reinforcing RBSMI's Environmental and Social Management System Policy in lending operations;
- Integrating environments risk management in responsible finance; and
- Accelerating green finance for a more sustainable rural economy

Social Dimension

RBSMI carries out its corporate citizenship initiatives through the developing and implementing initiatives to support social development. The Bank's advocacies fall under two (2) pillars: (1) disaster response, which includes relief, and (2) financial inclusion.

- Disaster response covers relief operations in communities affected by natural or man-made disasters. The Bank, in cooperation with the LGU and other private organizations, provides and distributes relief to communities affected by disasters.
- Financial inclusions include promoting financial literacy among targeted sectors.

Governance Dimension

At RBSMI, corporate governance is about effective oversight, doing the right thing, and providing sustainable value creation to promote the best interest of our various stakeholders. The Bank continually enhances its corporate governance framework to sustain superior business performance anchored on the principles of fairness, integrity, transparency, accountability, and performance.



Principles for environmental sustainability

1. Climate Change mitigation and adaptation

Economic activities enabling, directly or indirectly, a substantial reduction to GHG emissions and/or increase of energy efficiency. Measures adapting to acute and chronic physical risks caused or intensified by climate change.

2. Protection, restoration and promotion of natural resources and healthy ecosystems

Protection of marine and terrestrial (living) resources including water, critical and high-carbon stock ecosystems, and other primary resources. Restoration of biodiversity and ecosystems. Pollution protection and control and general reduction of resource use.

3. Transition to a circular economy

Prevention of waste and promotion of recycling and reuse of material.

Principles for social sustainability

1. Respect for human rights:

Respect for, protection and enablement of basic human rights, e.g. labor protection.

2. Enabling living conditions

Access to affordable housing and infrastructure for transportation, ICT and energy provision.

3. Access to essential services

Inclusive access to health, education, and financial services.



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Statements of Income

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Audited Financial Statements

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Independent Auditor's Report

Alas Oplas & Co., CPAs

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC. SANCHEZ MIRA, CAGAYAN – PHILIPPINES

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

Alas Oplas & Co., CPAs

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RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
Lagasca St., Centro 1, Sanchez Mira, Cagayan

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The Management of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), 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.

Alas, Oplas & Co., CPAs and Jackie Lou Roxas Ocbenia, CPA, the independent auditors appointed by the stockholders for the years ended December 31, 2023 and 2022, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



CARLO A. CACHAPERO
Chairman of the Board



ALEJANDRO M. PULIDO, JR.
President



ANNABELLE M. BANGALAN
Chief Financial Officer/Treasurer

Signed this 3RD day of APRIL, 2024.

Alas Oplas & Co., CPAs

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
Centro I, Sanchez Mira
Cagayan, Philippines

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Independent Member of
B K R International

Opinion

We have audited the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), 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, except for the effect on the financial statements of the matters described in the basis for qualified opinion paragraph, 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 years then ended in accordance with Philippine Financial Reporting Standards.

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 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 1011, BSP-supervised financial institutions with credit operations that may not economically justify 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 Manual of Regulations for Banks. Our opinion is not qualified in respect of this matter.

Other Matter

The financial statements of the Bank as of December 31, 2022, were audited by another auditor whose report dated March 25, 2023, expressed an unqualified opinion on those statements.



Alas Oplas & Co., CPAs

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.

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

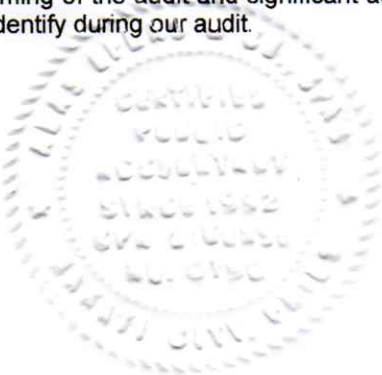
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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 Regulation No. 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 27 and Revenue Regulation No. 15-2010 on taxes, duties and license fees paid or accrued during the taxable year, in Note 26 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 SANCHEZ MIRA (CAGAYAN), 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

April 3, 2024

Makati City, Philippines

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2023
(With Comparative Figures for 2022)
In Philippine Peso

	Notes	2023	2022
ASSETS			
Cash and other cash items	8	2,539,822	2,155,670
Due from Bangko Sentral ng Pilipinas	8	2,181,978	2,199,210
Due from other banks	8	37,631,855	40,025,037
Investment securities at amortized cost	9	—	2,000,000
Loans receivable – net	10	69,720,143	67,235,196
Bank premises, furniture, fixtures and equipment – net	11	990,658	1,199,609
Deferred tax assets	20	451,203	330,857
Other assets	12	856,156	748,546
TOTAL ASSETS		114,371,815	115,894,125
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	13	82,343,913	87,094,733
Accrued and other liabilities	14	5,089,034	4,458,277
Income tax payable		367,671	181,362
Total Liabilities		87,800,618	91,734,372
EQUITY			
Common stock	16	15,000,000	15,000,000
Surplus free	17	11,571,197	9,159,753
Total Equity		26,571,197	24,159,753
TOTAL LIABILITIES AND EQUITY		114,371,815	115,894,125

See Notes to Financial Statements.

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023
(With Comparative Figures for 2022)
In Philippine Peso

	Notes	2023	2022
INTEREST INCOME			
Due from other banks	8	103,624	98,170
Investment securities at amortized cost	9	39,000	52,000
Loans receivable	10	10,906,256	9,468,876
		11,048,880	9,619,046
INTEREST EXPENSE			
Deposit liabilities	13	(895,915)	(844,503)
NET INTEREST INCOME		10,152,965	8,774,543
OTHER INCOME	18	2,756,875	2,588,348
TOTAL OPERATING INCOME		12,909,840	11,362,891
OPERATING EXPENSES	19	(9,082,730)	(9,205,204)
NET OPERATING INCOME BEFORE PROVISION		3,827,110	2,157,687
PROVISION FOR CREDIT LOSSES	10	(643,342)	(333,151)
PROFIT BEFORE TAX		3,183,768	1,824,536
INCOME TAX EXPENSE	20	(772,324)	(511,265)
PROFIT		2,411,444	1,313,271
OTHER COMPREHENSIVE INCOME		—	—
TOTAL COMPREHENSIVE INCOME		2,411,444	1,313,271

See Notes to Financial Statements.

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023
(With Comparative Figures for 2022)
In Philippine Peso

	Capital Stock (Note 16)	Surplus Free (Note 17)	Total
Balance at December 31, 2021	15,000,000	10,059,871	25,059,871
<i>Transactions with owners:</i>			
Dividends paid	–	(2,500,000)	(2,500,000)
Prior period adjustments	–	286,611	286,611
Total transactions with owners	–	(2,213,389)	(2,213,389)
<i>Comprehensive income</i>			
Profit	–	1,313,271	1,313,271
Balance at December 31, 2022	15,000,000	9,159,753	24,159,753
<i>Comprehensive income</i>			
Profit	–	2,411,444	2,411,444
Balance at December 31, 2023	15,000,000	11,571,197	26,571,197
<i>See Notes to Financial Statements.</i>			

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(With Comparative Figures for 2022)
In Philippine Peso

