

Welcome

Welcome Bank (Rural Bank), Inc.

2024 ANNUAL REPORT

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Ortigas, Pasig City, Manila

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About Our COMPANY

COMPANY PROFILE

Welcome Bank (Rural Bank), Inc. is regulated by the Bangko Sentral ng Pilipinas (BSP) and is one of the Philippine subsidiaries of Korea's Welcome Financial Group. Welcome Financial Group currently operates the fourth-largest savings bank in assets and twelve (12) other subsidiaries in various financial sectors in Korea and with $3.6 billion in total assets. Welcome Bank, Inc. is able to receive active funding based on its abundant liquidity in Korea Headquarter and will actively apply its banking operations know-how in Korea to the Philippines. The Bank has two (2) Branches and six (6) Branch-lite units with Head Office located at Ortigas Center, Pasig City.

Business TRANSITION

The two joint venture partners — Welcome Financial Group (Korea) and Flowtiger Ventures, Inc. (Philippines) have entered Philippines financial market by establishing Welcome Finance, Inc. in May 2014, and since then have serviced consumer loans to small business operators as well as salaried customers.

In November 2018, the same two partners have signed "Shared Purchase Agreement to acquire Smart Bank (Rural Bank), Inc. with a view to availing the banking license.

Bangko Sentral ng Pilipinas (BSP) approval was released for Share transfer in August 2019, relocation of Head Office from Muntinlupa City to Pasig City in December 2019, and Bank name change to Welcome Bank (Rural Bank), Inc. in April 2020.

Business MODEL

Taking the full advantage of the accumulated experience in the Philippines financial market since May 2014 via Welcome Finance, Inc., Welcome Bank (Rural Bank), Inc. focuses on consumer loan market in the beginning stage. (1) Small Business Operator: Business Loan, Premier Business Loan; (2) Salaried Customer: Salary Loan, Personal Loan, Personal Happy Loan; and (3) Secured Loan: Condo-mortgaged Loan, Auto Loan.

At later stage, Welcome Bank expanded its loan target customers to corporate borrowers.

Competitive interest rates were offered to depositors: (1) Time deposit: target high potential customers with higher deposit interest rate offerings; (2) Savings Deposit: target general public customers with slightly higher interest rates among banks; and (3) Demand Deposit: servicing both individual and corporate customers on conduit arrangement with then UCPB and after the merger now Land Bank of the Philippines.

Our MARKET

As Welcome Bank aimed to fulfill its vision mission and with the fast-evolving banking business based on digitalized environment, the Bank strategic plan can contribute to the accessibility to financial market and financial transaction of those with unavailable credit history or financial records thus fostering financial inclusion of the unbanked segment of the community.

In the Bank's efforts to transform its banking services and operations into digital-centric or fintech ready, it can accommodate more customers to enjoy seamless and convenient services without leaving the comforts of their homes and ensures their health and safety.



Our MISSION

To become one of the most dynamic and well managed Bank in the Philippines.

Our VISION

To contribute to the society by creating the best value based on people and knowledge.

Our CORE VALUES

1. High Integrity means exercising the highest ethical standards in all personal and professional dealings.

2. Professional Digitalization means performing tasks accurately, efficiently and effectively. Gone extra mile and rising above expectations by continuously improving products and services; systems and processes to deliver the best possible results.

3. Financial Excellence Provider means ability to satisfy and delight our customers and enabling small savers to achieve greater productivity and small borrowers to have better access to funds.

Our PRODUCTS & SERVICES

DEPOSIT PRODUCTS



Regular Savings



Checking Account



Time Deposit

LOAN PRODUCTS



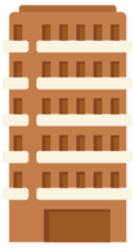
Personal Loan



Salary Loan



Business Loan



Condo Loan



Auto Loan

President's REPORT



The inflationary pressure, which negatively impacted on Philippines economy for 2022 and 2023, has been eased in 2024. This favorable circumstance let the BSP pivot policy interest rate down from 6.5% to 5.75% at the end of 2024. The Philippines economy grew 5.6% in 2024, the same pace as in 2023 and below the government's 6.0%~6.5% target.

Like in the year 2023, the Company has overall continued to put more weight on risk management with an aim at sustaining soundness of the loan portfolio in terms of overdue ratio rather than on aggressive loan asset build-up in the year 2024. This operational strategy has been in consideration of the potential risk surrounding high interest rate along with potential economic downward risk thereon. As a result, the loan volume disbursed in 2024 reached only at Php548.3 million vs. the target of Php680 million, which indicates only 80.6% achievement of the target. However, the loan volume of Php548.3 million delivered in 2024 represents a 51.0% growth compared to the loan volume of Php363.0 million booked in 2023.

It is one of the bright aspects that the ratio of Personal Loan (which is the most sound loan product in terms of overdue ratio) among total loan volume booked in 2024 is increased to 44.4% from 36.5% a year ago. In contrast, it has left much to be desired that the ratio of secured loan in 2024 posted merely 0.9% vs. its target of 5.0%.

Meanwhile, the overdue of loan assets has been relatively well managed in 2024 due to continuous conservative and strict credit approval strategy among others. The company set out a challenging target to limit the net increase of overdue over 10-day to 0.50% per month, and the actual result of the average net increase posted at 0.58% per month in 2024 if the two condo mortgaged loan accounts (which was overdue and the collateral condo units were already surrendered to the Company) are excluded from the computation.

At the end of 2024, the loan outstanding of the Company reached at P622.3million, a 44.5% surge from P430.7 million a year ago.

On the other hand, in consideration of the too much cash liquidity pended until October 2024, the Company did not aggressively campaign to increase deposit outstanding with a view to control interest expense. However, as the Company decided to repay Php110 million of debt from IBK Manila Branch on 21 October 2024, a strategy to acquire more deposit was rolled out thereafter with raising deposit interest rates by 0.25% point effective 1 November 2024. As a result, the deposit outstanding at the end of 2024 posted at Php450.3 million, compared to Php348.2 million at the end of 2023. The net increase of deposit outstanding in the amount of Php102.1 million in 2024 represents a 29.3% growth.

Let me briefly present the financial performance of Welcome Bank for the year 2024.

- Total Assets and resources of the Bank have slightly increased from PhP747.5 million at the end of 2023 to PhP759.8 million at the end of 2024, with a surge in loan receivables from PhP419.2 million to PhP581.9 million along with a shrinkage in bills payable from PhP247.0 million to PhP150.0 million;

- Total Liabilities have also slightly increased from PhP620.1 million to PhP631.5 million in the same period;

- Total Equity closed at PhP128.2 million at the end of 2024.

- Interest income has grown to PhP207.9 million in 2024 from PhP116.6 million in 2023, while 2024's net interest income after deducting interest expense has increased to PhP164.8 million from PhP94.6 million a year ago.

- Net income after corporate tax in 2024 posted at PhP851 thousand, turning around from PhP1,948 thousand net loss posted in 2023.

In the coming years, we have a business target to constantly grow loan assets. This goal is to be achieved only when we can maintain increasing trends of deposit outstanding so as to utilize it as funding sources for our loan business.

We are grateful to the shareholders and Board of Directors for their generous support, to business associates for their hardwork, and to our loyal clients for making Welcome Bank their preferred financial partner.

Together, we look forward to standing at a better position towards achieving our balanced goals in the year 2025 and onwards.



SUK SUB SHIM
President & CEO

Financial HIGHLIGHTS

SELECTED FINANCIAL INFORMATION

(Amounts in Thousand Pesos)

	2024	2023	INC/DEC
Gross Revenues	234,206	137,749	96,458
Net Profit (Loss)	851	(1,948)	2,799
Income Tax Paid	980	(932)	1,912
Cash and Due from Banks	116,450	269,784	(153,333)
Investments	401	585	-184
Loan Portfolio, Net	581,943	419,152	162,791
Total Assets	759,766	747,485	12,280
Total Deposits	450,330	348,160	102,169
Capital Funds	128,242	127,390	851

COMPARATIVE BALANCE SHEET
As of December 31, 2024 and 2023

(Rounded to Nearest Peso)

	2024	2023	INC/ DEC
Assets			
Cash and Other Cash Items	1,318,488	1,053,480	265,008
Due from BSP	5,985,077	6,704,153	(719,076)
Due from Other Banks	109,146,829	262,026,044	(152,879,215)
Held to Maturity	400,625	584,639	(184,014)
Loans and Receivables	581,943,302	419,152,060	162,791,242
Bank Premises	14,968,219	18,976,430	(4,008,211)
Investment Property	8,186,402	2,653,959	5,532,443
Right-of-use Asset	347,081	1,960,681	(1,613,600)
Intangible Asset	7,852,259	9,249,151	(1,396,892)
Other Asset	29,617,527	25,124,856	4,492,671
Total Assets	759,765,809	747,485,453	12,280,356
Liabilities			
Deposit Liabilities	450,329,794	348,160,346	102,169,448
Bills Payable	150,000,000	247,000,000	(97,000,000)
Income Tax Payable	0	365,872	(365,872)
Lease Liabilities	977,966	2,658,558	(1,680,592)
Retirement Benefit Obligation	4,605,317	1,343,210	3,262,107
Accrued Interest and Other Liabilities	25,610,910	20,567,072	5,043,838
Total Liabilities	631,523,987	620,095,058	11,428,929
Capital Stock	174,939,894	174,939,894	-
Deposit for Stock Subscription	-	-	-
Other Comprehensive Loss	(635,284)	(635,284)	-
Deficit	(46,062,788)	(46,914,215)	851,427
Total Equity	128,241,822	127,390,395	851,427
Total Liabilities and Equity	759,765,809	P747,485,453	12,280,356

COMPARATIVE INCOME STATEMENT
As of December 31, 2024 and 2023

(Rounded to Nearest Peso)

	2024	2023	INC/ DEC
Interest Income			
Loans and Other Receivables	201,918,127	114,404,309	87,513,818
Bank Deposits	5,991,128	2,162,533	3,828,595
Financial Assets	39,276	8,707	30,569
Total Interest Income	207,948,531	116,575,549	91,372,982
Interest Expenses			
Deposit Liabilities	22,941,161	14,889,429	8,051,732
Bills Payable	20,252,830	7,049,383	13,203,447
	43,193,991	21,938,812	21,255,179
Net Interest Income	164,754,540	94,636,737	70,117,803
Provision for Credit and Impairment Losses	46,312,516	10,065,118	36,247,398
Net Interest Income after Credit and Impairment Losses	118,442,024	84,571,619	33,870,405
Other Income			
Service Charges and Fees	14,387,691	14,076,534	311,157
Rentals	-	-	-
Others	11,870,016	7,096,464	4,773,552
	26,257,707	21,172,998	5,084,709
Other Expenses			
Compensation and Fringe Benefits	55,771,653	37,658,038	18,113,615
Depreciation and Amortizations	11,097,050	10,579,389	517,661
Taxes and Licenses	16,257,372	12,972,372	3,285,000
Other Administrative Expenses	59,742,105	47,414,538	12,327,567
	142,868,180	108,624,337	34,243,843
Profit (Loss) Before Tax	1,831,551	(2,879,720)	4,711,271
Tax Expense (Benefit	980,124	(931,691)	1,911,815
Net Profit (Loss)	851,427	(1,948,029)	2,799,456
Other Comprehensive Income	-	-	-
Total Comprehensive Loss	851,427	(1,948,029)	2,799,456

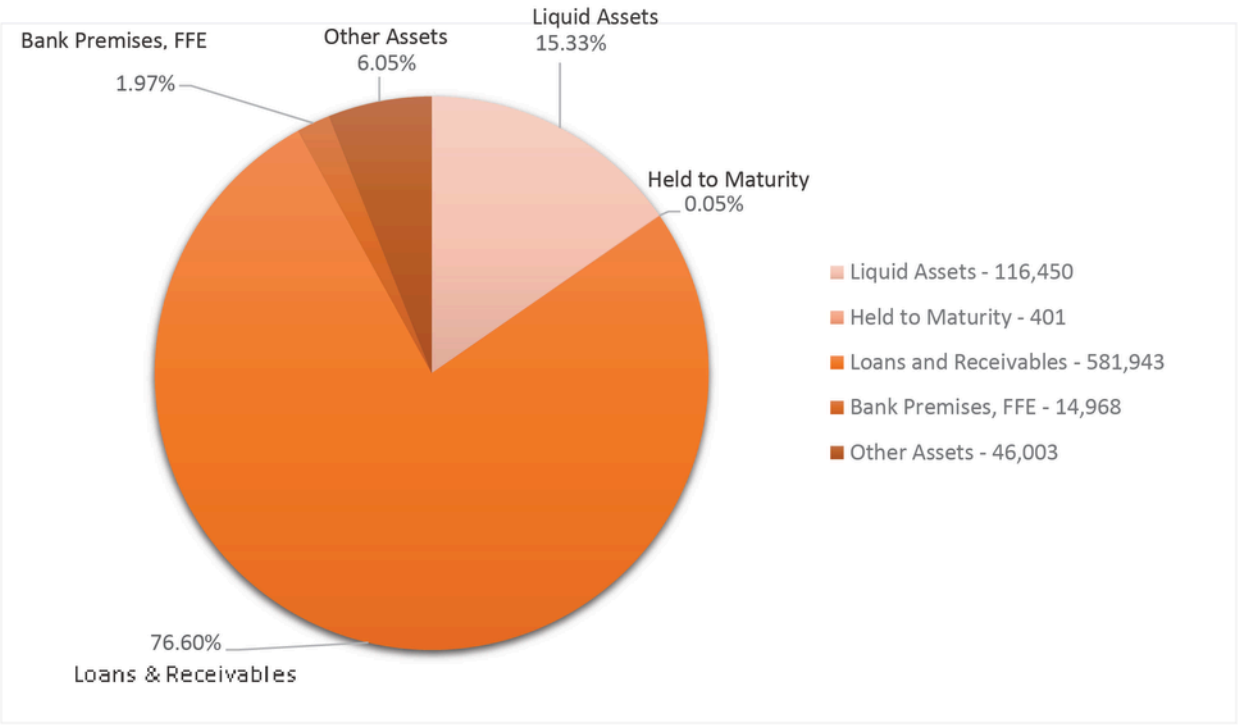
Financial SUMMARY

AS OF DECEMBER 31, 2024

	2024	2023
PROFITABILITY (in Php)		
Net Interest Income	164,755	94,637
Non-Interest Income	26,258	21,173
Non-Interest Expenses	142,868	108,624
Profit before Tax and Provision	1,832	(2,880)
Income Tax	980	(932)
Provision for Credit and Impairment Losses	46,313	10,065
Net Income	851	(1,948)
BALANCE SHEET DATA (in Php)		
Liquid Assets	116,851	270,368
Gross Loans	581,943	419,152
Total Assets	759,766	747,485
Deposits	450,330	348,160
Total Equity	128,242	127,390
SELECTED RATIOS		
Tier 1 Capital		(As Restated)
Common Stock	100,000	100,000
Accumulated other comprehensive loss	(635)	(635)
Deficit	(46,914)	(44,966)
Total comprehensive income (loss) for the year	851	(1,948)
	53,302	52,451
Adjustment to CET 1		
Less: Deferred tax asset, net of Deferred tax liability	(21,812)	(18,931)
Total CET 1 Capital	31,490	33,519
Additional Tier 1 (AT1) Capital		
Paid-up perpetual and cumulative preferred stock	74,940	74,490
Total Tier 1 Capital	106,429	108,459
Tier 2 Capital		
General Loan Loss Provision	5,634	3,937
Total Qualifying Capital	112,064	112,396
Credit Risk-weighted asset	733,284	711,853
Operational Risk-weighted asset	128,365	72,915
Risk-weighted assets	861,649	784,768
Capital Ratios		
Total Tier A Capital expressed as percentage of total risk weighted assets	3.65%	4.27%
Total CET Capital expressed as percentage of total risk weighted assets	12.35%	13.82%
Capital conservation buffer	(2.35%)	(1.73%)
Total Regulatory Capital expressed as percentage of total risk weighted assets	13.01%	14.32%