	Notes	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,183,768	1,824,536
Adjustments for:			
Interest income	8,9	142,624	150,170
Provision for credit losses	10	643,342	333,151
Retirement benefit expense	15,19	163,080	436,580
Depreciation	19	322,602	364,195
Operating cash flows before working capital changes		4,455,416	3,108,632
Increase in operating assets:			
Loans receivable		(3,128,288)	(1,620,511)
Other assets		(433,770)	(5,129)
Increase (decrease) in operating liabilities:			
Deposit liabilities		(4,750,821)	4,892,302
Accrued and other liabilities		630,757	1,561,531
Cash generated from (used in) the operations		(3,226,706)	7,936,825
Income tax paid		(706,361)	(649,324)
Interest received	8,9	(142,624)	(150,170)
Contribution to retirement fund	15	163,080	—
Net cash generated from (used in) operating activities		(3,912,611)	7,137,331
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from investment securities at amortized cost	9	2,000,000	—
Acquisition of bank premises, furniture, fixtures and equipment	11	(113,651)	(504,578)
Net cash generated from (used in) investing activities		1,886,349	(504,578)
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid	17	—	(2,500,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,026,262)	(4,132,753)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR			
Cash and other cash items		2,155,670	1,855,341
Due from Bangko Sentral ng Pilipinas		2,199,210	2,246,682
Due from other banks		40,025,037	44,410,647
		44,379,917	48,512,670
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items	8	2,539,822	2,155,670
Due from Bangko Sentral ng Pilipinas	8	2,181,978	2,199,210
Due from other banks	8	37,631,855	40,025,037
		42,353,655	44,379,917

See Notes to Financial Statements.

1. CORPORATE INFORMATION

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC. (the “Bank”), was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) under Registration No. 45926 dated November 25, 1971 and started its operations as banking institution on March 16, 1972.

The Bank’s main purpose is to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries, fishermen and other meager-income earners to have and exercise all authority and powers and perform all acts and transacts all business which may legally be had and done by rural bank organized under and in accordance with the Rural Bank’s Act and transacts all business which may legally exist or be amended and to have all other things thereto and necessary and proper in connection with said purposes within such authority as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

The Bank’s principal place of business is located at Centro I, Poblacion, Sanchez Mira, Cagayan. It is a single unit bank located in Sanchez Mira, a 3rd class municipality in the province of Cagayan, Philippines. The Bank is domiciled in the Philippines.

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. All provisions and requirements of PFRSs are applied by the Bank in preparation of its financial statements except for the requirements of the following standards:

PFRS 9 Financial Instruments – For impairment, the Bank adopted Appendix 15 of Manual of Regulations for Banks (MORB) that provides arbitrary rates 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 AMENDED 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

Material 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

Financial assets are recognized when the Bank becomes a party to the contractual terms of financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instrument.

Date of recognition

The Bank recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

'Day 1' difference

Where the transaction price in a non-active market is different with the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

4.01.01 Financial Assets

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.

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 and 2022, the Bank's cash and other cash items, due from BSP, due from other banks, investment securities at amortized cost and loans receivable are classified under this category as disclosed in Notes 8, 9 and Note 10.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, check and other cash items, 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.

Loans receivable

Loans receivable include those arising from direct loans to members including officers and employees. These are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, 'Loans receivables' are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in 'Provision for credit losses' in the statement of comprehensive income.

Investment securities at amortized cost

Investment securities at amortized cost include non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as at amortized cost if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. Investment securities at amortized cost are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, these financial assets are subsequently measured at amortized cost. Gains and losses are recognized in the statement of comprehensive income when the investment securities at amortized cost are derecognized and impaired, as well as through the amortization process.

Financial assets at FVOCI

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 and 2022, 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 and 2022, 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 and 2022, the Bank does not have equity securities at FVPL.

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 reclassification date.

Impairment

At the end of the reporting period, the Bank assess its expected credit losses (ECL). The Bank recognizes an allowance for expected credit losses (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 expected credit losses (ECL) for its loans receivable. The Bank look 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, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Bank's ECL measurement, as determined by the Management, is as follows:

Individually Assessed Credit Exposure

Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for impairment losses based on the number of days of missed payment as follows:

(a) For unsecured loans and other credit exposures

No. of Days Unpaid/ with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (Underperforming)	10%	2
91 – 120 days	Substandard (Non-performing)	25%	3
121 – 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

(b) For secured loans and other credit exposures

No. of Days Unpaid/ with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (Underperforming)	10%	2
91 – 180 days	Substandard (Non-performing)	10%	3
181 – 365 days	Substandard (Non-performing)	25%	3
Over a year to 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3

Collectively Assessed Credit Exposures

Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for impairment losses based on the number of days of missed payment as follows:

(a) For unsecured loans and other credit exposures

No. of Days Unpaid/ with Missed Payment	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 – 60 days /1 st restructuring	Substandard	25%	2 or 3
61 – 90 days	Doubtful	50%	3
91 days and over /2 nd restructuring	Loss	100%	3

(b) For secured loans and other credit exposures

No. of Days Unpaid/ with Missed Payment	Classification	ACL (%)		Stage
		Other types of collateral	Security by real estate	
31 – 90 days	Substandard (Underperforming)	10	10	2
91 – 120 days	Substandard (Non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances is determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

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 of Bank that the Bank could be required to repay.

4.01.02 Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are recognized initially at fair value, which is the fair value of the consideration received. In case of financial liabilities at amortized costs, the initial measurement is net of any directly attributable transaction costs.

Classification

The Bank classifies its financial liabilities at initial recognition as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at December 31, 2023 and 2022, the Bank does not have liabilities at FVPL.

Financial Liabilities at Amortized Cost

Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or an-other financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.

As at December 31, 2023 and 2022, the Bank's deposit liabilities and accrued and other liabilities (except statutory payables) are classified under this as disclosed in Notes 13 and 14.

Derecognition

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

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- 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.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

4.01.03 Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

4.02 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are measured at cost less any accumulated depreciation, amortization 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.

Major spare parts and stand-by equipment qualify as premises, furniture, fixture and equipment when the company expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of premises, furniture, fixture and equipment, they are accounted for as Bank premises, furniture, fixtures and equipment.

Estimated future dismantlement costs of items of premises, furniture, fixture and equipment arising from legal or constructive obligations are recognized as part of the statement of financial position and are measured at present value at the time when obligation was incurred.

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

Buildings and improvements	–	10 to 20 years
Furniture and fixtures	–	2 to 8 years
Information technology equipment	–	3 to 5 years
Other office equipment	–	3 to 5 years
Transportation equipment	–	3 to 5 years
Leasehold improvements	–	Useful life or lease term

Stand-by equipment is depreciated from the date it is made for use over the shorter of the life of the stand-by equipment or the life of the asset the stand-by equipment is part of, while major spare parts are depreciated over the period starting when it is brought into service, continuing over the lesser of its useful life and the remaining expected useful life of the asset to which it relates.

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 profit or loss. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

4.03 Other Assets

Other assets not classified as financial assets includes stationery and supplies unissued, prepayments, petty cash fund and miscellaneous assets. 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.

4.04 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.

4.05 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; and (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.

In considering each possible related party relationships, 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.

4.06 Equity

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

Surplus free includes all current and prior period results of operations as reported in the statement of income.

4.07 Revenue Recognition

4.07.01 Revenue Recognition for Revenues within the scope of PFRS 15

Prior to January 1, 2018, under PAS 18, Revenue, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Bank and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable by the Bank for services provided in the normal course of business. In addition, the following specific recognition criteria must also be met before revenue is recognized.

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:

Other Income

Other income arises from recovery on charged-off assets, bank commission, application fee, service fees and miscellaneous income. Other income is recognized upon completion of the earning process and the collectibility is reasonably assured.

Gain on Sale of Non-financial Assets

Income from assets sold or exchange 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" in the statement of comprehensive income.