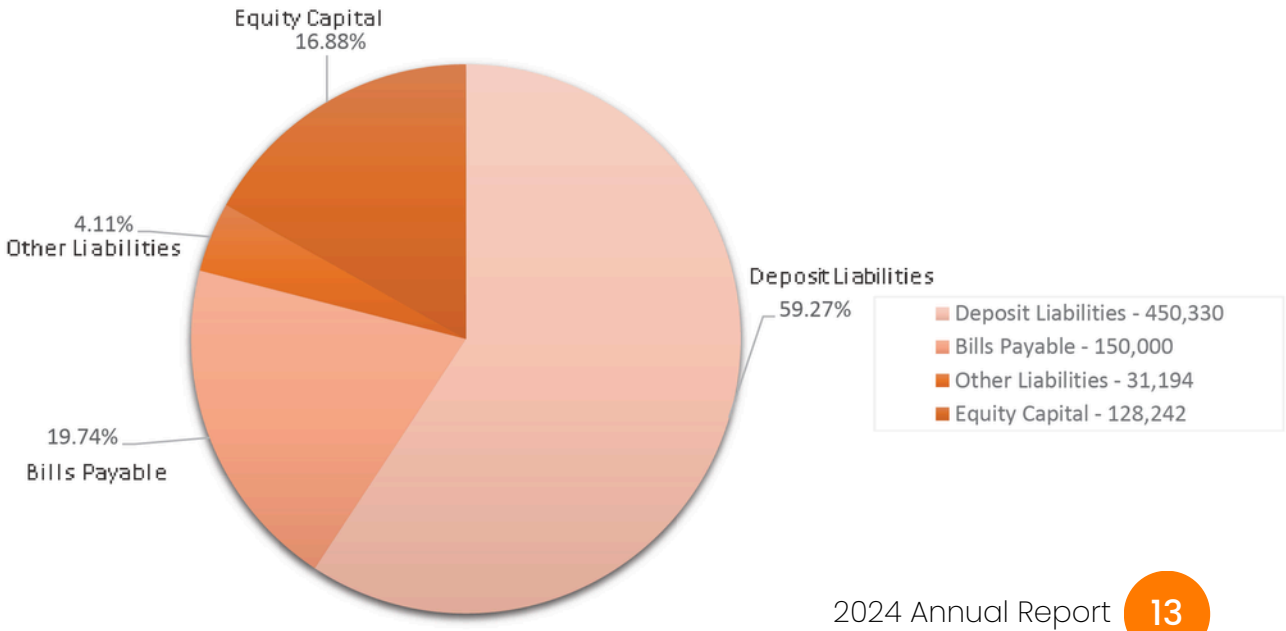
Assets
Php 759,766

Composition and percentage of each asset account to total resources as of December 31, 2024 is shown below. Total earning assets (loan and investments) accounts for 76.65% of the total assets.

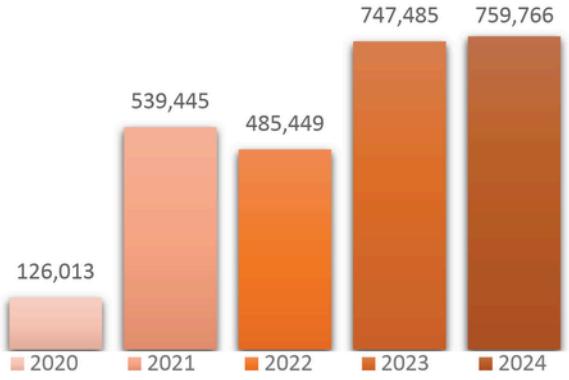


Liabilities & Equity
Php 759,766

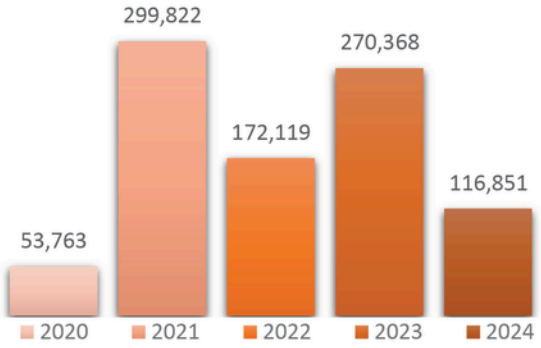
Liquid asset is 25.86% of total deposit liabilities which means that the Bank can service withdrawals anytime when the need arises. As shown below, the capital account represents 16.88% of the total resources.



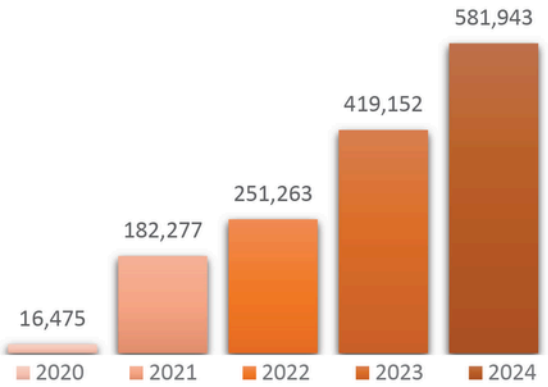
Total ASSETS



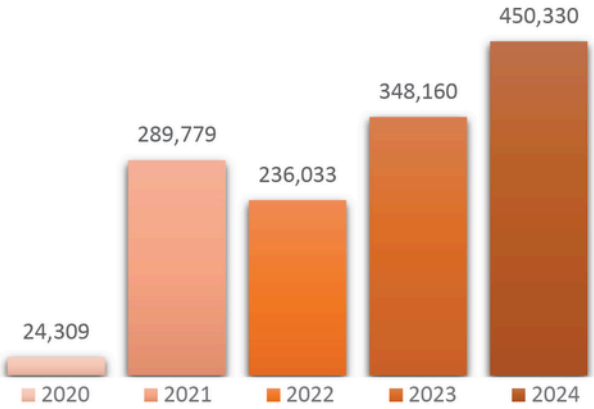
CASH and INVESTMENTS



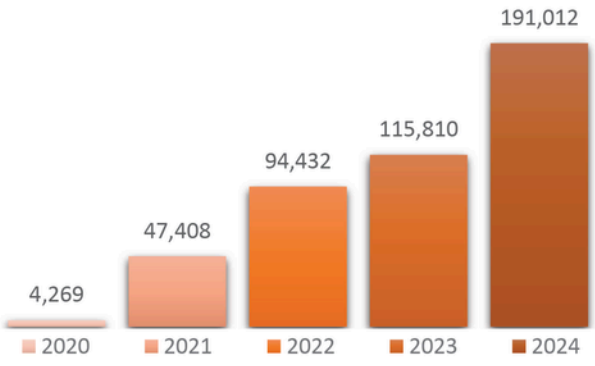
LOANS and RECEIVABLES



Deposit LIABILITIES



Gross INCOME



Risk Management FRAMEWORK

Risk Management is a fundamental process in understanding and controlling the risks inherent to the Bank's everyday management of its business. The Bank ensure that it has functional capacity to manage the inherent risks in its new and existing business products and services and operations. The Bank's risk appetite as set forth by the Board took into account the business environment, regulatory landscape, and its long-term interests and ability to manage risk. Responsibility for risk management rests at all level within the Bank, the Board of Directors and Senior Management down through the organization to each manager and business associate. Everyone in the organization is expected to proactively manage the risks inherent in their respective areas of operation. It aims to embed a risk management culture that seeks to constantly identify, measure, control, monitor and evaluate risks within the Bank. The Board of Directors is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Bank. It also has the responsibility for the development of risk strategies, principles, frameworks, policies and limits.

RISK APPETITE AND STRATEGY

Considering that the loan market targeting at low-risk premium customers is already saturated and dominated by large commercial banks, the Bank's strategy is to undertake medium risk customers and thereby to contribute to expanding the population of financial inclusion. Hence, the risk appetite of the Bank will be more flexible and accommodate wider range of credit-profile customers than commercial banks. However, noting that the risk of delinquency with this category customers will be higher than premium customers, the Bank will be opted to charge relatively higher interest rate on the loan to medium risk customers with a view to covering the loan loss provision expected substantial. Once sufficient data on the co-relationship between credit risk and yield on the loan transaction is accumulated, the Bank will be able to more easily look at what interest charge will be appropriate to respective customers of different credit risk profiles.

BANK-WIDE GOVERNANCE STRUCTURE AND RISK MANAGEMENT PROCESS

The Bank's Credit Scoring System runs from 1 to 7 (1 lower risk and 7 for highest risk). The loan applicants with a rating 6-7 will be declined unless level of comfort in terms of debt repayment capability on cash flow is proven acceptable. The loan applicants with a rating 1 to 5 will be approved unless a significant weakness not captured in CSS is found. Aside from the CSS, the Bank uses the CIBI, and NFIS in credit risk assessment.

The maximum loanable amount to an applicant will be basically determined by Debt Burden Ratio (DBR) of the applicant, which represents the ratio of how much of money should be paid per month for repayment of all debts including the borrowings from other financial institutions out of monthly total disposable income. On consumer loans, the following table is an illustration of what are maximum DBRs allowed in several categories of net monthly income.

Net Monthly Income (In Php)	Maximum DBR Allowed
20,000 – 29,999	30%
30,000 – 39,999	35%
40,000 – 49,999	40%
50,000 – 69,000	45%

70,000 – 99,999	50%
100,000 – 149,000	55%
150,000 – 199,999	60%
200,000 – 299,999	65%
300,000 – 399,999	70%
400,000 – above	75%

All loan applications are analyzed and reviewed by Credit Team, and final approval by Credit Committee. However, for the purpose of reducing turn-around-time for the customers' convenience and also considering the managing the load appropriately, approval authority for small exposure transactions is delegated to executive or loan center team head depending upon exposure magnitude of a customer or a group of customers, as illustrated below, which was approved by Board of Directors.

Approval Authority	Approval Limit
Board of Directors	Excess of P10,000,000
Credit Committee	P1,000,001 - P10,000,000
President	P600,001 - P1,000,000
Division Head	P150,001 - P600,000
Loan Center Team Lead	P150,000 and below

Money Laundering and Terrorist Financing Prevention Program (MTPP)

Welcome Bank adopts a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MTPP) geared towards the promotion of high ethical and professional standards and the prevention of the Bank being used, for money laundering and terrorism financing. It is the policy of the Bank to conduct business in conformity with the highest ethical standards in order to protect the reputation and integrity of the banking system, to protect the Bank from becoming a vehicle or conduit for or a victim of financial crime, and to protect the interests of the Bank's stakeholders.

It is critical that the Bank should always be compliant with AML / TF regulation. The Chief Compliance Officer is responsible for monitoring if there is any point that is not compliant with the regulation. To keep all employees of the Bank aware of requirements under the concerned regulation, the Bank will conduct AML/TF refresh training annually. The key point with the anti-money laundering /terrorist finance is to proceed with all account opening and loan transactions on the condition of face-to-face validation of the customer identity at the commencement of the relationship with the customer. The bank adopted the AML Risk Score Sheet that aids the banking units in profiling their customer/clients during account opening/onboarding and application for loans. It is also important to know the purpose of any transaction with the Bank and to monitor if it is properly observed. Post conducting customer due diligence, any covered transaction and suspicious transactions shall be reported to Anti Money Laundering Commission (AMLC) within 5 working days as required by the law. Before entering into a business relationship, clients undergo verification process by checking their name against the watchlist database [free (OFSI OFAC, UNSC, AMLC, etc.) or subscription-based free (World Check, etc.)] and any new list which the AMLC may issue from time to time. WBI provides trainings, at least once a year for internal training and every two (2) years of role-based training program aimed to provide efficient, adequate, and continuous education program for the Bank to be aware of the obligations and responsibilities in preventing ML/TF/PF.

Corporate GOVERNANCE



Welcome Bank is committed to adhere to good corporate governance principles of fairness, accountability and transparency in all its dealings, ensuring a high degree of integrity in the conduct of all its affairs and in achieving organizational efficiency.

The Board of Directors is primarily responsible for upholding the highest standards of corporate governance and is accountable to its shareholders for creating and delivering strong, sustainable financial performance and long-term shareholder value and ensuring that the Bank is steadily run in a prudent and sound manner with honesty, integrity and professionalism. The Board determines the goals and policies of the Bank geared towards promoting long-term growth, delivering short-term objectives and providing overall strategic direction.

The Board of Directors' functions of (a) defining the Bank's vision and mission; (b) formulating and implementing strategies, plans and operating procedures; and (c) defining the corporate culture and values through a well-crafted code of conduct and ethical standards to ensure that (1) its operations are carried out with a high degree of integrity; (2) protected from all kinds of risks – reputational risks, operational risks, legal risks, foreign exchange risks, interest rate risks, credit risks, etc.; and (3) its goals and targets are attained.

The role of the Chairman is to ensure the effective functioning of the Board, maintaining a relationship of trust with board members. He makes sure that a sound decision making process is in place by encouraging critical discussions, with views expressed and discussed and independent views given due respect and consideration. The Chairman is assisted by a Corporate Secretary who is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and Committees as well as the records of the corporation.

BOARD & SENIOR MANAGEMENT

The Bank is a joint-venture between two investors – Welcome Capital Worldwide Pte. Ltd. and Flowtiger Ventures, Inc., the two major shareholders are the parties that elect and appoint board members and senior management. All elected and appointed board of directors, shall be reviewed and confirmed by the BSP, based on the fit and proper criteria of the regulations.

With the change in ownership structure of the Bank, the Articles of Incorporation and By-laws of the Bank has been amended on 13 February 2023 such that the Board of Directors of the Bank is composed of five (5) directors including one independent director vs. previously nine (9) director members. Out of total 5 directors, 3 directors were nominated by 60% stakeholder, Welcome Capital Worldwide Pte.Ltd. while the remaining 2 directors nominated by 40% stakeholder, Flowtiger Ventures, Inc.

Selection Process for the Board and Senior Management

Given that the Bank is a joint-venture between two investors –Welcome Capital Worldwide, PTE. LTD. and Flowtiger Ventures, Inc. the two major shareholders will be the parties that recommend Board members and senior management. Upon recommendation by the two parties, the Compliance Office will, first of all, review whether each candidate for the position suits criteria of fit and proper standards for the Bank. If any deficiency with a candidate is found, the Compliance Office will advise the recommending party of the unfit point of the candidate and ask for recommendation of the replacement.

Qualifications of a Director

- Must be fit and proper for the position of a director of the Bank. The following matters must be considered: integrity or probity; physical and 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 BSFI and interlocking positions in other entities that may pose conflict of interest.
- He shall submit to the BSP the required certifications and other documentary proof of his qualifications within twenty (20) banking days from the date of election.
- The members of the Board shall possess the foregoing qualifications for directors in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations
- Must have attended a seminar on corporate governance for Board of Directors. A director shall submit to the BSP a certification of compliance with the BSP-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance.

Member of the BOARD OF DIRECTORS



SAEYOUNG CHANG
Chairman of the Board

Since April 2004, he has worked for Welcome Creditline Corp. and was appointed as CEO of the company in May 2014. He has been also servicing as a director of Korea Consumer Finance Association since January 2015. He graduated from Law School of Korea University in February 1987 and obtained a master degree from University of Florida, U.S.A. in June 2002 on real estate and finance.
Held a Directorship at Welcome Bank (Rural Bank), Inc. for six consecutive years.



SUK SUB SHIM
President and CEO

From December 2015 to August 2019, he has served as President of Welcome Finance, Inc. Upon resignation from the same position, he was elected as President and CEO of Welcome Bank (Rural Bank), Inc. He graduated from Seoul National University with a Bachelor degree in Economics & Business Administration in February 1985 and obtained a master degree on Business Administration from University of Washington in 1996. Since January 1985, he has work from various industries and with 14 years working experience in leasing and financing industry as Finance Manager in Korea Development Leasing Corp. He was the Country Manager for Medical Equipment Credit from 2001 to 2003 and De Lage Landen in Korea from 2004-2006. He also served as Treasurer of Renault Samsung Motors Co., Ltd. From 2003-2004.
Contributed to the strategic leadership and governance of Welcome Bank (Rural Bank), Inc. over a six-year period as a Director.



KYOCHAN AN
Director

He is a graduate of Bachelor degree in Conservation Cultural Property from Yong-In University in 2004. From years 2007-2021, he had worked for Welcome Financial Group and rose from the ranks from an Associate to Branch Manager, Loan Center Manager, Call Center Manager, General Manager to Senior Manager of Welcome Creditline Corp. and Welcome Savings Bank. He was also appointed as Director of Welcome Leasing Lao Co., Ltd. from 2018-2020. Started as a Division Head of Welcome Bank (Rural Bank), Inc prior to his election and appointment as Director on September 30, 2021.
Member of the Board of Directors, Welcome Bank (Rural Bank), Inc. for 3 years



JOB ADRIAN MESINA AMBROSIO
Director

From June 2006 to May 2014, he served for PJS Law Firm as a partner. He is the President and Managing Director of Flowtiger Ventures, Inc. since October 2013. He graduated from Ateneo de Manila University on Economics in 1994. He obtained his Master's degree from the Ateneo de Manila College of Law in 1998.
Held a Board position at Welcome Bank (Rural Bank), Inc. for six consecutive years.



EDWARD SEMBRANO RELUCIO
Independent Director

He was admitted to the Philippine Bar in 2001. Assumed various positions at PJS Law Firm and Department of Transportation as Legal Officer and Consultant where he gained his working expertise in the field of law. He graduated in 1996 from the Ateneo de Manila University where he earned his Bachelor Degree in Psychology and obtained a Master's Degree from the Ateneo de Manila Law School in 2000.
Has been actively serving as a Independent Director of Welcome Bank (Rural Bank), Inc. for the past six years.

Director's Attendance on Board and Committee Meetings



Saeyoung Chang **71%**



Suk Sub Shim **100%**



Kyochan An **100%**



Job Adrian Amborsio **100%**



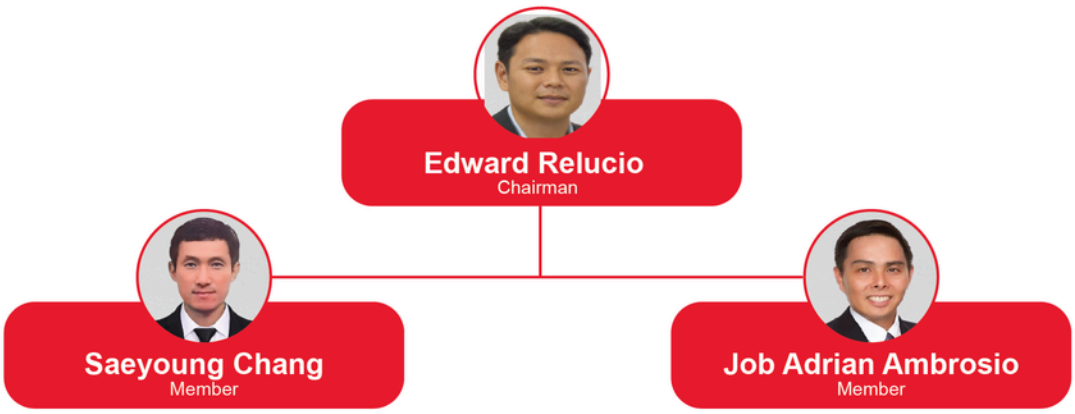
Edward Relucio **100%**

Board Level Committees

Composed of highly skilled, knowledgeable and experienced business professionals and leaders to steer the Bank's Strategic Direction, the Board established committees that provide in-depth focus on specific areas of Board responsibility.

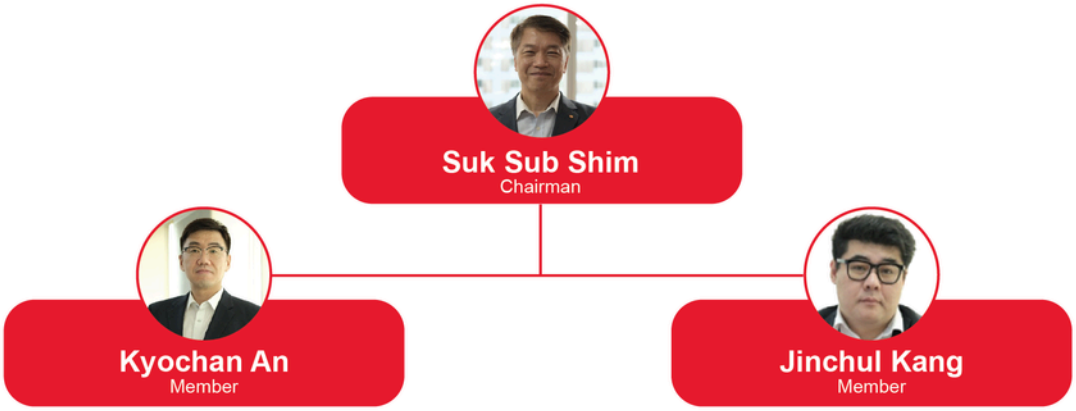
Audit and Compliance Committee (ACC)

The Audit and Compliance Committee is responsible for reviewing and approving for annual audit plan as well as for deliberating issues and resolutions observed in the process of audit activities. The overall issue items and recommendations by the Audit and Compliance Committee will be reported to the Board quarterly. The management is responsible for implementing action items recommended by the Audit and Compliance Committee to better manage and control corporate governance and to improve overall financial performance of the Bank. The Audit and Compliance Committee is composed of three (3) members.



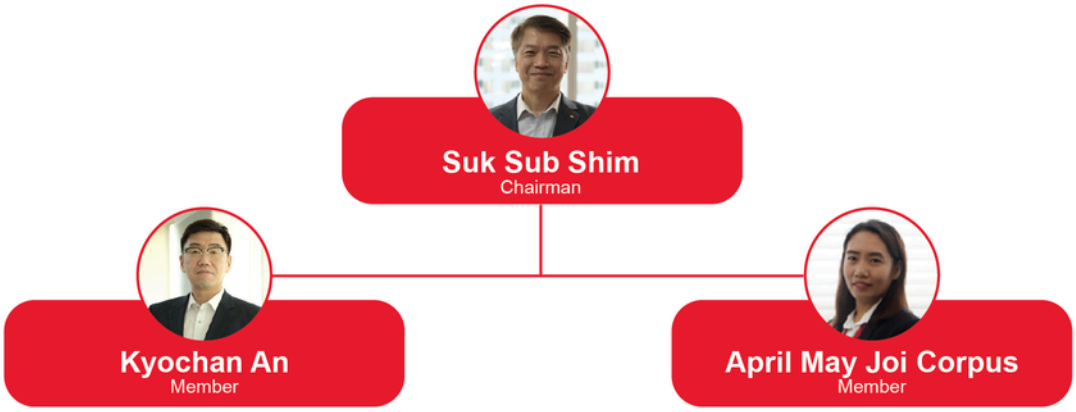
Executive Committee (EXCOM)

Executive Committee is appointed by the Board of Directors and the President and Chief Executive Officer is delegated the responsibility to oversee the day-to-day operations of the Bank, as well as manage and implement its business plan and strategies. The Executive Committee ensures that matters related to strategic direction and management receive close attention at the executive level. It also supports a delegated and coordinated decision-making approach. The Executive Committee is tasked to ensure that the overall business operations of the Bank are well managed and compliant to various rules and regulations of the supervising regulatory body, Bangko Sentral ng Pilipinas (BSP) and other governing agencies. The appointed members are delegated to be jointly responsible for overseeing the day-to-day operations of the Bank as well as manage and implement its business plans and strategies. Three executive officers, the President and two (2) Division Heads who are at the helm of the Bank's operation composed the Executive Committee.



Credit Committee (CRECOM)

The main responsibility of the Credit Committee is to monitor market risk, interest rate risk, credit risk, and liquidity risk and give guidelines to tackle with potential risks detected. Another function of the Credit Committee is to review and approve for high exposure loan transactions above 1 million Pesos while exposures of 1 million Pesos or less is delegated to management or credit team head for approval authority. The Credit Committee of the Bank is composed of three (3) members.



Management Committee (ManCom)

The main functions of the Management Committee are to initiate, design, review, update all bank systems and operating procedures including all operating manuals for approval of ExCom and confirmation of the Board. Also, review and concur in all proposals regarding reports, form, system and methods from other sources. More importantly, the reporting and updates on strategic plans vs actual performance of each department and team. Management Committee is composed of the different managers and team leads that ensure all Bank's action and efforts remain coordinated and customer-focused. The ManCom provide integrity and direction to the Bank as a whole by fostering an organizational culture that is market-driven and customer centered, applying a participative management style at all levels, and building banking strategies that sustain high-levels of growth.

KEY OFFICERS



SUK SUB SHIM
President



JINCHUL KANG
Treasurer



JULIET ESPERANZA
Internal Audit and concurrent
Chief Compliance Officer



ATTY. RIA CAMILLE SANCHEZ
Corporate Secretary



MARILOU TUBORO
Assistant
Corporate Secretary

DEPARTMENT HEADS



CHERRY ALCANTARA
Human Resources and
Development Department



FELIX DELIZO
Finance and Accounting
Department



JULIET R. ESPERANZA
Internal Audit and Compliance
Department

TEAM LEADS



APRIL MAY JOI CORPUS
Loan Center



EUNICE GRACE LORENZO
Wow Center



KIRBY DABALOS
Sales and Marketing Team



MARIA TERESA RAMOS
Branch Banking Operations



TROY JUMAR ROBILLOS
Information and Communication Technology Team



RICHELLE ROYO
Administration Team



RHENALYN MONTOYA
Happy Call Team



EDWARD MARIN
Monitoring Team

TEAM LEADS



KATHERINE MAGSANAY
Head Office Branch



SHERYL PELAGIO
Alabang Branch



MARICAR EMATA
Davao Branch-lite Unit



SARAH JANE PINEDA
San Fernando Branch-lite Unit



BRENDA OXIMINA
Quezon City Branch-lite Unit



JOEL GOLLOSCO
Sta. Rosa Branch-lite Unit



DENNIS OMOLON
CDO Branch-lite Unit



DENESA MABAYAG
Cebu Branch-lite Unit

PERFORMANCE ASSESSMENT PROGRAM



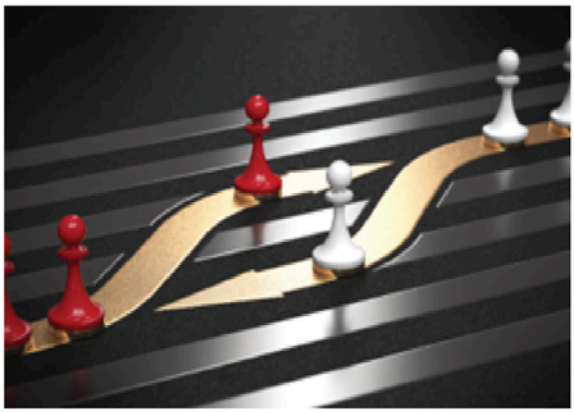
To assess the performance of the management, the Bank set out a few goal criteria by which such can be measured. In ordinary times, the Bank will consider the following items critical goals in the performance assessment. (1) Volume of the loan disbursed for the year; (2) Delinquency rate (overdue 10 or more days) of the loan portfolio; (3) Deposit Outstanding – average of each month-end for the year; (4) Operating profit before tax. At the beginning of each year, the Bank will set up the target for each goal items. Performance of the management will be assessed at the close of the year how much each of he goal has been achieved for the year. Based on the performance assessment outcome, the Bank will set up the targets of the following year as well.

ORIENTATION AND EDUCATION PROGRAM



All elected and appointed directors by Shareholders have already attended the Corporate Governance Orientation Program and AMLA Seminar as required by BSP prior to confirmation.

RETIREMENT AND SUCCESSION PLANNING



Senior management of the Bank will be entitled to work for the company until the age of 65. In the event of early retirement before the age of 65, the shareholder shall nominate a candidate replacing such a retired management and the appointment of the candidate should be approved by majority of voting in the shareholder's meeting. Except unplanned retirement of a senior management or a director, the Bank will establish succession plan from minimum 1 year before a senior management or a director reaches the retirement age. The term of director is 1 year, and any of the legacy director can be re-appointed without any restriction to total years of renewed term as long as the shareholders approve it by majority of voting shares. The independent director shall serve for a maximum term of nine (9) years and can no longer be an independent director in the same bank but can be re-elected to serve as director.

REMUNERATION POLICY



The remuneration and other incentives policy of directors shall be submitted for approval of the shareholders. The Board shall ensure that the policy is consistent with the long-term interest of the Bank and does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities.

Executive Directors: The financial and operational performance assessment for the previous year as well as remuneration range of the competitors in the market will be considered when determining and approving the total remuneration. President/CEO and Treasurer are executive directors, who are dedicated to full time service for the Bank.

Non-executive Directors: The non-executive directors receive minimal fees/per diem for attendance in meeting of the Board and its Committees. They have no other compensation or arrangement with the Bank.