4.07.02 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 on Loans

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, where payments are made on a monthly basis, is recognized on a monthly basis on payment dates using the effective interest method.

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

Interest Income on Bank Deposits and Investment Securities at Amortized Cost

Interest on bank deposits and investment securities at amortized cost are recognized in profit or loss using the effective interest method.

Fees and Commissions

The Bank earns fees and commission income 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. These fees include commission income and credit-related fees.

Service fees are collected from borrowers to cover direct and indirect expenses in processing credit applications.

4.08 Cost and Expense Recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss:

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

Interest expense are expenses incurred that are associated with the Bank's deposit liabilities and bills payable. Non-interest expenses are costs attributable to administrative, marketing, collection and other business activities of the Bank.

4.09 Employee Benefits

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

4.09.01 Short-term Employee Benefits

The Bank recognizes a liability for the benefits accruing to employees in respect of wages and salaries, monetization of annual vacation leaves and sick leave, in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for the service.

4.09.02 Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer to encourage voluntary redundancy.

In case of termination due to the installation of labor-saving devices or redundancy, the employee affected thereby shall be entitled to a separation pay equivalent to at least one (1) month pay for every year of service. In case of retrenchment to prevent losses or financial reverses, the separation pay shall be equivalent to at least one-half (1/2) month pay or one (1) month pay for every year of service whichever is higher. A fraction of at least six (6) months shall be considered as one (1) whole year.

4.09.03 Retirement Benefit

The Bank has an established retirement plan that conforms to the minimum regulatory benefit as required by the provisions of Republic Act (R.A.) No. 7641, otherwise known as the Philippine Retirement Pay Law. An employee upon reaching the age of sixty (60) years or more, but not beyond sixty-five (65) years whichever is hereby declared the compulsory retirement age, who has served at least fifteen (15) years, may retire and shall be entitled to retirement equivalent to (i) one half (1/2) month pay for every year of service, a fraction of six (6) months shall be considered as one (1) whole year; (ii) equivalent of one half (1/2) of the 13th month pay based on the latest salary of the employee for every year of service; and (iii) the equivalent of five (5) days service incentive leave for every year of service, which is accounted for as defined benefit plan.

4.10 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.

4.10.01 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.

4.10.02 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.

4.11 Provisions, Contingent Liabilities and Contingent Assets

4.11.01 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.

4.11.02 Contingencies

Contingent liabilities and assets 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.

4.12 Borrowing Costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

4.13 Events After the End of 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. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

5.01 Critical Judgments in Applying Accounting Policies

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

5.01.01 Classification of Financial Assets

The Bank follows the guidance of PFRS 9 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.

5.01.02 Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model (applicable beginning 2018)

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of financial assets give rise on specific dates to cash flows that are solely payments of principal on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flow meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

5.01.03 Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 4.12 and relevant disclosures are presented in Note 22.

5.01.04 Determining Method of Computing ECL

As stated in Bangko Sentral ng Pilipinas (BSP) Circular 1011, BSP-supervised financial institutions with credit operations that may not economically justify 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 Manual of Regulations for Banks.

In 2023, following the guidance of Circular 1011 and Appendix 100 of the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas 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 is reasonable.

5.01.05 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 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.

5.02 Key Sources of Estimation Uncertainties

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

5.02.01 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.

In both years, the Bank assessed its loans receivable and determined that certain borrowers are unable to meet their financial obligations. Consequently, the Bank recognized provision for credit losses amounting to ₱643,342 and ₱333,151 in 2023 and 2022, respectively, as disclosed in Note 10. Allowance for credit losses – loans amounted to ₱2,931,286 and ₱2,449,902 as of December 31, 2023 and 2022, respectively, as disclosed in Note 10.

5.02.02 Reviewing Residual Values, Useful Lives and Depreciation Method of Bank's Premises, Furniture, Fixtures and Equipment

The residual values, useful lives and depreciation method of the Bank's premises, furniture, fixtures and equipment are reviewed at least annually, and adjusted prospectively if appropriate, if there is an indication of a significant change in, how an asset is used; significant unexpected wear and tear; technological advancement; and changes in market prices since the most recent annual reporting date. The useful lives of the Bank's assets are estimated based on the period over which the assets are expected to be available for use. In determining the useful life of an asset, the Bank considers the expected usage, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output and legal or other limits on the use of the Bank's assets. In addition, the estimation of the useful lives is based on Bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of bank's premises, furniture, fixtures and equipment and would increase the recognized operating expenses and decrease non-current assets. The Bank uses a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If there is an indication that there has been a significant change in the pattern used by which the Bank expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern.

In both years, Management assessed that there are no indications that there has been a significant change in pattern used by the Bank to consume its asset's future economic benefit. As of December 31, 2023 and 2022, the carrying amounts of bank premises, furniture, fixtures and equipment as disclosed in Note 11 amounted to ₱990,658 and ₱1,199,609, respectively.

5.02.03 Determining Impairment of Non-Financial Asset

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

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

In both years, Management determined that there was no indication of impairment that occurred on its bank premises, furniture, fixtures and equipment.

5.02.04 Recoverability of Deferred Tax Assets

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

The Bank recognized deferred tax assets amounting to ₱451,203 and ₱330,857 as of December 31, 2023 and 2022, respectively, which Management believes to be fully recoverable prior to expiration, as disclosed in Note 20.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

6.01 General Risk Management Principles

The Bank is exposed to a variety of financial risks which result from both its operating and investing activities. The Bank's BOD focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

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

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

	Notes	2023	2022
Financial assets at amortized cost			
Cash and other cash items	8	₱ 2,539,822	₱ 2,155,670
Due from BSP	8	2,181,978	2,199,210
Due from other banks	8	37,631,855	40,025,037
Investment securities at amortized cost	9	—	2,000,000
Loans receivable – net	10	69,720,143	67,235,196
Other assets*	12	448,229	424,350
		₱ 112,522,027	₱ 114,039,463
Financial liabilities at amortized cost			
Deposit liabilities	13	₱ 82,343,913	₱ 87,094,733
Accrued and other liabilities**	14	1,814,172	1,792,427
		₱ 84,158,085	₱ 88,887,160

*excluding non-financial assets amounting to ₱407,927 and ₱324,196 in 2023 and 2022, respectively.

**excluding government-related payables and non-financial liabilities amounting to ₱ 3,274,862 and ₱2,665,850 in 2023 and 2022, respectively.

6.02 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance and other activities undertaken by the Bank. The Bank manages its credit risk and loan portfolio through the BOD, which undertakes several functions with respect to credit risk management.

The Bank's accounts with other banks, loans and receivables, and AFS securities are actively monitored to avoid significant exposures to unwarranted credit risk. Loans are subject to approval by the credit committee, executive committee and BOD, depending on the amounts.

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

The Bank has adopted a no-business policy with customers lacking an appropriate credit history where credit records are available.

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6.02.01 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
Due from BSP	8	₱ 2,181,978	₱ 2,199,210
Due from other banks	8	37,631,855	40,025,037
Investment securities at amortized cost	9	—	2,000,000
Loans receivable*	10	72,651,429	69,685,098
Other assets**	12	448,229	424,350
		₱ 112,913,491	₱ 114,333,695

*gross of allowance for credit losses amounting to ₱2,931,286 in 2023 and ₱2,449,902 in 2022, and net of unamortized discount amounting to ₱2,072,532 and ₱2,113,283 in 2023 and 2022, respectively.

**excluding non-financial assets amounting to ₱407,927 and ₱324,196 in 2023 and 2022, respectively.

The Bank continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Bank's policy is to deal only with creditworthy counterparties.