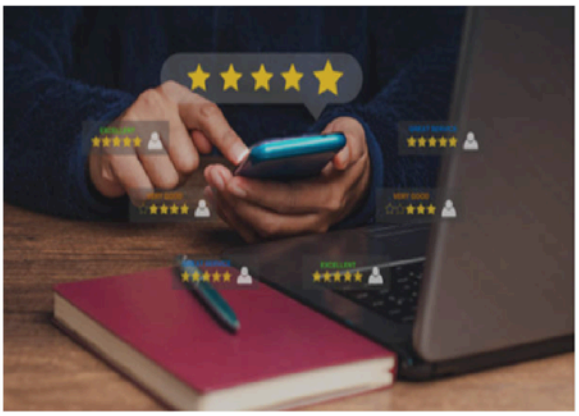
Senior Manager or Team Leader Positions: The remuneration of senior manager level position will be determined every year based on mixture of consideration of performance evaluation, market average salary increase rate, and current compensation. HR Manager will work on the compensation package to be offered to the senior manager based on the said streamline and President/CEO will approve for the compensation that is recommended by HR Manager.

RELATED PARTY TRANSACTIONS



The Bank recognizes that Related Party Transactions (RPT) may give rise to conflict of interest, thus, the Board of Directors is tasked to review related party transactions of the Bank if the consequence of RPT brings any potential impact on any of the transacting party. They ensure that transaction with related parties and DOSRI are handled on a sound and prudent manner, with integrity and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders. An overarching Related Party Transactions Policy Guidelines was approved by the Board on October 8, 2020 and incorporated under the revised Corporate Governance Manual. This will ensure the effective compliance with existing laws, rules and regulations of handling of RPTs; conduced on arm's length basis and that no stakeholder is unduly disadvantaged. Identification of RPTs is the responsibility of the business unit concerned. Upon determination full disclosure and reporting of the Bank's RPT dealings based on board approved policies. The Board shall review and approve RPT dealings of at least P1.0 million during the regular board meetings upon approval and endorsement of the CreCom/ExCom. The bank shall submit a report on material exposures to related parties and RPTs of non-bank financial subsidiaries and affiliates within twenty (20) calendar days from end of the reference quarter.

SELF-ASSESSMENT FUNCTION



The Internal Audit & Compliance Department of the Bank, composed of minimum 3 personnel including the Team Head. The Audit Team is responsible for setting up annual audit plan and or conducting the internal audit as planned. The main objective of the audit function is to investigate into if there is any work done in violation of internal policy and/or if there is anything non-compliant with government regulations. Detection of any fraud or malicious transaction is another role of audit team. The secondary objective of audit team is to envisage process improvement to bring efficiency or productivity enhancement, based on the observations earned in the course of audit.

The Bank's Compliance Office is headed by the appointed and BSP-confirmed Chief Compliance Officer on concurrent capacity. The Compliance Office is tasked to review, monitor, and control such that the services and works are always in compliant with relevant regulations as well as internal policies. One of the main responsibilities of the team is to ensure various kinds of required reports be submitted to government authorities within designated timeline.

Welcome Bank's Internal Audit Head (IAH) and concurrent Chief Compliance Officer (CCO) assumed both the audit and compliance functions of the Bank carrying out the board-approved audit and compliance plan.

DIVIDEND POLICY



It is understood by shareholders that the Bank will not release any dividend until accumulated earnings level is substantial. It is to support for the Bank to have strong capital position and thereby protect deposit customers. Even when the Bank has accumulated substantial earnings, the releasable dividend will be limited to 50% of total earnings of the previous year. In case that the Bank plans to release dividend, it should be pre-discussed with shareholders and the decision on the dividend shall be approved in the annual shareholders' meeting.

SUSTAINABLE FINANCE FRAMEWORK

Welcome Bank commitment to sustainability is fostered at the Board level. The backbone of the bank's commitment to sustainability is the 17 United Nations Sustainable Development Goals (SDGs).

The corporate sustainability starts with our value system and a principles-based approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labor, environment and anti-corruption. As a responsible business, we enact the same values and principles wherever they have a presence, and know that good practices in one area do not offset harm in another. By incorporating the Ten Principles of the UN Global Compact into strategies, policies and procedures, and establishing a culture of integrity, we are not only upholding the basic responsibilities to people and planet, but also setting the stage for long-term success. Welcome Bank's commitment to sustainability is fostered at the board level and transcends to the senior management and employees.



ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT



Welcome Bank integrates sustainability considerations and objectives into its business strategy and actively manages social and environmental risks associated with its business engagements. In doing so, the bank mitigates risks; it also contributes to positive change by supporting clients that seek continuous improvement in environmental and social practices.

The Bank's Environmental and Social Risk (ESR) Framework applies to all its businesses and products. The Framework has been developed to promote informed decision-making that is consistent with these principles and with the commitment in providing responsible financial services. The Bank will work with clients to promote environmental and social improvements and aims to avoid entering into business engagements that do not comply with the ESR Framework. The Bank recognizes that climate change and environmental hazards could pose significant risks to the safety and soundness of individual financial institutions and the entire financial system.

In line with the Bangko Sentral ng Pilipinas (BSP) Sustainable Finance Framework, the Bank continues to strengthen its ESG capacity across all business units to support more informed credit decisions and robust risk monitoring. As part of its broader commitment to client convenience and operational efficiency, Welcome Bank is actively transforming traditional processes through digital innovation. The Bank is currently transitioning to paperless operations for customer loan disbursements and internal approvals—an initiative that not only advances its sustainability goals but also empowers customers with a faster, more secure, and fully digital loan documentation experience.

As part of its commitment to sustainable finance, Welcome Bank is actively aligning its products and services with globally recognized sustainability frameworks, including Green, Social, and Sustainability bonds principles for Responsible Banking.

To date, the Bank has not yet issued any green, social, or sustainability bonds. However, it is currently undertaking internal assessments and capability-building initiatives to evaluate the feasibility of issuing such instruments in the near term. This is part of the Bank's long-term sustainability roadmap, which aims to support financing for projects with positive environmental and social outcomes.

At present, a detailed breakdown of the Bank's environmental and social (E&S) risk exposures by sector or industry is not available. This is due to the transitional phase of integrating E&S risk

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

In the first quarter of 2024, Welcome Bank (Rural Bank) Inc. engaged Edispo, a purpose-driven startup specializing in hazardous waste management. Edispo acts as both a consultant and connector, assisting businesses in identifying and partnering with DENR-accredited service providers for the transport, treatment, and disposal of hazardous waste. As a client of Edispo, Welcome Bank leverages their expertise to responsibly dispose of electronic waste materials, including computers, monitors, and wiring, thereby enhancing its environmental stewardship practices.





In the last quarter of 2024, as part of its ongoing responsible waste management initiatives, the Bank generated Php 2,000.00 through its waste recycling efforts, further demonstrating its commitment to sustainable and environmentally sound operations.

In 2024, Welcome Bank expand its social services through a charity initiative in collaboration with Caritas Manila. By donating second-hand items to be sold in Caritas Manila's charity outlets to generate funds. The proceeds are used to support over 5,000 vocational and technical college scholars nationwide. Additionally, this program was able to help over 300 micro-entrepreneurs from informal sectors by providing livelihood opportunities. This initiative also strongly promoted the "Reduce, Reuse and Recycle" (3R's) principles, fostering a more sustainable living environment.





The **Plastic Flamingo**, also known as The Plaf is Welcome Bank (Rural Bank), Inc.'s avenue is taking its small step in enhancing its Corporate Social Responsibility.

The Plaf, is a socio-enterprise advocate that desires to lessen marine plastic pollution. Welcome Bank (Rural Bank), Inc. partnered with them hoping that by doing such an act, it could at least contribute by not adding up more plastic pollution to the ocean. Through employee engagement, Welcome Bank (Rural Bank), Inc. is creating environmental awareness within its operations but also investing in the implementation of ESG practices to ensure it has done its part in continuing its business with a more responsible approach.

EMPLOYEE HEALTH AND WELL-BEING

Welcome Bank (Rural Bank), Inc. supports work-life balance and among its program are the Sweet Fridate and Break and Bond Program or "BnB".





The Sweet Fridate allows each employee to enjoy a recreational activity that would boost their physical health and creativity. It Also aims to lessen stress and increase level of interaction among employees. It is also an engagement to either let the employees enjoy a me-time or moment with their loved ones or with their colleagues.





The Break and Bond Program or "BnB" for short is so named to align with what Welcome Bank (Rural Bank), Inc. aim to achieve – giving the employees a little break form work and providing them an opportunity to bond as a team simultaneously.

AFFILIATION

The Bank is a member in good standing of the Rural Banker's Association of the Philippines (RBAP) and Federation of Metro Manila Rural Banks (FMMRB). Also, a registered submitting entity with the BAP Credit Bureau, Inc. (BAPCBI) and Credit Information Corporation (CIC) where negative information as well as credit outstanding with other financial institutions on prospective borrowers can be downloaded through their website upon authorization.

ACCOUNTABILITY AND AUDIT



It is imperative to provide a balanced and comprehensive assessment of the Bank's performance, position and prospects on a periodic basis including the reportorial requirements of the regulatory bodies. The Bank's internal control system is a process designed and effected by the Board of directors and senior management to provide reasonable assurance on the achievement of objectives through efficient and effective operations.

COMPLIANCE POLICIES



The established dynamic and responsive Compliance Risk Management System (CRMS) reinforces the stature of the Chief Compliance Officer with responsibilities of managing and monitoring compliance matters in all bank's business activities. The CRMS is designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal and regulatory sanctions, material financial loss, loss to reputation that the Bank may suffer as a result of failure to comply with laws, related self-regulatory organization standards, code of conduct applicable to its activities. The compliance risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risk arising from money laundering and terrorist financing activities. The CRM should be an integral part of the culture and risk governance framework of the Bank. In this respect it shall be the responsibility and shared accountability of all personnel, officers and the board of directors.

FINANCIAL CONSUMER PROTECTION AND DATA PRIVACY

The Board of Directors of the Bank approved for adoption the Financial Consumer Protection Manual (revised as per BSP Circular 1160) and Data Privacy Manual in accordance with the BSP regulations to provide for an enabling environment that protects the interest of financial consumers and institutionalize the responsibilities of all stakeholders and in accordance with the National Privacy Commission policies that ensure protection of the rights of the subject from undue disclosure of personal data without consent.



The Board is responsible for ensuring that consumer protection practices are embedded in the Bank's business operations, adhering to highest service standards and embracing a culture of fair and responsible dealings in the course of conducting its businesses.

- Disclosure and Transparency - The Bank provide financial consumers with all material details of an instrument or service before a transaction is consummated.

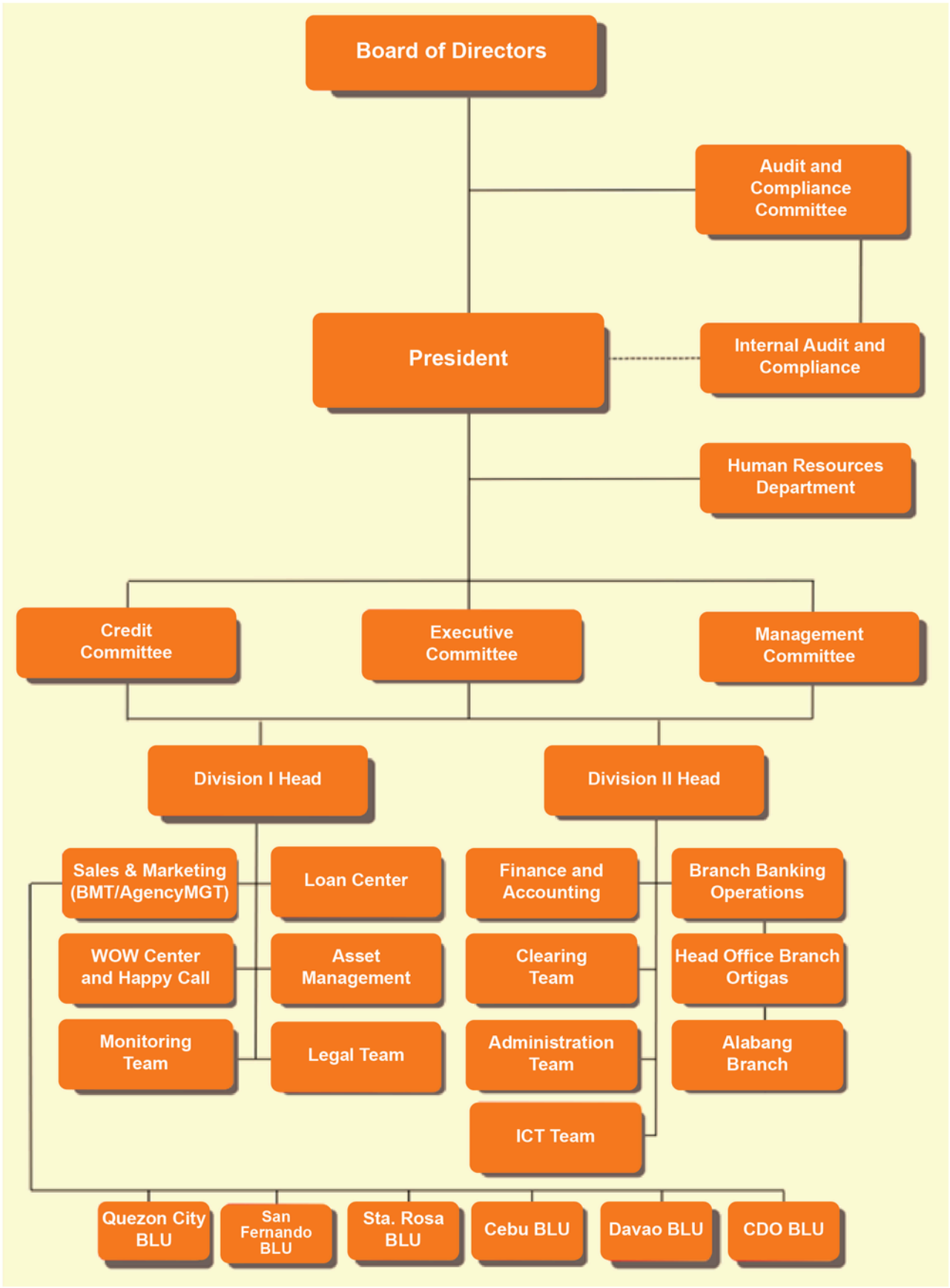
- Fair treatment – The Bank determines whether the product or service offered is suitable to the risk and financial profile of the consumer. The Bank also considers the selling practice of employees and possible indebtedness of the financial consumer.

- Protection of client information – In accordance with the Data Privacy Act of 2012 (RA No. 10173), the Bank recognizes the importance of protecting the personal data of its customers, hence, information on a customer is not shared without his/her consent.

- The Bank believes in promoting financial education and awareness, and ensuring that this is one of the components of the Bank's good governance.

- Effective recourse complaint is seen as an opportunity of review process; identify root cause and work to improve processes thereby preventing its recurrence and

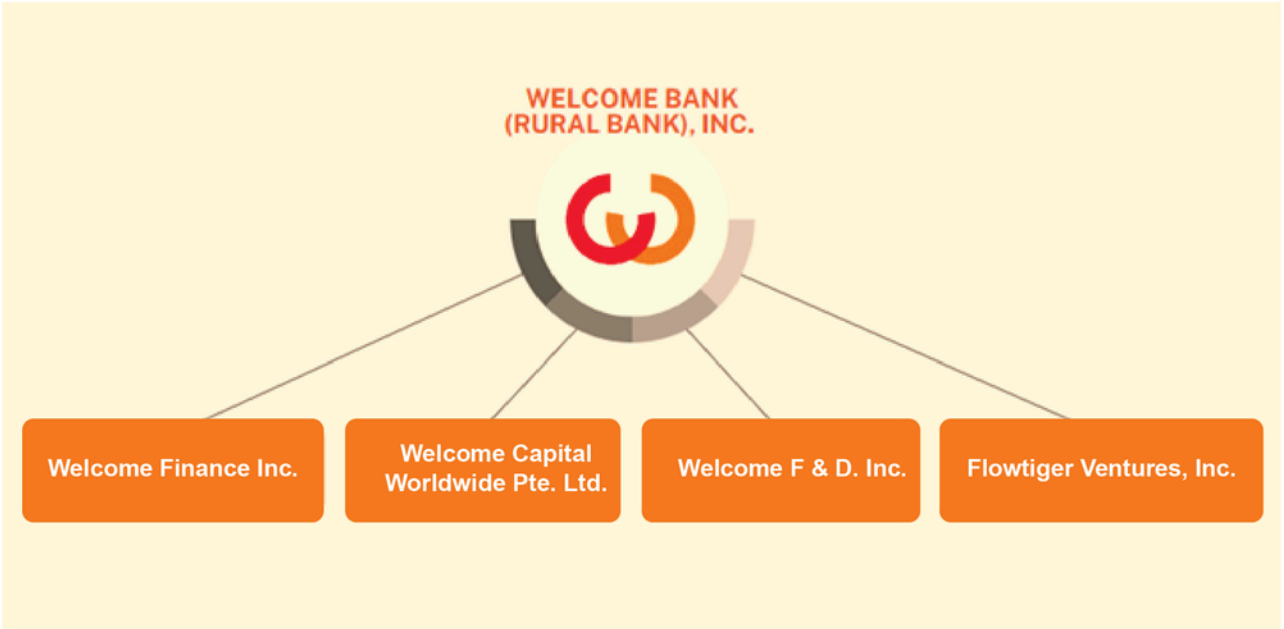
Organizational Structure



Stockholders and Stockholdings

NAME	NATIONALITY	PERCENT (%) OF HOLDINGS
Welcome Capital Worldwide Pte. Ltd.	Singaporean	60.0%
Flowtiger Ventures, Inc.	Filipino	40.0%
Saeyoung Chang	Korean	0.0%
Suk Sub Shim	Korean	0.0%
Kyochan An	Korean	0.0%
Job Adrian M. Ambrosio	Filipino	0.0%
Edward S. Relucio	Filipino	0.0%

Related Party Structure



PRODUCT & SERVICES

DEPOSIT PRODUCTS

	Minimum Initial Deposit	Interest Earning Balance	Interest Rate
Welcome Savings	-	-	1.50% - 2.00%
Welcome Checking – Personal	2,000	5,000	.50%
Welcome Checking – Corporate	5,000	25,000	.50%

WELCOME TIME DEPOSIT

Short Term				
Amount (in Php)	**30 days**	**90 days**	**180 days**	**181-364 days**
1-999,999	4.75%	4.75%	5.00%	5.00%
1,000,000 – 4,999,999	4.75%	5.00%	5.25%	5.25%
5,000,000 – 9,999,999	5.00%	5.25%	5.50%	5.50%
10,000,000 and above	5.00%	5.25%	5.50%	5.50%

Long Term				
Amount (in Php)	**1 Year**	**2 Years**	**3 Years**	**4 Years**
1-999,999	5.50%	5.50%	5.50%	5.50%
1,000,000 – 4,999,999	5.50%	5.75%	5.75%	5.75%
5,000,000 – 9,999,999	5.75%	6.00%	6.00%	6.00%
10,000,000 and above	6.00%	6.25%	6.25%	6.25%

WELCOME PREMIUM TIME DEPOSIT

Term: 5 years – Tax Free

Amount (in Php)	5 years and 1 day
1-999,999	5.75%
1,000,000 – 4,999,999	6.00%
5,000,000 – 9,999,999	6.25%
10,000,000 and above	7.00%

LOAN PRODUCTS

	Loan Amount	Term	Interest Rate
UNSECURED LOANS			
Personal Loan	P50,000 – P1,000,000	12-36 months	1.39% - 1.99%
Personal Happy Loan	P50,000 – P1,000,000	12-36 months	2.50%
Premier Personal Loan	P50,000 – P10,000,000 (renewal)	12-36 months	1.25%
Salary Loan	P50,000 – P500,000	12-36 months	2%-3%
Business Loan	P50,000 – P1,000,000	12-36 months	1.95% - 2.8%
Premier Business Loan	Up to P3,000,000 (Renewal)	12-36 months	1.95% - 2.8%
SECURED LOANS			
Auto Finance Loan	P100,000 – P1,000,000	12-60 months	1.39% - 1.99%
Auto Loan	P100,000 – P1,000,000	12-60 months	1.00% - 1.40%
Condo Mortgage Loan	P1,000,000 – P20,000,000	3 years (Interest only – Mortgage renewable every 3 years)	1.25%

BRANCHES & Branch-Lite Units

Our Corporate Office



Unit 1701-1703, The Taipan Place Bldg., F. Ortigas Jr. Road cor. Ortigas Center, Brgy. San Antonio, Pasig City

(02) 8282 8585

wb@welcomebank.com.ph

www.welcomebank.com.ph

Bank Branches

Head Office Branch



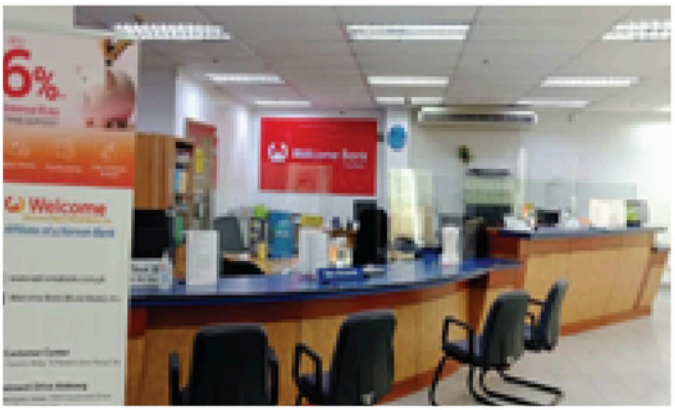
Unit 102-B, The Taipan Place Bldg., F. Ortigas Jr. Road corner, Ortigas Center, Brgy. San Antonio, Pasig City, 1605, Philippines

(02) 8282 8585

0917-701-9601

banking@welcomebank.com.ph

Alabang Branch



G/F Westgate Tower, 1708 Investment Drive, Madrigal Business Park, Muntinlupa City

(02) 8282 8585

0917-701-9260

banking@welcomebank.com.ph

Branch-Lite Units

Quezon City Branch-lite Unit

Unit No. 14, Banawe Fortune Center Building, along Quezon Avenue corner Banawe Avenue, Quezon City, 1100

(632) 8562 5842

sales@welcomebank.com.ph



San Fernando Branch-lite Unit

2nd Floor, F.F. Paras Building, Jose Abad Santos Avenue, Corner Mc Arthur Highway, Dolores, City of San Fernando, Pampanga, 2000

(045) 402 1925

sales@welcomebank.com.ph



Sta. Rosa Branch-lite Unit

Unit B-18, 2nd Floor, Banawe De Sta. Rosa, F. Reyes Street, Brgy. Balibago, Sta. Rosa City, Laguna, 4026

(049) 536 2751

sales@welcomebank.com.ph



Branch-Lite Units

Cebu Branch-lite Unit

2nd Floor Mezzanine, Trends Plaza, F. Ramos Street, Brgy. Cogon, Cebu City, 6000

(032) 412 2660

sales@welcomebank.com.ph



Davao Branch-lite Unit

33, Ground Floor, Jeva Building, Quirino Avenue, Davao City, 8000

(082) 233 9045

(082) 300 0416

sales@welcomebank.com.ph

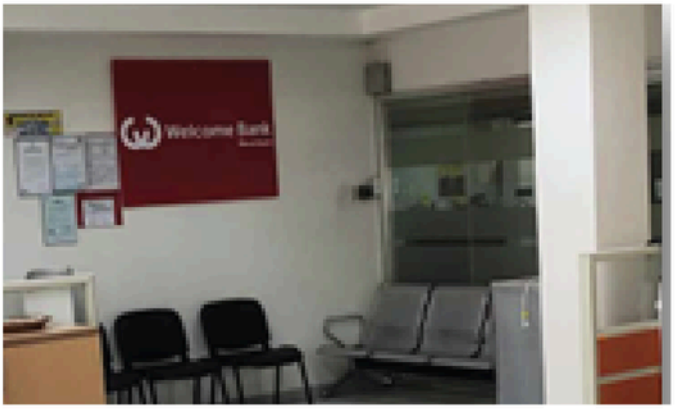


CDO Branch-lite Unit

Pelaez Commercial Arcade 3, Tirso Neri - Velez Streets, Cagayan De Oro City, 9000

(088) 856 5051

sales@welcomebank.com.ph





Financial Statements

WELCOME BANK (RURAL BANK), INC.
(Formerly Smart Bank (Rural Bank), Inc.)

December 31, 2024 and 2023

Aquino, Mata, Calica & Associates
Certified Public Accountants
Suite 1805 - 1807 Cityland Condominium 10 Tower 2
H.V. Dela Costa St., Makati City, 1227 Philippines
T +63 2 8841 0462 • +63 2 8893 0287

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Welcome Bank (Rural Bank), Inc.
(Formerly Smart Bank (Rural Bank), Inc.)
Unit 1701-1703 The Taipan Place Bldg.
F. Ortigas Jr. Road corner Ortigas Center
Brgy. San Antonio, Pasig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Welcome Bank (Rural Bank), Inc.** *(Formerly Smart Bank (Rural Bank), Inc.)*, (the "Bank") which comprise the statements of financial position as at December 31, 2024 and 2023, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS) Accounting Standards.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). 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 *Code of Ethics for Professional Accountants in the Philippines* (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS Accounting 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.

AMC & ASSOCIATES

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Certified Public Accountants
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Auditors' 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 auditors' 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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, 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 auditors' 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 auditors' 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.

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Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2024 required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 in Note 29 and the Bureau of Internal Revenue (BIR) as disclosed in Note 30 of the financial statements is presented for purposes of filing with the BSP and BIR, respectively, and is not a required part of financial statements prepared in accordance with PFRS Accounting Standards. Such supplementary information is the responsibility of the management. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

AMC & ASSOCIATES

By: **Ariel D. Gonzales**
Partner
CPA Cert. No. 89570
TIN 169-688-077-000
PTR No. 10469764, Jan. 7, 2025, Makati City
BIR Accreditation No. 08-002582-003-2024
(issued on Nov. 15, 2024 valid until Nov. 14, 2027)
SEC Accreditation No. 89570 (Group A)
(valid to audit 2021 to 2025 financial statements)
IC Accreditation No. 89570-IC (Group A)
(valid to audit 2020 to 2024 financial statements)
BSP Accreditation No. 89570-BSP (Group B)
(valid to audit 2021 to 2025 financial statements)

April 10, 2025

FIRM ACCREDITATION
Aquino, Mata, Calica & Associates
BOA Accreditation No. 4275 - valid from June 29, 2023 to June 28, 2026
BIR Accreditation No. 08-002582-000-2023 – issued on October 12, 2023 valid until October 11, 2026
SEC Accreditation No. 4275-SEC (Group A) - valid to audit 2023 to 2027 financial statements
IC Accreditation No. 4275-IC (Group A) - valid to audit 2020 to 2024 financial statements
BSP Accreditation No. 4275-BSP (Group B) – valid to audit 2021 to 2025 financial statements
CDA CEA No. 075-AF – valid from January 15, 2025 to January 14, 2030

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SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Welcome Bank (Rural Bank), Inc.
(Formerly Smart Bank (Rural Bank), Inc.)
Unit 1701-1703 The Taipan Place Building
F. Ortigas Jr. Road corner Ortigas Center
Barangay San Antonio, Pasig City

We have audited the financial statements of **Welcome Bank (Rural Bank), Inc.** *(Formerly Smart Bank (Rural Bank), Inc.)* for the year ended December 31, 2024, on which we have rendered the attached report dated April 10, 2025.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the Bank has two stockholders owning 100 or more shares each of the Bank's common stock as at December 31, 2024, as disclosed in Note 21 of the financial statements.

AMC & ASSOCIATES

By: **Ariel D. Gonzales**
Partner
CPA Cert. No. 89570
TIN 169-688-077-000
PTR No. 10469764, Jan. 7, 2025, Makati City
BIR Accreditation No. 08-002582-003-2024
(issued on Nov. 15, 2024 valid until Nov. 14, 2027)
SEC Accreditation No. 89570 (Group A)
(valid to audit 2021 to 2025 financial statements)
IC Accreditation No. 89570-IC (Group A)
(valid to audit 2020 to 2024 financial statements)
BSP Accreditation No. 89570-BSP (Group B)
(valid to audit 2021 to 2025 financial statements)

April 10, 2025

FIRM ACCREDITATION
Aquino, Mata, Calica & Associates
BOA Accreditation No. 4275 - valid from June 29, 2023 to June 28, 2026
BIR Accreditation No. 08-002582-000-2023 – issued on October 12, 2023 valid until October 11, 2026
SEC Accreditation No. 4275-SEC (Group A) - valid to audit 2023 to 2027 financial statements
IC Accreditation No. 4275-IC (Group A) - valid to audit 2020 to 2024 financial statements
BSP Accreditation No. 4275-BSP (Group B) – valid to audit 2021 to 2025 financial statements
CDA CEA No. 075-AF – valid from January 15, 2025 to January 14, 2030

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2024 AND 2023
(Amounts in Philippine Peso)

	2024	2023
ASSETS		
Cash *(Note 4)*	P 1,318,488	P 1,053,480
Due from Bangko Sentral ng Pilipinas *(Note 5)*	5,985,077	6,704,153
Due from other banks *(Note 6)*	109,146,829	262,026,044
Loans and other receivables *(Note 7)*	581,943,302	419,152,060
Financial assets at amortized cost *(Note 8)*	400,625	584,639
Bank premises, furniture, fixtures and equipment *(Note 9)*	14,968,219	18,976,430
Investment property *(Note 10)*	8,186,402	2,653,959
Right-of-use assets *(Note 11)*	347,081	1,960,681
Intangible assets *(Note 12)*	7,852,259	9,249,151
Deferred tax assets *(Note 20)*	21,812,323	18,931,491
Other assets *(Note 13)*	7,805,204	6,193,365
TOTAL ASSETS	P 759,765,809	P 747,485,453
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit liabilities *(Note 15)*	P 450,329,794	P 348,160,346
Bills payable *(Note 16)*	150,000,000	247,000,000
Income tax payable	-	365,872
Lease liabilities *(Note 11)*	977,966	2,658,558
Retirement benefit obligation *(Note 18)*	4,605,317	1,343,210
Accrued interest and other liabilities *(Note 17)*	25,610,910	20,567,072
Total Liabilities	631,523,987	620,095,058
EQUITY		
Capital stock *(Note 21)*	174,939,894	174,939,894
Accumulated other comprehensive loss *(Note 21)*	(635,284)	(635,284)
Deficit	(46,062,788)	(46,914,215)
Total Equity	128,241,822	127,390,395
TOTAL LIABILITIES AND EQUITY	P 759,765,809	P 747,485,453

See Notes to Financial Statements.