6.02.02 Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets as of December 31, 2023 and 2022:

2023	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
Due from BSP	2,181,978	—	—	2,181,978
Due from other banks	37,631,855	—	—	37,631,855
Loans receivable*	67,744,585	767,168	4,139,676	72,651,429
Other assets**	448,229	—	—	448,229
	108,006,647	767,168	4,139,676	112,913,491

2022	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
Due from BSP	2,199,210	—	—	2,199,210
Due from other banks	40,025,037	—	—	40,025,037
Investment securities at amortized costs	2,000,000	—	—	2,000,000
Loans receivable*	65,570,035	2,391,868	1,723,195	69,685,098
Other assets**	424,350	—	—	424,350
	110,218,632	2,391,868	1,723,195	114,333,695

*net of unamortized discount amounting ₱2,072,532 and ₱2,113,283 in 2023 and 2022, respectively.

**excluding non-financial assets amounting to ₱407,927 and ₱324,196 in 2023 and 2022, respectively.

Neither past due nor impaired cash on hand and in banks are working capital cash fund placed, invested, or deposited in local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability. Other neither past due nor impaired accounts are loans receivable and investment securities which have a very remote likelihood of default and have consistently exhibited good paying habits.

Past due but not impaired loans and receivables and investment securities are loans and receivables and investment securities 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 and investment securities are loans and receivables and investment securities 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.

The Bank holds collateral against loans receivables in the form of real estate and chattel mortgages, and deposit hold outs over assets.

6.02.03 Aging Analysis

An aging analysis of the Bank's loans receivable as of December 31, 2023 and 2022 are as follows (net of unamortized discount):

	2023	2022
Outstanding receivables:		
Current accounts	₱ 67,744,585	₱ 65,570,035
Past due accounts:		
1 – 30 days past due	554,951	1,007,993
31 – 60 days past due	112,217	1,377,143
61 – 90 days past due	1,559,640	80,289
over 90 days past due*	2,680,036	1,649,638
	₱ 72,651,429	₱ 69,685,098

**includes items in litigation amounting to ₱374,633 and ₱374,637 in 2023 and 2022, respectively.*

6.03 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.

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, minimum liquidity ratio of the Bank is 48.33% and 68.61%, respectively.

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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 1 Year	Due Beyond 1 Year But Not More Than 5 Years	Due Beyond 5 Year But Not More Than 15 Years	Total
Financial Assets:					
Cash and other cash items	₱ 2,539,822	₱ –	₱ –	₱ –	2,539,822
Due from BSP	2,181,978	–	–	–	2,181,978
Due from other banks	37,631,855	–	–	–	37,631,855
Loans receivable*	4,351,893	47,567,265	20,732,271	–	72,651,429
Other assets**	–	448,229	–	–	448,229
	₱ 46,705,548	₱ 48,015,494	₱ 20,732,271	₱ –	₱ 115,453,313
Financial Liabilities:					
Deposit liabilities	₱ 620,868	₱ 81,723,045	₱ –	₱ –	82,343,913
Accrued and other liabilities***	1,814,172	–	–	–	1,814,172
	₱ 2,435,040	₱ 81,723,045	₱ –	₱ –	₱ 84,158,085

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2022	On Demand	Due Within 1 Year	Due Beyond 1 Year But Not More Than 5 Years	Due Beyond 5 Year But Not More Than 15 Years	Total
Financial Assets:					
Cash and other cash items	₱ 2,155,670	₱ –	₱ –	₱ –	2,155,670
Due from BSP	2,199,210	–	–	–	2,199,210
Due from other banks	40,025,037	–	–	–	40,025,037
Investment securities at amortized costs	–	2,000,000	–	–	2,000,000
Loans receivable*	4,115,063	49,076,203	16,493,832	–	69,685,098
Other assets**	–	170,755	253,595	–	424,350
	₱ 48,494,980	₱ 51,246,958	₱ 16,747,427	₱ –	116,489,365
Financial Liabilities:					
Deposit liabilities	₱ 271,404	₱ 86,823,329	₱ –	₱ –	87,094,733
Accrued and other liabilities***	1,792,427	–	–	–	1,792,427
	₱ 2,063,831	₱ 86,823,329	₱ –	₱ –	88,887,160

*gross of allowance for credit losses amounting to ₱2,931,286 in 2023 and ₱2,449,902 in 2022, and net of unamortized discount amounting to ₱2,072,532 and ₱2,113,283 in 2023 and 2022, respectively.

**excluding non-financial assets amounting to ₱407,927 and ₱324,196 in 2023 and 2022, respectively.

***excluding government-related payables and non-financial liabilities amounting to ₱ 3,274,862 and ₱2,665,850 in 2023 and 2022, respectively.

6.04 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.

6.05 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 behaviour.

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

7.01 Carrying Amounts and Fair Values by Category

The following table presents a comparison by category of carrying amounts and estimated fair value of the Bank's financial instruments as of December 31, 2023 and 2022:

		Fair Value			Total
		Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
2023	Carrying Value				
ASSETS					
Loans receivable – net	69,720,143	–	69,720,143	–	69,720,143
LIABILITIES					
Deposit liabilities	82,343,913	–	82,343,913	–	82,343,913
		Fair Value			Total
		Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
2022	Carrying Value				
ASSETS					
Investment securities at amortized costs	2,000,000	–	2,000,000	–	2,000,000
Loans receivable – net	67,235,196	–	67,235,196	–	67,235,196
	69,235,196	–	69,235,196	–	69,235,196
LIABILITIES					
Deposit liabilities	87,094,733	–	87,094,733	–	87,094,733

Cash and other cash items, Due from BSP, Due from other banks, Investment securities at amortized cost and Other assets, Accrued and other liabilities

The carrying values of these financial assets and liabilities approximate their fair values due to the relatively short-term maturities of these financial assets and liabilities.

Loans receivable

Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of loans and receivables.

Deposit liabilities

Fair values are estimated using the discounted cash flow methodology using the incremental borrowing rates for similar borrowings with maturities consistent with those remaining liability being valued.

Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

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

Investment securities at amortized cost of the Bank are categorized as Level 2 in the absence of bid-offer as at reporting date and due to low volume of trading activity in the market.

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.

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

8. CASH AND CASH EQUIVALENTS

The account consists of the following:

	2023	2022
Cash and other cash items:		
Cash on hand	₱ 2,539,822	₱ 2,155,670
Due from BSP	2,181,978	2,199,210
Due from other banks	37,631,855	40,025,037
	₱ 42,353,655	₱ 44,379,917

Cash and Other Cash Items

Cash and other cash items refer to cash on hand representing the total amount of cash in the Bank's vault in the form of notes and coins under the custody of the cashier, including notes and coins in the possession of tellers while checks and other cash items account refers to the total amount of checks and other cash items received after the clearing cut-off time until the close of the regular banking hours.

Due from Bangko Sentral ng Pilipinas (BSP)

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. Due from BSP bears annual interest rate of zero in 2023 and 2022.

Under Section 252 of the Manual of Regulation for Banks (MORB), the required reserves shall be kept in the form of deposits placed in the banks' demand deposit accounts with BSP. This further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposit shall be limited to settlement of obligations with the BSP and withdrawals to meet cash requirements.

Due from Other Banks

Section 362 of the MORB states that loans and other credit accommodations as well as deposits and usual guarantees by a bank to any other bank, whether locally or abroad, shall be subject to the limits as herein prescribed or ₱100 million, whichever is higher. Provided, that the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

Due from other banks comprise of current and high-yield savings deposits with interest rates ranging from 0.05% to 5.00% in 2023 and 2022.