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
(Amounts in Philippine Peso)

	2024	2023
INTEREST INCOME		
Loans and other receivables *(Note 7)*	P 201,918,127	P 114,404,309
Bank deposits *(Note 6)*	5,991,128	2,162,533
Financial assets at amortized cost *(Note 8)*	39,276	8,707
	207,948,531	116,575,549
INTEREST EXPENSE		
Deposit liabilities *(Note 15)*	22,941,161	14,889,429
Bills payable *(Note 16)*	20,252,830	7,049,383
	43,193,991	21,938,812
NET INTEREST INCOME	164,754,540	94,636,737
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES *(Note 14)*	46,312,516	10,065,118
NET INTEREST INCOME AFTER CREDIT AND IMPAIRMENT LOSSES	118,442,024	84,571,619
OTHER INCOME		
Services charges and fees *(Note 7)*	14,387,691	14,076,534
Others *(Note 19)*	11,870,016	7,096,464
	26,257,707	21,172,998
OTHER EXPENSES		
Compensation and fringe benefits *(Note 18)*	55,771,653	37,658,038
Depreciation and amortization *(Notes 9, 10, 11 and 12)*	11,097,050	10,579,389
Taxes and licenses *(Note 30)*	16,257,372	12,972,372
Other administrative expenses *(Note 19)*	59,742,105	47,414,538
	142,868,180	108,624,337
PROFIT (LOSS) BEFORE TAX	1,831,551	(2,879,720)
TAX EXPENSE (BENEFIT) *(Note 20)*	980,124	(931,691)
NET PROFIT (LOSS)	851,427	(1,948,029)
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME (LOSS)	P 851,427	(P 1,948,029)

See Notes to Financial Statements.

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
(Amounts in Philippine Peso)

	Capital Stock *(Note 21)*	Deposit for Stock Subscription *(Note 21)*	Accumulated Other Comprehensive Loss *(Note 21)*	Deficit	Total
Balance at January 1, 2024	P 174,939,894	P -	(P 635,284)	(P 46,914,215)	P 127,390,395
Total comprehensive income for the year	-	-	-	851,427	851,427
Balance at December 31, 2024	**P 174,939,894**	**P -**	**(P 635,284)**	**(P 46,062,788)**	**P 128,241,822**
Balance at January 1, 2023	P 100,000,000	P 74,939,894	(P 635,284)	(P 44,966,186)	P 129,338,424
Issuance of shares	74,939,894	(74,939,894)	-	-	-
Total comprehensive loss for the year	-	-	-	(1,948,029)	(1,948,029)
Balance at December 31, 2023	P 174,939,894	P -	(P 635,284)	(P 46,914,215)	P 127,390,395

See Notes to Financial Statements.

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
(Amounts in Philippine Peso)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before tax	P 1,831,551	(P 2,879,720)
Adjustments for:		
Interest expense *(Notes 15 and 16)*	43,193,991	21,938,812
Provision for credit and impairment losses *(Note 14)*	46,312,516	10,065,118
Depreciation and amortization *(Notes 9, 10, 11 and 12)*	11,097,050	10,579,389
Retirement expense *(Note 18)*	3,555,732	281,432
Accretion of interest on lease liabilities *(Note 11)*	101,823	145,794
Interest income *(Notes 6, 7 and 8)*	(207,948,531)	(116,575,549)
Operating loss before working capital changes	(101,855,868)	(76,444,724)
Increase in loans and other receivables	(211,603,296)	(174,478,297)
Increase in other assets	(1,611,839)	(1,279,753)
Increase in deposit liabilities	102,169,448	112,127,211
Increase in accrued interest and other liabilities	4,284,127	1,674,291
Cash used in operations	(208,617,428)	(138,401,272)
Interest received on loans and other receivables	197,986,427	110,904,770
Interest received on bank deposits *(Note 6)*	5,991,128	2,162,533
Retirement paid *(see Note 18)*	(293,625)	-
Interest paid on deposit liabilities	(22,181,450)	(11,634,235)
Cash paid for income taxes *(Note 20)*	(4,226,828)	(1,205,151)
Net Cash Used in Operating Activities	(31,341,776)	(38,173,355)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from financial assets at amortized cost	184,014	180,633
Interest received on financial assets at amortized cost	35,514	31,868
Additions to intangible assets *(Note 12)*	(310,957)	(608,302)
Acquisitions of bank premises, furniture, fixtures and equipment *(Note 9)*	(2,864,833)	(1,351,801)
Net Cash Used in Investing Activities	(2,956,262)	(1,747,602)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of lease liabilities *(Note 11)*	(1,782,415)	(1,600,109)
Interest paid on bills payable *(Note 16)*	(20,252,830)	(7,049,383)
Repayments of bills payable *(Note 16)*	(97,000,000)	-
Proceeds from bills payable *(Note 16)*	-	147,000,000
Net Cash From (Used in) Financing Activities	(119,035,245)	138,350,508
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(153,333,283)	98,429,551
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash *(Note 4)*	1,053,480	1,545,908
Due from Bangko Sentral ng Pilipinas *(Note 5)*	6,704,153	6,863,010
Due from other banks *(Note 6)*	262,026,044	162,945,208
	269,783,677	171,354,126
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash *(Note 4)*	1,318,488	1,053,480
Due from Bangko Sentral ng Pilipinas *(Note 5)*	5,985,077	6,704,153
Due from other banks *(Note 6)*	109,146,829	262,026,044
	P 116,450,394	P 269,783,677

See Notes to Financial Statements.

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023
(Amounts in Philippine Peso)

1. GENERAL INFORMATION

Corporate Information

Welcome Bank (Rural Bank), Inc. (the "Bank"), originally registered as Smart Bank (Rural Bank), Inc. was incorporated and registered with the Securities and Exchange Commission (SEC) on May 26, 1999 with Registration Number A199906565. The Bank purpose is to carry on and engage in the business of extending credit to small farmers and businessmen and to deserving small and medium scale industries or enterprises; to provide financial products and services through digital platform or electronic channels, specifically providing electronic payment and financial services; to have and exercise all authority and powers, to do and perform all acts, and to transact all businesses which may legally be had or done by rural banks organized under and in accordance with Republic Act No. 7353 (Rural Banks Act of 1992) as it exists or may be amended; to provide the corporation's subsidiary or affiliate with services such as sales and marketing support, customer acquisition acts, credit assessment and review, internal audit, compliance-related acts, and performing other business processes for said subsidiary or affiliate, to the extent that relevant governing laws and regulations of the Bangko Sentral allow to do and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

On June 25, 2020, the SEC approved the Bank's corporate name from Smart Bank (Rural Bank), Inc. to Welcome Bank (Rural Bank), Inc.

In 2020, the Bank transferred its head office and main office branch to Unit G02 I Square Building, 15 Meralco Ave., Barangay San Antonio, Pasig City. The Bank's previous head office and main branch located at G/F Westgate Tower, Investment Drive, Madrigal Business Park, Alabang, Muntinlupa City is now a branch.

In 2022, the Bank moved its head and main office branch to Units 1701 - 1703 and Unit 102-B The Taipan Place Building, F. Ortigas Jr. Road corner Ortigas Center, Barangay San Antonio, Pasig City. The approval was also included in the Bank's Amendment in Articles of Incorporation and By-Laws discussed in the succeeding paragraph.

In a regular meeting held on June 18, 2021, the Bank's Board of Directors approved the amendment of primary purpose of the Bank to carry on and engage in the business of extending credit to small farmers and businessmen and to deserving small and medium scale industries or enterprises; to provide financial products and services through digital platform or electronic channels specifically providing electronic payment and financial services; to have and exercise all authority and powers, to do and perform all acts, and to transact all businesses which may legally be had or done by rural banks organized under and in accordance with Republic Act No. 7353 (Rural Banks Act of 1992) as it exists or may be amended; to provide the corporation's subsidiary or affiliate with services such as sales and marketing support, customer acquisition acts, credit assessment and review, internal audit, compliance-related acts, and performing other business processes for said subsidiary or affiliate, to the extent that relevant governing laws and regulations of the Bangko Sentral allow to do; and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP). The said amendment was approved by BSP and SEC on August 23, 2022 and February 13, 2023, respectively.

On March 21, 2023, the BSP approved the application for authority to establish six new Branch lite units (BLUs) in the following locations:

Location	Branch Affiliation
1. Quezon City	Head Office Branch
2. Sta. Rosa Laguna	Head Office Branch
3. San Fernando, Pampanga	Head Office Branch
4. Cebu City	Head Office Branch
5. Davao City	Head Office Branch
6. Cagayan de Oro City	Head Office Branch

Approval of Financial Statements

The financial statements of the Bank as at and for the year ended December 31, 2024 (including the comparative financial statements as at and for the year ended December 31, 2023) were authorized for issue by the Bank's Board of Directors (BOD) on April 10, 2025.

2. MATERIAL ACCOUNTING POLICY INFORMATION

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

Basis of Preparation of Financial Statements

a. Statement of Compliance with Philippine Financial Reporting Standards (PFRS) Accounting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) Accounting Standards. PFRS Accounting Standards are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board (IASB) and approved by the Philippine Board of Accountancy.

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

b. *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income and expense in a single statement of comprehensive income.

The Bank presents the third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

c. *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

Adoption of New and Amended PFRS Accounting Standards

a. *Effective in 2024 that are Relevant to the Bank*

The Bank adopted for the first time the following amendments to PFRS Accounting Standards, which are mandatorily effective for annual periods beginning on or after January 1, 2024:

PAS 1 (Amendments)	:	Presentation of Financial Statements – Classification of Liabilities as Current or Non-current, and Non-current Liabilities with Covenants
PAS 7 and PFRS 7 (Amendments)	:	Statement of Cash Flow, and Financial Instruments: Disclosures – Supplier Finance Arrangements

Discussed below and in the succeeding pages are the relevant information about these pronouncements:

i. PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*. The amendments provide guidance on whether a liability should be classified as either current or non-current. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and that the classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The application of these amendments had no significant impact on the Bank's financial statements.

ii. PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants*. The amendments specifies that if the right to defer settlement for at least 12 months is subject to an entity complying with conditions after the reporting period, then those conditions would not affect whether the right to defer settlement exists at the end of the reporting period for the purposes of classifying a liability as current or non-current. For non-current liabilities subject to conditions, an entity is required to disclose information about the conditions, whether the entity would comply with the conditions based on its circumstances at the reporting date and whether and how the entity expects to comply with the conditions by the date on which they are contractually required to be tested. The application of these amendments had no significant impact on the Bank's financial statements.

iii. PAS 7 and PFRS 7 (Amendments), *Statement of Cash Flows, 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 is 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 application of these amendments had no significant impact on the Bank's financial statements.

b. Effective in 2024 that are not Relevant to the Bank

Among the amendments to PFRS Accounting Standards, which are mandatorily effective for annual periods beginning on or after January 1, 2024, amendments to PFRS 16 – Lease Liability in a Sale and Leaseback is not relevant to the Bank's financial statements.

c. Effective Subsequent to 2024 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2024, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and unless otherwise indicated, none of these are expected to have significant impact on the Bank's financial statements:

i. PFRS 17, *Insurance Contracts – Insurance Contracts* (effective from January 1, 2025)

ii. PFRS 17 (Amendments), *Insurance Contracts – Initial Application of PFRS 17 and PFRS 9 – Comparative Information* (effective from January 1, 2025)

iii. PAS 21 (Amendments) , *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)

iv. *Annual Improvements to PFRS Accounting Standards – Volume II* (effective from January 1, 2026)

v. PFRS 9 and PFRS 7 (Amendments), *Financial Instruments, and Financial Instruments: Disclosures – Amendments to the Classification and Measurement of Financial Instruments* (effective from January 1, 2026)

vi. PFRS 18, *Presentation and Disclosure in Financial Statements* (effective from January 1, 2027). The new standard impacts the classification of profit or loss items (i.e., into operating, investing and financing categories) and the presentation of subtotals in the statement of profit or loss (i.e., operating profit and profit before financing and income taxes). The new standard also changes the aggregation and disaggregation of information presented in the primary financial statements and in the notes. It also introduces required disclosures about management-defined performance measures. The amendments, however, do not affect how an entity recognizes and measures its financial condition, financial performance and cash flows. (Amendments), *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)

vii. PFRS 19, *Subsidiaries without Public Accountability: Disclosures* (effective from January 1, 2027) The new standard reduces the disclosure requirements prescribed by other standards for subsidiaries without public accountability. It changes disclosure requirements prescribed by other standards as the reporting entity will instead refer to PFRS 19 for required disclosures.

viii. PFRS 10 and PAS 28 (Amendments), *Consolidated Financial Statements and Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)

Financial Instruments

a. Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instruments. All financial assets are initially measured at fair value adjusted for transaction costs (where applicable). 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 instruments.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Bank commits to purchase or sell the asset).

Classification and Measurement of Financial Assets

The classification and measurement of financial assets are driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described in the succeeding pages.

i. *Financial Assets at Amortized Cost*

Financial assets are measured at amortized cost if both of the following conditions are met (and are not designated as FVTPL):

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

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

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank's financial assets measured at amortized cost comprise Cash, Due from BSP, Due from other banks, Loans and other receivables and Investment securities at amortized cost (presented as Financial asset at amortized cost) in the statements of financial position.

For the purposes of reporting cash flows, cash and cash equivalents include cash, amounts due from BSP and other banks.

Cash, Due from BSP and Due from other banks includes cash on hand, savings and demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash refers to the total amount of cash and other cash items received after the selected clearing cut-off time until the close of the regular banking hours. Due from BSP refers to the balance of the deposit account maintained with BSP. Due from other banks refers to the balances of deposit account maintained with other banks.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables. These include financial assets such as direct loans to customers and sales contract receivable. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the effective interest method.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Increases in estimates of future cash receipts from such financial assets shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of the change in estimate.

Investments that are primarily composed of government bonds bearing fixed interest rates and defined maturity dates are also measured at amortized cost.

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

ii. Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVTPL.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Surplus reserve account is not reclassified to profit or loss but is reclassified directly to a Surplus free account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

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

Any dividends earned on holding equity instruments are recognized in profit or loss when the Bank's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Bank, and, the amount of the dividend can be measured reliably unless the dividends represent a recovery of a part of the cost of the investment.

As at December 31, 2024 and 2023, the Bank does not have financial assets designated at FVOCI.

iii. *Financial Assets at Fair Value Through Profit or Loss (FVTPL)*

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of the business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in the profit or loss as part of Interest income in the statements of comprehensive income. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is included in the net fair value gains (losses) on these assets presented as part of Interest income in the statements of comprehensive income.

As at December 31, 2024 and 2023, the Bank does not have financial assets designated at FVTPL.