Interest earned on deposits on local banks amounted to ₱103,624 and ₱98,170 in 2023 and 2022, respectively.

9. INVESTMENT SECURITIES AT AMORTIZED COST

The Bank has investments in retail treasury bonds amounting to nil and ₱2,000,000 as of December 31, 2023 and 2022, respectively.

Movements in the account are disclosed below:

		2023		2022
Balance at January 1	₱	2,000,000	₱	2,000,000
Maturities during the year		(2,000,000)		–
Balance, December 31	₱	–	₱	2,000,000

These investments bear interest rate of 3.25% in 2023 and 2022 with maturity period of ten (10) years. The investment matured on August 15, 2023 and was automatically credited as savings deposit of the Bank. As of December 31, 2023 and 2022, interest earned amounted to ₱39,000 and ₱52,000, respectively.

No impairment was recognized as of and for the years ended December 31, 2023 and 2022.

Under current bank regulations, investments in bonds and other debt instruments shall not exceed 50% of adjusted statutory net worth plus 40% of total deposits liabilities. As of December 31, 2023, and 2022, the Bank is compliant with such regulations.

10. LOANS RECEIVABLE – net

The account consists of the following:

		2023		2022
Current loans	₱	69,784,319	₱	67,682,124
Past due loans		4,565,009		3,741,620
Under litigation		374,633		374,637
Total loans receivable		74,723,961		71,798,381
Unamortized discount		(2,072,532)		(2,113,283)
		72,651,429		69,685,098
Allowance for credit losses		(2,931,286)		(2,449,902)
Total loans receivable – net	₱	69,720,143	₱	67,235,196

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The Bank's loan accounts are stated at the outstanding balance, reduced by estimated allowance for credit losses and unamortized discounts.

As of December 31, 2023, and 2022, no loans receivable was use as a collateral for any liabilities of the Bank.

Interest income earned by the Bank from its loans amounting to ₱10,906,256 and ₱9,468,876 in 2023 and 2022, respectively.

The movements of the allowance for credit losses on loans receivable is summarized as follows:

	2023	2022
At January 1	₱ 2,449,902	₱ 2,320,075
Provision for credit losses	643,342	333,151
Reversal	(161,882)	(203,324)
Write-off	(76)	–
	₱ 2,931,286	₱ 2,449,902

Allowance for credit losses is comprised of the following:

	2023	2022
Specific loan loss	₱ 2,250,869	₱ 1,791,402
General loan loss	680,417	658,500
	₱ 2,931,286	₱ 2,449,902

The allowance for credit losses which include both specific and general loan loss reserves, represent 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 compliance with the regulations of the BSP, the Bank strictly adheres to the setting up the valuation allowance for risk assets. The Bank reviews the quality of its loan portfolio and prepares a quantitative classification of its risk assets including loans. Accordingly, a specific valuation allowance for credit losses were provided on regular loans based on the following schedule.

Classification of Risk Assets	Required Valuation Allowance
Loans especially mentioned	5%
Substandard – secured	10%
Substandard – unsecured	25%
Doubtful	50%
Loss	100%

For microfinance portfolio, the specific allowances are computed based on portfolio at risk. Portfolio at risk (PAR) refers to loan outstanding with one day amortization missed payment. Specific allowance based on PAR follows:

Number of Days PAR	Required Allowance
1 – 30 days	2%
31 – 60 days	25%
61 – 90 days	50%
91 days and over	100%

For unclassified loans whether regular or micro-finance, a general loan loss provision equivalent to 1% is provided.

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.

BSP Manual of Regulations for Banks, Sec. 304, 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

Section 304 of 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.

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

	2023	2022
Past due accounts:		
30 – 60 days	₱ –	₱ 2,385,136
61 – 90 days	1,459,640	80,289
91 – 180 days	1,169,853	125,761
Over 180 days	1,510,183	1,523,877
	₱ 4,139,676	₱ 4,115,063

As of December 31, 2023 and 2022, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows:

	2023	2022
Total Non-performing loans	₱ 4,139,676	₱ 4,115,063
Less: Non-performing loans covered by allowance for credit losses	1,926,000	1,793,778
	₱ 2,213,676	₱ 2,321,285

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

	2023	2022
Gross non-performing loans	₱ 4,139,676	₱ 4,115,063
Ratio of gross NPLs to gross TLP (%)	5.70%	5.91%
Net non-performing loans	₱ 2,213,676	₱ 2,321,285
Ratio of net NPLs to gross TLP (%)	3.05%	3.33%
Ratio of total allowance for credit losses to gross NPLs (%)	70.81%	59.53%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	54.37%	43.53%

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT (BPFEE) – net

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

		Land		Building		Furniture & Fixtures		Other Office Equipment		Information Technology Equipment		Transportation Equipment		Total
Cost:														
Balance, January 1, 2023	P	3,500	P	2,066,337	P	249,860	P	252,738	P	1,360,961	P	1,723,205	P	5,656,601
Additions		–		–		30,400		12,417		70,834		–		113,651
Balance, December 31, 2023		3,500		2,066,337		280,260		265,155		1,431,795		1,723,205		5,770,252
Accumulated depreciation:														
Balance, January 1, 2023		–		1,340,501		239,067		247,554		980,957		1,648,913		4,456,992
Depreciation (Note 19)		–		130,000		13,506		12,466		150,990		15,640		322,602
Balance, December 31, 2023		–		1,470,501		252,573		260,020		1,131,947		1,664,553		4,779,594
Carrying amount	P	3,500	P	595,836	P	27,687	P	5,135	P	299,848	P	58,652	P	990,658
Cost:														
Balance, January 1, 2022	P	3,500	P	2,066,337	P	234,670	P	239,988	P	962,523	P	1,645,005	P	5,152,023
Additions		–		–		15,190		12,750		398,438		78,200		504,578
Balance, December 31, 2022		3,500		2,066,337		249,860		252,738		1,360,961		1,723,205		5,656,601
Accumulated depreciation:														
Balance, January 1, 2022		–		1,210,501		225,341		218,681		793,271		1,645,003		4,092,797
Depreciation (Note 19)		–		130,000		13,726		28,873		187,686		3,910		364,195
Balance, December 31, 2022		–		1,340,501		239,067		247,554		980,957		1,648,913		4,456,992
Carrying amount	P	3,500	P	725,836	P	10,793	P	5,184	P	380,004	P	74,292	P	1,199,609

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.

Depreciation expenses amounting to ₱322,602 and ₱364,195 are presented as expenses in the statements of comprehensive income in 2023 and 2022, respectively, as disclosed in Note 19.

All additions were paid in cash.

No bank premises, furniture, fixtures and equipment were used as collateral for liabilities as at December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the Bank has no commitment to purchase bank premises, furniture, fixture and equipment.

Section 109 of the MORB states that the total investment of a bank in real estate and improvements thereon, including bank equipment, shall not exceed fifty percent (50%) of the bank's net worth. As of December 31, 2023 and 2022, the Bank is compliant with such regulation.

12. OTHER ASSETS

The account consists of the following:

	2023	2022
Accounts receivable	₱ 241,088	₱ 424,350
Accrued interest income on loans	207,141	—
Stationery and supplies unissued	54,390	35,673
Prepayments	46,037	41,023
Petty cash fund	10,000	10,000
Miscellaneous assets	297,500	237,500
	₱ 856,156	₱ 748,546

Accounts receivable represents cash withdrawal thru Point-of-Sale System (POS) system collectible from Land Bank of the Philippines.

Prepayments pertains to the prepaid insurance of all cash-accountable employees of the Bank, accident insurance of employees and fire insurance of the Bank's building.

Miscellaneous assets represent additional fund for VIP payment system and downpayment for Byte per Byte system.

13. DEPOSIT LIABILITIES

This account consists of savings deposit amounting to ₱82,343,913 and ₱87,094,733 in 2023 and 2022, respectively.

Regular Savings earn annual interest rate at 0.50% while special savings account earn interest at 1.25% to 3% in 2023 and 2022.

Total interest expense on deposit liabilities amounted to ₱895,915 and ₱844,503 for 2023 and 2022, respectively.

14. ACCRUED AND OTHER LIABILITIES

Details of this account are disclosed below:

	2023	2022
Deposit for capital subscription	₱ 3,159,500	₱ 2,540,000
Dividends payable	1,480,521	1,480,521
Accrued expenses	248,064	226,940
Accounts payable	85,587	84,966
Government payables	65,586	71,583
Withholding tax payable	44,764	51,394
Due to treasurer of the Philippines	5,012	2,873
	₱ 5,089,034	₱ 4,458,277

Accounts payable pertains to the retainer's fee of programmer and legal counsel of the Bank. It also includes cost of documentary stamps on promissory notes loans granted to borrowers.

Due to treasurer of the Philippines pertains to deposits of persons known to be dead or persons who have not made further deposits or withdrawals during the preceding ten (10) years or more which have been reported to the Treasurer of the Philippines pursuant to the provisions of the Unclaimed Balances Act (Act No. 3936, as amended).

The Bank received cash from stockholders which the Bank recognized as deposit for capital subscription under liabilities in the statement of financial position since the requirements under paragraph 11 of PAS 32 and SEC Financial Reporting Bulletin No 6 – 2012, as amended, were not met for it to be recognized as equity as of December 31, 2023 and 2022.

The movements in this account are as follows:

	2023	2022
At January 1	₱ 2,540,000	₱ 1,511,900
Additional subscription	619,500	1,028,100
	₱ 3,159,500	₱ 2,540,000

15. RETIREMENT BENEFIT OBLIGATION

The Bank has a funded non-contributory defined plan covering substantially all of its employees under which the Bank pays retirement contributions of its employees. The Bank's annual contribution to the plan consists of payment covering the current years' service cost and amortization of past service cost should there be any. The fund is registered as Rural Bank of Sanchez Mira (Cagayan), Inc. Employees Retirement Plan. Management believes that the effect on the financial statements of the difference between the retirement costs determined under the actuarial valuation method and the recorded retirement benefit liability is not significant.

Breakdown of net retirement benefit obligation is as follows:

	2023	2022
Retirement benefit obligation	₱ 3,054,490	₱ 3,904,060
Retirement fund	(3,054,490)	(3,904,060)
	₱ -	₱ -

Movement of the retirement fund of the Bank is as follows:

	2023	2022
Beginning balance	₱ 3,904,060	₱ 3,467,480
Retirement benefit expense (Note 19)	163,080	436,580
Payments	(1,012,650)	–
	₱ 3,054,490	₱ 3,904,060

Movement of the retirement benefit obligation of the Bank is as follows:

	2023	2022
Beginning balance	₱ 3,904,060	₱ 3,467,480
Contributions to the retirement fund	163,080	436,580
Payments	(1,012,650)	–
	₱ 3,054,490	₱ 3,904,060

The retirement benefits required to be paid under the plan is determined based on the years of service and the present salary of the employee at the time of retirement.

The employees of the Bank are also members of a state-managed retirement benefit plan operated by the government (SSS and Pag-ibig Fund). The Bank is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the entity is to make the specified contributions.

16. CAPITAL STOCK

16.01 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	150,000	₱ 15,000,000	150,000	₱ 15,000,000
Issued and fully paid Balance, January 1	150,000	15,000,000	150,000	15,000,000
Balance, December 31	150,000	₱ 15,000,000	150,000	₱ 15,000,000

Common shares carry one (1) vote per share and given equal rights and preference among stockholders.

On August 24, 2022, the BSP issued Circular No. 1151, Amendments to the Minimum Capitalization of Rural Banks, increasing the minimum capitalization requirement to ₱50 million which must be satisfied within five years from the date of effectivity of the circular. Bank which complies with the new capital levels must submit to BSP a certification to this effect, within ten (10) banking days from the date of effectivity of this circular. Banks availing of the capital build-up track shall submit to the BSP within six (6) months from the date of effectivity of this circular. On April 8, 2024, the Bank submitted its revised Five (5) year Capital Build-Program to the BSP. The Bank intends to address the capital deficiency through Track 4 (Capital Build Up Program).

The Bank's Revised Capital Build Up Program approved by the Board of Directors under Board Resolution No. 2024-053 dated 3 April 2024 is as follows:

- Amendment of Articles of Incorporation to increase authorized capital stock to ₱50,000,000;

- Establishment of Branch Lite Unit at Pagudpud, Ilocos Norte on or before the 4th quarter of 2024 and Ayaga, Abulug, Cagayan in 2025;
- Procure the service of ATM providers to install one (1) unit Automated Teller Machine on the Bank building for greater convenience on clients;
- Infuse fresh capital to the Bank; and
- Attain at least a net income after tax of ₱2.575 million for CY 2026 and ₱3.655 million for CY 2027.

16.02 Capital Management

The primary objective of the Bank's capital management are 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.

16.02.01 Capital Ratios as of December 31, 2023

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.

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:

- Tier 1 Capital, which is composed of:
 - CET1 Capital; and
 - Additional Tier 1 (AT1) Capital
- Tier 2 Capital

CET1 Capital consists of:

- Paid-up common stock; and
- Surplus free

Subject to deductions/regulatory adjustments for:

- Deferred tax asset

Tier 2 Capital consists of:

- 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
CET1 Capital	₱ 26,119,994
AT1 Capital	—
Tier 1 Capital	26,119,994
Tier 2 Capital	680,417
Qualifying capital	₱ 26,800,411
Total risk-weighted assets	₱ 111,679,012
CET1 Ratio	23.39%
CCB	17.39%
Tier 1 capital	23.39%
Total CAR	24.00%

The Bank's leverage ratio, computed as total capital over total assets, is 22.84% and 20.56%, as of December 31, 2023 and 2022, respectively.

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 of the Bank is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital:

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

Subject to deductions for:

- i. deferred tax asset, net

- 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 PFRSs in some respects.

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

	2022
Core Tier 1 Capital – gross	₱ 24,159,753
Less: Regulatory adjustments to Core Tier 1	330,857
Core Tier 1 Capital – net	23,828,896
Add: Hybrid Tier 1	–
Tier 1 Capital	23,828,896
Tier 2 Capital	658,500
Total qualifying capital	₱ 24,487,396
Total risk-weighted assets	₱ 126,736,749
Tier 1 Capital ratio	18.80%
Total capital adequacy ratio	19.32%

17. SURPLUS

17.01 Surplus Free

The table below shows the surplus free for the year:

	2023	2022
Balance, January 1	₱ 9,159,753	₱ 10,059,871
Dividends	–	(2,500,000)
Prior period adjustments	–	286,611
Profit	2,411,444	1,313,271
Balance, December 31	₱ 11,571,197	₱ 9,159,753

Prior period adjustments pertain to various income/expense transactions directly attributable to prior years.

The Bank's surplus is not subject and is exempt from the provision of improperly accumulated earnings tax as provided under Section 29 of National Internal Revenue Code of the Philippines and as implemented by Revenue Regulation No. 02-2001, and Section 34 Republic Act No. 8791 requiring banks to maintain a specific minimum Capital Adequacy Ratio (CAR).