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

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

b. *Impairment of Financial Assets*

Expected Credit Loss Model

PFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss' (ECL) model. The Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. It also includes observable data that comes to the attention of the Bank about certain loss events, including, among others: the significant financial difficulty of the issuer or debtor; a breach of contracts, such as a default or delinquency in interest or principal payments; it is probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Bank determines whether there has been a significant increase in credit risk for the financial asset since initial recognition by comparing the risk of a default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

The Bank promptly recognizes and maintains an adequate allowance for credit losses at all times. It adopts the principles provided under the Enhanced Standards on Credit Risk Management in implementing sound and robust credit risk measurement methodologies that adequately consider ECL. In this respect, the ECL methodology is not considered as a separate and distinct process but as an important element of the entire credit risk management process.

The Bank recognizes an impairment loss based on the category of financial assets. When financial assets are carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans or investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that has not been incurred) discounted at the financial asset's original effective interest rate. The Bank also considers impairment provisions based on the simplified approach within IFRS 9 using the expected credit losses (ECL). During this process, the probability of the non-payment of loans and receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the expected credit loss for the loans and receivables.

To calculate the ECL, the Bank uses its historical experience, external indicators and forward-looking information using a provision matrix. At a minimum, the Bank used guidelines provided by the regulation of the BSP in providing ECL.

Credit exposures are classified into three stages using the following time horizons in measuring ECL:

Stages of credit impairment	Characteristics	Time horizon in measuring ECL
Stage 1	Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	Twelve (12) months
Stage 2	Credit exposures that are considered "under performing" or not yet non-performing but with significant increase in credit risk since initial recognition or with low credit risk	Lifetime
Stage 3	Credit exposures with objective evidence of impairment, thus, considered as "non-performing,	Lifetime

Twelve (12)-Month ECL

The Bank considers reasonable and supportable information, including forward-looking information that affects credit risk in estimating the 12-month ECL. The Bank exercises experienced credit judgment and considers both qualitative and quantitative information that may affect the assessment.

Zero allowance for exposures under Stage 1 shall be rare. It shall be expected only for exposures with zero percent (0%) credit risk-weight under the Risk-Based Capital Adequacy Framework, such as Philippine peso-denominated exposures to the Philippine National Government and the Bangko Sentral.

Lifetime ECL

The Bank evaluates the change in the risk of a default occurring over the expected life of the exposures in assessing whether these shall be moved to a lifetime ECL measure. Although collateral will be used to measure the loss given default, this should not be primarily used in measuring the risk of default or in transferring to different stages.

The Bank measures lifetime ECL of the following:

- exposures that have significantly increased their credit risk from origination (Stage 2); and
- non-performing exposures (Stage 3).

Transfer from Stage 1 to Stage 2 – Assessment of significant increase in credit risk

The Bank transfers credit exposures from Stage 1 to Stage 2 if there is a significant increase in credit risk from initial recognition. The Bank establishes well-defined criteria on what constitutes a significant increase in credit risk. The Bank considers a wide range of information, which includes among others, information on macroeconomic conditions, economic sector and the geographical region relevant to the borrower, and other factors that are borrower specific. The criteria on what constitutes a significant increase in credit risk shall consider, at a minimum, the list provided in PFRS 9.

The Bank classifies exposures to Stage 2 if the exposures have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures. The Bank also classifies exposures to Stage 2 if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

The Bangko Sentral applies the following indicators of a significant increase in credit risk in BSFIs noted to have weak credit loss methodologies:

- exposures considered especially mentioned under Section 143 of the MORB;
- exposures with missed payment for more than thirty (30) days; and
- exposures with risk ratings downgraded by at least two (2) grades (e.g., exposure with a risk rating of "3" on the origination date was downgraded to risk rating of "5" on the reporting date) for BSFIs with below fifteen (15)-risk rating grades, and three (3) grades for BSFIs with fifteen (15) or above risk rating grades.

Transfer from Lifetime ECL to 12-month ECL

The Bank transfers the exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Exposures should exhibit both the quantitative and qualitative indicators of a probable collection prior to their transfer. The quantitative indicator is characterized by payments made within an observation period (e.g., regularly pays during the minimum observation period). The qualitative indicator pertains to the results of an assessment of the borrower's financial capacity (e. g., improvement in counterparty's situation).

As a general rule, the full collection is probable when payments of interest and/or principal are received for at least six (6) months.

Multiple Exposures to Specific Counterparties

In measuring the ECL of multiple exposures to a single counterparty or multiple exposures to counterparties belonging to a group of related entities, the following shall apply:

i. *Exposures to non-retail counterparties.* The Bank measures ECL to multiple exposures to a non-retail counterparty measures ECL at the counterparty level. In particular, the Bank considers all exposures to a counterparty as subject to lifetime ECL when any of its material exposure is subjected to lifetime ECL;

ii. *Exposures to a retail counterparty*. The Bank with multiple exposures to a retail counterparty at the transaction level. In particular, the Bank may classify one transaction under Stage 1 and another transaction under Stage 3. However, the Bank is not precluded from taking into account the potential of cross-default, such that if one exposure is classified under Stage 3 all the other exposures may be classified under Stage 3; and

iii. *Exposures to counterparties belonging to a group of related entities*. The Bank with multiple exposures to counterparties that belong to the same group of related entities measures ECL at the counterparty level (per entity). The Bank likewise considers the status of the other counterparties belonging to the same group in determining the stage under which the exposures shall be classified.

General and Specific Provisions for Loan Accounts

The Bank shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. The Bank is not required to provide one percent (1%) General Provision on other credit exposures covered by PFRS 9 such as off-balance-sheet accounts and investments.

The Bank shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific Provisions (SP).

In 2023, the key elements used in the calculation of ECL are as follows:

- *Probability of default* - It is an estimate of the likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.

- *Loss given default* - It is an estimate of loss arising in the case where default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral or effect of any credit enhancement.

- *Exposure at default* - It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

For forward-looking information, the Bank uses the Vasicek model with GDP growth rates wherein a multi-scenario is applied, including the neutral, positive, and negative.

In 2023, the Bank applied the following methodologies and guidelines for Risk Credit and ECL estimation:

Stages of credit impairment	Characteristics	Time horizon in measuring ECL
Stage 1	Other than loan receivables as Stage 2 or Stage 3	Twelve (12) months (12-month PD *LGD)
Stage 2	31 to 89 days past due	Lifetime

Stages of credit impairment	Characteristics	Time horizon in measuring ECL
Stage 3	90 or more days past due or restructured loan	Lifetime

When the Bank has already determined the probability of default (PD), it uses the Markov Chain Model using a transition matrix approach in computing ACL. This is based on Markov properties, and lifetime PD is estimated by transition matrix multiplication. Transitions matrix which follows Markov properties are dependent only on the values of current states, and not on the previous history data up to that point *(see Note 14)*.

When the financial asset is in the losses given default (LGD) stage, the Bank applied the LDG rate of 45%, which is given by Basel II.

For forward-looking information, the Bank uses the Vasicek model with GDP growth rates wherein a multi-scenario is applied, including the neutral, positive, and negative.

In 2024, the Bank adopted and applied Appendix 15 of the MORB, which is the basic guideline and methodologies for Risk Credit and ECL estimation, discussed as follows:

Basic Guidelines in Setting up Allowance for Credit Losses

Asa general rule, Especially Mentioned and Substandard - Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

a. *Individually Assessed Credit Exposures*

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

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

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-5years	Doubtful	50%	3
Over 5 years	Loss	100%	3

**When there is the imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%*

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

Loans and other credit exposures that exhibit the characteristics for classified accounts described under Appendix 15 to Section 143 shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3
Substandard – Unsecured	25%	2 or 3
Doubtful	50%	3
Loss	100%	3

b. *Collectively Assessed Loans and other Credit Accommodations*

Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with ACL based on the number of days of missed payments as follows:

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 1st restructuring	Substandard	25%	2 or 3
61 – 90 days	Doubtful	50%	3
91 days and over/ 2nd restructuring	Loss	100%	3

For secured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	ACL Other types of collateral	ACL Secured by real estate	Stage
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 days - 5 years	Loss	100%	50%	3
Over 5 years	Loss	100%	100%	3

**When there is the imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%*

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. If loans or investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimated future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is an uncollectible subject to BSP guidelines, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management, the BOD, and the BSP, has been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are presented as part of Other income in the statements of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income.

When possible, the Bank opted to restructure loans rather than to take possession of the collateral. This may involve extending payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and those future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment losses.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subject to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments measured at FVOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in Revaluation reserves account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

c. Derecognition of Financial Assets

i. Modification of Loans

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

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

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized as gain or loss on the derecognition of financial assets in profit or loss.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

ii. Derecognition of Financial Assets Other than Through Modification

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

d. Classification and Measurement of Financial Liabilities

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

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

Deposit liabilities are recognized initially at fair value and subsequently measured at amortized cost.

Bills payable are recognized initially at fair value, which is the issue proceeds (fair value of the consideration received) net of direct issue costs. Bills payable are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments; any difference between proceeds net of transaction costs and the redemption value is recognized in the statements of comprehensive income over the period of the borrowings.

Lease liabilities are fully discussed in *Leases* in the succeeding pages.

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

e. Derecognition of Financial Liabilities

Financial liabilities are derecognized from the statements of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

f. Items of Income and Expense Related to Financial Assets

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest income or Interest expense, Impairment losses, Gain on disposal of financial assets, Dividend income and Recoveries from accounts written-off (presented as part of Other income) in the statements of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets are measured.

g. Offsetting Financial Instruments

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

Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, the cost and their related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the year.

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

Building	50 years
Building improvements	5 years
Leasehold improvements	5 years
Transportation equipment	10 years
Furniture, fixtures and equipment	3 - 5 years
Other office equipment	3 - 5 years

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.

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

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made with respect for those assets.

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

Investment Property

Investment property includes real properties acquired in settlement of loans and receivables from defaulting borrowers not held for sale in the next 12 months.

These are initially measured at acquisition cost which comprise the carrying amount of the related loan after adjustments for unamortized premium or discount less allowance for credit losses plus accrued interest and directly attributable costs. Transaction costs, which include non-refundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the cost of the real properties acquired.

If the real properties acquired include depreciable real properties, the carrying amount shall be allocated to land and depreciable real properties based on their fair values.

Subsequently, investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation is computed on a straight-line basis over the estimated useful life of ten years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of real properties acquired.

Transfers to, or from, investment property shall be made when, and only when, there is a change in use.

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

The carrying values of the real properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amounts.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

Real and Other Properties Acquired (ROPA) in settlement of loans through foreclosure or dation in payment are classified as investment property if pertains to real properties acquired and classified under Other assets account if pertains to other properties acquired. ROPA are recognized as follows:

(i) Upon entry of judgment in case of judicial foreclosure;
(ii) Upon execution of the sheriff's certificate of sale in case of extrajudicial foreclosure; and,
(iii) Upon notarization of the deed of dacion in case of dation in payment (dacion en pago)

The difference between the fair value of the foreclosed properties and the carrying value of the related receivables given up is recognized in 'gain on asset foreclosures and dacion transactions' account in the statements of comprehensive income.

If the carrying amount of ROPA exceeds P5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

ROPA may also be classified as non-current assets held for sale when the sale is within the next twelve (12) months and is subsequently measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell.

ROPA not held for sale is accounted as subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Allowance for impairment losses is recognized for any anticipated losses based on appraisal reports, current negotiations and programs to dispose of these properties, and the provisioning requirement of the BSP. The BSP requires the Bank to set-up an allowance for impairment losses based primarily on the holding period of the assets.

Land, building and other non-financial assets not held for sale are impaired in accordance with accounting policy on "*Impairment of Non-financial Assets*".

Intangible Assets

Intangible assets consist of software costs which are initially carried at cost. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Costs related to software purchased by the Bank for use in operations are amortized on a straight-line basis ranging from 5 to 10 years. The amortization period and the amortization method for software cost are reviewed periodically to be consistent with the changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset. The amortization expense on software costs is recognized in the statement of income.

The carrying values of intangible assets with definite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Other Assets

Other assets are assets controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably. Other assets are recognized and measured at transaction costs or the amount of cash paid. Subsequently, these are charged to income as they are consumed in operations or expire with the passage of time.

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.

a. Security deposits

This pertains to the deposit to the rentals incurred. This is initially recorded as an asset and measured at the amount of cash paid. Subsequently, this is carried at amortized cost.

b. Stationeries and supplies

These represent expenses not yet incurred/used but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

c. Petty cash fund

This pertains to cash on hand stated at face value. This shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

d. Prepaid tax

Prepaid tax, which are claimed against income tax due, are carried over in the succeeding period for the same purpose.

Provisions and Contingencies

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

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

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

Revenue and Expense Recognition

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

a. *Interest Income and Expense*

Interest income and expense are recognized in the statements of comprehensive income for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

For other income arises in the performance of Bank's services, the Bank follows a 5-step process to determine whether to recognize revenue:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as a performance obligation(s) are satisfied.

The Bank determines whether a contract with a customer exists by evaluating whether the following gating criteria are present:

i. the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
ii. each party's rights regarding the goods or services to be transferred or performed can be identified;

iii. the payment terms for the goods or services to be transferred or performed can be identified;

iv. the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
v. collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized either at a point in time or over-time, when (or as) the Bank satisfies performance obligations by transferring the promised goods or services to its customers.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

i. the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
ii. the Bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
iii. the Bank's performance does not create an asset with an alternative use to the Bank and the entity has an enforceable right to payment for performance completed to date.

The Bank recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Bank satisfies a performance obligation before it receives the consideration, the Bank recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

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

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

a. *Service Charges and Fees*

Fees and charges arising from providing transaction services are recognized on completion of the transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the criteria. Service charges and fees related to the acquisition and origination of the loan are amortized and recognized as income using the effective interest rate method over the term of the loan.

b. *Gains from Sale or Derecognition of Non-Financial Assets*

Income from the sale of non-financial assets is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured. Gain or loss on foreclosure is determined as the difference between the fair value at foreclosure and the carrying amount of the loan. Gain on foreclosure is recognized when the risks and rewards of the property have been transferred to the Bank.

c. *Other Income*

Miscellaneous income such as rental income, inspection and filing fees is generally recognized when earned.

Expense encompasses losses as well as those expenses that arise in the course of the ordinary activities of the Bank.

Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in the profit or loss on an accrual basis. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Impairment of Non-financial Assets

The Bank assesses at each reporting date whether there is any indication that its non-financial assets, which include bank premises, furniture, fixtures and equipment, right-of-use assets, foreclosed properties or investment property and intangibles may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. Recoverable amount is the higher of an asset's or fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs.

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

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against income in the year in which it arises unless the asset is carried at a revalued amount in which case the impairment loss is charged against the revaluation increment of the said asset.

A previously recognized impairment loss is reversed by a credit to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the same asset, to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Leases

a. Bank as Lessee

For any new contracts entered into, the Bank considers whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

- the Bank has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose the asset is used throughout the period of use.