17.02 Dividends

Under Section 124 of the MORB, the liability for dividends declared shall be taken up in the bank's books upon its declaration. However, for dividends declarations that are subject to prior Bangko Sentral verification, the liability for dividends shall be taken up in the books upon receipt of Bangko Sentral advice thereof.

On May 20, 2022, the Bank, through Board Resolution No. 2022-70, declared cash dividend amounting to ₱2,500,000 to its common shareholders on record as of May 20, 2022. This was also paid in 2022.

18. OTHER INCOME

This account consists of the following:

	2023	2022
Application fees	₱ 1,960,874	₱ 2,024,937
Bank commission	437,118	419,466
Recovery on charged-off assets	164,828	8,250
Service fee – others	34,664	21,936
Miscellaneous income	159,391	113,759
	₱ 2,756,875	₱ 2,588,348

Miscellaneous income composed of other income related to loans and certification fee, bank charge, closed-account charge and dormancy fee collected from depositors.

Recovery on charged-off assets pertains to the collections of accounts or recovery from impairment of items previously written-off/provided with allowance for credit losses. Breakdown of this account is as follows:

	2023	2022
Reversal of allowance for credit losses	₱ 161,879	₱ –
Collection of previously written-off accounts	2,949	8,250
	₱ 164,828	₱ 8,250

19. OPERATING EXPENSES

Details of operating expenses are shown below:

	2023	2022
Compensation and fringe benefits	₱ 5,964,511	₱ 6,003,458
Taxes and licenses	807,603	742,262
Management and other professional fees	362,002	299,790
Depreciation (Note 11)	322,602	364,195
Security, clerical, messengerial and janitorial expense	178,318	65,377
Insurance – PDIC	174,227	162,675
Trainings and seminars	174,110	–
Power, light and water	143,338	156,564
Insurance – others	87,964	82,313
Fuel and lubricants	84,577	97,499
Stationery and supplies used	82,433	71,357
Information technology expense	78,459	163,988
Postage, telephone, cable, and telegrams	56,629	50,732
Repairs and maintenance	56,210	103,825
Advertising and publicity	42,500	44,039
Representation and entertainment	32,569	31,243
Supervision and examination/banking fees	16,331	15,822
Travel expense	11,878	28,734
Donation and charitable contributions	11,500	44,500
Membership fees and dues	2,760	11,040
Fines, penalties and other charges	995	300,795
Miscellaneous expense	391,214	364,996
	₱ 9,082,730	₱ 9,205,204

Compensation and fringe benefits consists of:

	2023	2022
Salaries and wages	₱ 3,104,920	₱ 3,091,610
Staff benefits	1,888,301	1,751,022
Government contributions	464,210	412,246
Director's and committee member's fee	344,000	312,000
Retirement benefit expense (Note 15)	163,080	436,580
	₱ 5,964,511	₱ 6,003,458

20. 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 thirty percent (30%). Interest allowed as a deductible expense is reduced by an amount equivalent to thirty three percent (33%) 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 2021 and 2020 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.

December 22, 2020, the Bureau of Internal Revenue (BIR) clarified, through Revenue Memorandum Circular (RMC) No. 138-2020, that the net operating loss carry-over (NOLCO) may be availed of under RR No. 25-2020 for taxpayers operating on fiscal-year reporting. The RMC enumerated fiscal years ending between July 31 and November 30, 2020 and January 31 to June 30, 2021 as falling within the taxable year 2020. Meanwhile, fiscal years ending between July 31 to November 30, 2021 and January 31 to June 30, 2022 fall within the taxable year 2021. Thus, net losses incurred by businesses or taxpayers during these fiscal years can be carried over as deductions from gross income for the next five consecutive taxable years.

20.01 Income Tax Recognized in Profit

Components of income tax expense (benefit) are as follows:

		2023		2022
Income tax benefit – current	P	892,670	P	511,265
Income tax benefit – deferred		(120,346)		–
	P	772,324	P	511,265

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	₱ 3,183,768	₱ 1,824,536
Tax expense at 25%	795,942	456,134
Tax effect of income that is subject to lower rate:		
Interest income subject to final tax	(35,656)	(37,543)
Interest expense limitation	8,914	9,386
Non-deductible expense	3,124	83,288
	₱ 772,324	₱ 511,265

20.02 Deferred Tax Assets

The Bank's deferred tax assets (DTA) arising from allowance for credit losses as of December 31, 2023 and 2022 are as follows:

	2023	2022
Balance, January 1	₱ 330,857	₱ 330,857
Origination	160,836	–
Reversal	(40,490)	–
Balance, December 31	₱ 451,203	₱ 330,857

In the previous years, the Bank did not recognize the deferred tax asset since the management believes that it will not be utilized as a future deductible item for tax purposes. Details are as follows:

	2023	2022
Total Deferred tax asset on allowance for credit losses	₱ 732,822	₱ 612,476
Recognized deferred tax assets	(451,203)	(330,857)
Total unrecognized deferred tax assets	₱ 281,619	₱ 281,619

20.03 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.

20.04 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 ₱100 million, excluding land, and total net taxable income of not more than ₱5 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 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, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Bank would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.

20.05 Minimum Corporate Income Tax

Section 27(E) of the National Internal Revenue Code provides that an MCIT of two percent (2%) of the gross income as of the end of the taxable year is imposed on a taxable corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operation, when the MCIT is greater than RCIT for the taxable year.

As of December 31, 2023 and 2022, the Bank has no available MCIT that can be claimed as deduction from future taxable income.

20.06 Net Operating Loss Carry-Over

Under Section 34(D) (3) of NIRC, the net operating loss of business or enterprises for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income, shall be carried over as a deduction from gross income for the next three (3) consecutive taxable years immediately following the year of such loss.

As of December 31, 2023 and 2022, the Bank has no NOLCO which can be claimed as deductions against future taxable income.

21. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loans and other transactions with certain directors, officers, stakeholders and related interests (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.

21.01 DOSRI Loans

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

- The individual ceiling for credit accommodations of a bank to each of its directors, officers and related interests 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 directors and officers shall not exceed 30% of his total credit accommodations.
- The aggregate ceiling for credit accommodations, whether direct or indirect, to directors and officers 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 directors and officers shall not exceed 30% of the aggregate ceiling or the outstanding direct/indirect credit accommodations thereto, whichever is lower.

2023	DOSRI Loans	Related Party Loans (Inclusive of DOSRI Loans)
Total outstanding DOSRI Loans	₱ 472,763	₱ 472,763
Percent of DOSRI accounts to total loans	0.63%	0.63%
Percent of unsecured DOSRI accounts to DOSRI accounts	0.00%	0.00%
Percent of past due DOSRI accounts to total DOSRI accounts	0.00%	0.00%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	0.00%	0.00%
2022	DOSRI Loans	Related Party Loans (Inclusive of DOSRI Loans)
Total outstanding DOSRI Loans	₱ 526,735	₱ 526,735
Percent of DOSRI accounts to total loans	0.76%	0.76%
Percent of unsecured DOSRI accounts to DOSRI accounts	0.00%	0.00%
Percent of past due DOSRI accounts to total DOSRI accounts	0.00%	0.00%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	0.00%	0.00%

The summary of Bank significant transactions with its related parties as of and for the years ended December 31, 2023 and 2022.

2023	Category	Amount of Transactions	Outstanding Balances	Terms	Conditions
				Payable on lump-sum, interest-bearing, cash-settled	
	DOSRI loans	₱ (53,972)	472,763		Secured

2022				
Category	Amount of Transactions	Outstanding Balances	Terms	Conditions
			Payable on lump-sum, interest-bearing, cash-settled	
DOSRI loans	₱ (126,981)	526,735		Secured

The Bank assessed that DOSRI loans are not impaired as of December 31, 2023 and 2021. Total allowance for credit losses recognized as of December 31, 2023 and 2022 pertains to general loan loss provision amounting to ₱4,728 and ₱5,267.

21.02 DOSRI Deposits

Deposits from DOSRI are shown below:

	2023	2022
Savings deposit	₱ 87,775	₱ 279,129

21.03 Remuneration of Key Management Personnel

The remuneration of key management consists of:

	2023	2022
Short-term employee benefits	₱ 3,122,374	₱ 2,937,897

The key management compensation is shown as part of personnel cost under operating expenses account in the statements of comprehensive income.

22. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

- The Bank is a plaintiff to various cases arising from the collection suits pending in courts for claims against its delinquent borrowers. The amount of loans and receivables under litigation amounted to ₱374,633 and ₱374,637 as of December 31, 2023 and 2022, respectively, as disclosed in Note 10.
- The Bank has no pending legal cases arising from its normal operation that will put the Bank as defendant as a result of violation of transactions against its clients/ depositors.
- The Bank had no outstanding issuances of bank guarantee and other similar credit instruments that will put the Bank into obligation in case of non-compliance by the buyer.
- The Bank had no outstanding outward and inward bills for collection at the end of the year.

23. RECLASSIFICATION OF ACCOUNTS

Certain amounts in the 2022 financial statements and note disclosures have been reclassified to conform to the current year's presentation. Details are as follows:

Old classification	New classification	Notes	Amount
Due to the Treasurer of the Philippines	Accrued and Other Liabilities	14	2,873
Accrued interest, taxes and other expenses	Accrued and Other Liabilities	14	226,940
Other Liabilities	Accrued and Other Liabilities	14	4,228,464

Management believes that the above reclassifications resulted to a better presentation of financial statements and did not have any impact on prior year's profit or loss.

24. 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).

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 3, 2024.

26. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATION 15 – 2010

Revenue Regulation (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 are 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.

26.01 Gross Receipts Tax

	2023	2022
Gross receipts tax paid	₱ 531,905	₱ 470,374
Gross receipts tax payable	193,064	192,990
	₱ 724,969	₱ 663,364

26.02 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	₱ 724,969	₱ 663,364
Local taxes:		
Business permit	73,310	68,920
Real property tax	4,548	4,549
Registration fees	500	500
Other taxes and licenses	4,276	4,929
	₱ 807,603	₱ 742,262

26.03 Withholding Taxes

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

2023	Paid	Accrued	Total
Withholding tax on compensation	₱ 112,200	₱ 8,741	₱ 120,941
Final withholding tax	119,822	32,628	152,450
Expanded withholding tax	33,232	3,395	36,627
	₱ 265,254	₱ 44,764	₱ 310,018

2022	Paid	Accrued	Total
Withholding tax on compensation	₱ 141,500	₱ 12,790	₱ 154,290
Final withholding tax	133,753	35,148	168,901
Expanded withholding tax	29,436	3,456	32,892
	₱ 304,689	₱ 51,394	₱ 356,083

26.04 Tax Assessments

The Bank has no outstanding tax assessments as of December 31, 2023 and 2022.

26.05 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.

27. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR NO. 1074

On January 8, 2020, the Monetary Board of the Bangko Sentral ng Pilipinas issued BSP Circular No. 1074, *Amendments to the Regulations on the Financial Audits of Banks*, which requires Banks to include the additional information:

27.01 Basic Quantitative Indicators of Financial Performance

The following basic ratio measures the financial performance of the Bank:

	2023	2022
Return on average equity	9.51%	5.31%
Return on average assets	2.09%	1.16%
Net interest margin	9.15%	8.06%
Debt-to-equity	3.30:1	3.80:1
Leverage ratio	22.84%	20.56%
Capital adequacy ratio	24.00%	19.32%

27.02 Capital Instruments Issued

Description of capital instrument issued by the Bank is disclosed in Note 16.

27.03 Significant Credit Exposures

The Bank's concentration of credit as to industry/economic sector (net of unamortized discount) are as follows:

	2023			2022		
	Peso Amount	% as to Industry	% to Tier 1	Peso Amount	% as to Industry	% to Tier 1
Wholesale and retail trade; repair of motor vehicles and motorcycles	29,993,939	41.28%	114.83%	32,334,716	46.40%	135.70%
Loans to individuals primarily for personal use purposes	19,900,329	27.39%	76.19%	16,147,805	23.17%	67.77%
Agriculture, forestry and fishing	14,242,377	19.60%	54.53%	14,057,349	20.17%	58.99%
Real estate activities	6,983,902	9.61%	26.74%	5,013,632	7.19%	21.04%
Other service activities	1,530,882	2.12%	5.86%	2,131,596	3.07%	8.95%
Total	72,651,429	100.00%		69,685,098	100.00%	

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio or 10% of Tier 1 Capital which is equivalent to ₱2,612,000 and ₱2,382,890 as of December 31, 2023 and 2022, respectively.

In 2023 and 2022, the Bank is exposed to credit risk concentration on wholesale and retail trade; repair of motor vehicles and motorcycles amounting to more than 30% of the total loan portfolio. The Bank is also exposed to agriculture, forestry and fishing, loans to individuals primarily for personal use purposes, wholesale and retail trade; repair of motor vehicles and motorcycles, and real estate activities and amounting to more than 10% of Tier 1 Capital.

27.04 Breakdown of Total Loans

27.04.01 As to Security

Breakdown of loans as to secured and unsecured, and secured loans as to type of security (net of unamortized discount):

	2023	2022
Secured – real estate mortgage	₱ 53,860,013	₱ 50,947,691
Unsecured	18,791,416	18,737,407
	₱ 72,651,429	₱ 69,685,098

27.04.02 As to Status

Breakdown of loans as to performing and non-performing status per product is as follows:

2023	Performing	Non-performing	Total
Commercial loan	₱ 26,567,223	₱ 3,426,716	₱ 29,993,939
Salary – based loan	12,968,486	519,725	13,488,211
Other agricultural credit loans	8,669,797	1	8,669,798
Housing purposes	6,983,902	–	6,983,902
Agrarian reform loan	5,379,346	193,234	5,572,580
Consumption purposes	1,530,881	–	1,530,881
Others	6,412,118	–	6,412,118
	₱ 68,511,753	₱ 4,139,676	₱ 72,651,429
2022	Performing	Non-performing	Total
Commercial loan	₱ 29,976,106	₱ 2,358,610	₱ 32,334,716
Salary – based loan	11,400,672	1,237,529	12,638,201
Other agricultural credit loans	7,758,404	82,069	7,840,473
Agrarian reform loan	5,996,770	220,107	6,216,877
Housing purposes	4,796,884	216,748	5,013,632
Consumption purposes	3,509,604	–	3,509,604
Others	2,131,595	–	2,131,595
	₱ 65,570,035	₱ 4,115,063	₱ 69,685,098

27.05 Information on Related Party Loans

Information on related party loans is disclosed in Note 21.

27.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2023 and 2022, there were no assets pledge as a collateral for any liabilities of the Bank.

27.07 Contingencies and Commitments Arising from Off-balance Sheet Items

As of December 31, 2023 and 2022, the Bank has no contingencies and commitments arising from off-balance sheet items as described in Circular No. 1074.