Right-of-Use (ROU) Asset

At the commencement date, the Bank measures the ROU asset at cost, which comprises of:

- initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any incentives received;
- any initial direct costs incurred by the Bank;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease unless those costs are incurred to produce inventories. The Bank incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

The Bank depreciates the ROU asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The Bank also assesses the ROU asset for impairment when such indicators exist.

The Bank has elected to account for short-term leases and low-value assets using practical expedients. Instead of recognizing a ROU asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

ROU asset is presented as a separate line item on the statement of financial condition.

Lease Liability

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or if not, the Bank uses the incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under the residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Bank measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect in-substance fixed lease payments.

The Bank recognizes the amount of remeasurement of the lease liability as an adjustment to the ROU asset. However, if the carrying amount of the ROU asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Bank recognizes any remaining amount of the remeasurement in profit or loss.

Lease liability is presented as a separate line item on the statements of financial condition.

b. Bank as Lessor

Leases that do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Employee Benefits

The Bank provides short-term benefits and post-employment benefits to employees through a defined benefit plan, as well as various defined contribution plans.

a. Short-term Benefits

Wages, salaries, and bonuses are recognized as an expense in the year in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave is recognized when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave is recognized when the absences occur.

b. Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The Bank recognizes the estimated cost of post-employment benefits in accordance with the minimum retirement benefits required under Republic Act (RA) No. 7641, otherwise known as *The Philippine Retirement Pay Law,* as the present value of retirement benefits. Management believes that the computed retirement costs, based on these estimates, approximate the results of the projected unit credit method.

Past-service costs are recognized immediately in profit or loss.

c. *Defined Contribution Plan*

A defined-contribution plan under which the Bank pays fixed contributions to an independent entity such as Social Security System (SSS), Philhealth and Pag-ibig. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

d. *Termination Benefits*

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

Income Taxes

Tax expense recognized in the profit or loss comprises the sum of deferred tax and current tax recognized in other comprehensive income or directly in equity, if any.

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that sufficient taxable profit will probably be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

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

Related Party Transactions and Relationship

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; 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 relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Equity

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

Deficit represents all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amounts of dividends declared.

Accumulated other comprehensive loss represents actuarial loss on retirement, net of tax.

Events After the End of the Reporting Period

The Bank identifies subsequent events that occurred after the reporting date but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about Bank's financial position at the reporting date (adjusting events) are reflected in the financial statements, while subsequent events that do not require adjustments (non-adjusting events) are disclosed in the notes to financial statements when material.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the judgments, as presented below and in the succeeding page, apart from those involving estimation, which has the most significant effect on the amounts recognized in the financial statements:

a. Application of ECL to Financial Assets at Amortized Cost

The Bank uses a provision matrix to calculate ECL for all debt instruments carried at amortized costs. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Bank has established a policy to perform an assessment, at end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of a default occurring over the remaining life of the financial instrument.

b. Evaluation of Business Model Applied in Managing Financial Instruments

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

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

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

c. *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents the time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as the modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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

d. *Distinction between Investment Property and Owner-occupied Properties*

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

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Bank accounts for those portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Bank considers each property separately in making its judgment. Management believes that ROPA should be appropriately classified under investment property since the Bank determined that its intention for such properties is for capital appreciation.

e. *Classification of Acquired Properties and Fair Value Determination of Investment Property*

The Bank classifies its acquired properties as Bank premises, furniture, fixtures and equipment if used in operations, as Other properties under Other assets if the Bank expects that the properties (including properties other than land and building) will be recovered through sale rather than use but has not qualified to be classified under PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, as Investment property if the Bank intends to hold the properties for capital appreciation or for lease or as Financial Assets in accordance with PAS 39. At initial recognition, the Bank determines the fair value of acquired properties based on fair valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

f. *Determination of Timing of Satisfaction of Performance Obligations*

The Bank determines that its revenue from services shall be recognized over time. In making its judgment, the Bank considers the timing of receipt and consumption of benefits provided by the Bank to the borrowers or customers.

In determining the best method of measuring the progress of the Bank's rendering of services, management considers the output method, which uses direct measurements of the value to the customer of the services transferred to date relative to the remaining services promised as a basis in recognizing revenues. Such measurements include results of performance completed to date, the time elapsed, and appraisals of milestones reached or activities already performed.

g. *Assessment of Whether Contract is Lease or Not*

For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as a lease under PAS 17 and IFRIC 4.

Management assessed those office buildings qualified as a lease since the contract contains an identified asset, the Bank has the right to obtain substantially all of the economic benefits, and the Bank has the right to direct the use of the identified asset throughout the period of use.

Management assessed that staff houses did not qualify as a lease since the Bank has no right to obtain substantially all of the economic benefits and the Bank has no right to direct the use of the identified asset throughout the period of use.

h. *Determination of Lease Term of Contracts with Renewal and Termination Options*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of the premises/offices, the factors that are normally the most relevant are (a) if there are significant penalties should the Bank pre-terminate the contract, and (b) if any leasehold improvements are expected to have significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Bank included the renewal period as part of the lease term due to the significance of these assets to its operations. Some leases have a short, non-cancellable lease period and there will be a significant negative effect on Bank's operation if a replacement is not readily available.

The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

i. *Assessment of Forward-looking Information*

In assessing forward-looking information of the effect of PFRS 9 the Bank shall consider the macroeconomic factors and how are this linked to risk drivers of the exposure. The Bank may consider that it is essential in 'assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

j. *Assessment of Significant Increase in Credit Risk*

The Bank transfers credit exposures from Stage 1 to Stage 2 if there is a significant increase in credit risk from initial recognition. The Bank establishes well-defined criteria on what constitutes a significant increase in credit risk.

The Bank considers a wide range of information, which includes among others, information on macroeconomic conditions, economic sector and the geographical region relevant to the borrower, and other factors that are borrower specific. The criteria on what constitutes a significant increase in credit risk shall consider, at a minimum, the list provided in PFRS 9.

The Bank classifies exposures to Stage 2 and 3 for it loans and receivables exposures with missed payment for more than thirty (30) days; and exposures with risk ratings downgraded by at least two (2) grades.

k. *Assessment of Contractual Terms of a Financial Asset*

The Bank determines whether the contractual terms of a financial asset give rise on a specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In making its judgments, the Bank considers whether the cash flows before and after the changes in timing or in the amount of payments represent only payments of principal and interest on the principal amount outstanding.

Management assessed that the contractual terms of its financial assets are solely payments of principal and interest and consistent with the basic lending arrangement except for financial assets at fair value through other comprehensive income.

l. *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2 and relevant disclosures are presented in Note 23.

Key Sources of Estimation Uncertainty

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

a. *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 14.

The Bank estimates the allowance for credit losses related to its financial assets based on individual and collective assessments and available facts and circumstances including, but not limited to, past events, current conditions, and forecast of future economic conditions. The Bank considers reasonable and supportable information, including forward-looking information that affects credit risk in estimating the 12-month. In assessing whether lifetime ECL is to be used, the Bank evaluates the change in the risk of a default occurring over the expected credit life of the financial assets.

The Bank estimates the proportion of the financial assets that have experienced a significant increase in credit risk using general information and calculates expected credit losses on that basis. A number of qualitative and quantitative factors may be considered to adjust the allowance for credit losses to reflect a more considerable value.

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 the 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 impairment losses would increase the recognized operating expenses and decrease assets.

The carrying value of loans and other receivables and the analysis of the related allowance for impairment on such financial assets are shown in Notes 7 and 14, respectively.

b. *Estimating the Appropriate Discount Rate to Use*

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

c. *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The fair values of the Bank's financial instruments are disclosed in Note 26.

d. *Impairment of Non-financial Assets*

PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

In both years, no impairment loss is recognized in bank premises, furniture, fixture and equipment, right-of-use assets and prepaid expense and others presented under other assets.

e. *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Asset, Real and Other Properties Acquired presented as Investment property and Intangible Assets*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use asset, investment property, and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment property, right-of-use asset and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives are based on the 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 the Bank's premises, furniture and fixtures would increase the recognized operating expenses and decrease 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 a 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.

The carrying amounts of bank premises, furniture, fixtures and equipment, investment property, right-of-use asset, and intangible assets are analyzed in Notes 9, 10, 11 and 12, respectively. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

f. *Determination of Assumptions for Management's Estimation of Fair Value of Investment Property*

Investment property are measured using the cost model. The fair value disclosed in Note 10 of the financial statements was determined by the Bank using the discounted cash flows valuation technique which is mainly based on existing market conditions and actual transactions at each reporting period, such as selling price under installment sales, expected timing of sale, and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition.

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

g. Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2024 and 2023 will be fully utilized in the coming years. The carrying value of deferred tax assets as at those dates is disclosed in Note 20.

h. Valuation of Post-Employment Defined Benefit Obligation

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. As at December 31, 2024 and 2023, the Bank does not have a formal post-employment benefit plan; however, it computes post-employment benefit obligation based on the provisions of R.A. No. 7641 which covers all regular full-time employees. Management believes that the obligation computed under R.A. No. 7641 will not materially differ had it been actuarially determined.

Retirement benefits recognized for the years ended December 31, 2024 and 2023 are disclosed in Note 18. As at December 31, 2024 and 2023, the Bank's retirement benefit obligation amounting to P4,605,317 and P1,343,210, respectively, is presented in Note 18.

4. CASH

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, amounting to P1,318,488 and P1,053,480 as at December 31, 2024 and 2023, respectively.

5. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account consists of deposits maintained with BSP which amounted to P5,985,077 and P6,704,153 as at December 31, 2024 and 2023, respectively, in compliance with BSP's reserve requirements. Deposits with BSP do not earn interest. The Bank has satisfactorily complied with the reserve requirements of the BSP in both years.

Under Section 251 of the Manual of Regulation for Banks (MORB), a bank is required to maintain a reserve against deposit and deposit substitute liabilities in local currency of banks. Section 252 of the MORB further provides that the required reserves shall be kept in the form of deposits maintained by banks in the demand deposit account (DDA) with the Bangko Sentral and 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 capital requirements.

6. DUE FROM OTHER BANKS

The details of the account are as follows:

	2024	2023
Savings deposits	P 63,332,020	P 33,645,874
Demand deposits	-	92,934,042
Time deposits	45,814,809	135,446,128
	P 109,146,829	P 262,026,044

Savings and demand deposits earns annual interest rates based on prevailing bank rates ranging from 0.05% to 1.25% in 2024 and 0.06% to 1.25% in 2023 while time deposits earn annual interest rates based on prevailing bank rates ranging from 5.05% to 6% in 2024 and 5.05% to 6% in 2023 and with a term of 90 days.

Total interest income earned amounted to P5,991,128 and P2,162,533 in 2024 and 2023, respectively, and is presented as Interest income on bank deposits in the statements of comprehensive income.

7. LOANS AND OTHER RECEIVABLES

Loans and other receivables consist of the following:

	2024	2023
Loans and discounts:		
Loans to individuals for consumption	P 452,688,667	P 276,995,726
Microenterprise loans	110,241,323	93,472,203
Loan accrued principal	45,128,188	29,893,161
Loans to individuals for other purposes	9,330,385	24,600,797
Loans to individuals for housing purposes	4,842,488	5,640,395
Small scale enterprise	-	57,407
	622,231,051	430,659,689
Unamortized discount	(3,066,647)	(1,424,775)
	619,164,404	429,234,914
Other receivables:		
Accrued interest receivable	12,634,071	8,698,609
Accounts receivable	7,623,874	8,221,647
	639,422,349	446,155,170
Allowance for impairment losses *(see Note 14)*	(57,479,047)	(27,003,110)
	P 581,943,302	P 419,152,060

The credit terms of the Bank's loans and receivables ranges from one to ten years.

Annual effective interest rates of loans and discounts ranges from to 10% to 58.2% in 2024 and 10% to 55.20% in 2023. Total interest income from loans and other receivables amounted to P201,918,127 and P114,404,309 in 2024 and 2023, respectively, and is presented as Interest income on loans and other receivables in the statements of comprehensive income. In 2024 and 2023, the Bank's service charges and fees on loans amounted to P14,387,691 and P14,076,534, respectively, and are presented under Other income in the statements of comprehensive income.

8. FINANCIAL ASSETS AT AMORTIZED COST

This account pertains to the following:

	2024	2023
Agrarian Reform 10-year Bond:		
Land Bank Bonds	P 401,104	P 588,703
Unamortized discount	(479)	(4,064)
	P 400,625	P 584,639

The Agrarian Reform Bond from Land Bank Bonds bears annual interest of 5.786% and with a term of 10 years which will mature ranging from 2025 to 2028. Total interest income on these investment securities amounts to P39,276 and P8,707 in 2024 and 2023, respectively, and is presented as Interest income on Financial assets at amortized cost in the statements of comprehensive income.

Management assessed that no impairment loss on the Bank's financial assets at amortized cost is required to be recognized in 2024 and 2023.

9. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

In the Bank's financial statements, the gross carrying amounts and accumulated depreciation at the beginning and end of 2024 and 2023 are shown below:

	Building and Improvements	Leasehold Improvements	Transportation Equipment	Furniture, Fixtures and Equipment	Total
December 31, 2024					
Cost	P 7,760,934	P 18,928,105	P 2,078,000	P 15,371,103	P 44,138,142
Accumulated depreciation	(3,320,435)	(13,618,881)	(86,583)	(12,144,024)	(29,169,923)
Net carrying amounts	P 4,440,499	P 5,309,224	P 1,991,417	P 3,227,079	P 14,968,219

	Building and Improvements	Leasehold Improvements	Transportation Equipment	Furniture, Fixtures and Equipment	Total
December 31, 2023					
Cost	P 7,760,934	P 18,928,105	P -	P 14,584,270	P 41,273,309
Accumulated depreciation	(3,114,269)	(9,826,054)	-	(9,356,556)	(22,296,879)
Net carrying amounts	P 4,646,665	P 9,102,051	P -	P 5,227,714	P 18,976,430
January 1, 2023					
Cost	P 7,760,934	P 18,595,838	P -	P 13,695,395	P 40,052,167
Accumulated depreciation	(2,908,103)	(6,016,576)	-	(6,728,187)	(15,652,866)
Net carrying amounts	P 4,852,831	P 12,579,262	P -	P 6,967,208	P 24,399,301

The reconciliation of the carrying amounts at the beginning and end of 2024 and 2023, of bank premises, furniture, fixtures and equipment is shown as follows:

	Building and Improvements	Leasehold Improvements	Transportation Equipment	Furniture, Fixtures and Equipment	Total
Balance at January 1, 2024, net of accumulated depreciation	P 4,646,665	P 9,102,051	P -	P 5,227,714	P 18,976,430
Additions	-	-	2,078,000	786,833	2,864,833
Depreciation charges for the year	(206,166)	(3,792,827)	(86,583)	(2,787,468)	(6,873,044)
Balance at December 31, 2024, net of accumulated depreciation	**P 4,440,499**	**P 5,309,224**	**P 1,991,417**	**P 3,227,079**	**P 14,968,219**
Balance at January 1, 2023, net of accumulated depreciation	P 4,852,831	P 12,579,262	P -	P 6,967,208	P 24,399,301
Additions		333,934	-	1,017,867	1,351,801
Retirement of asset – cost	-	(1,667)	-	(128,992)	(130,659)
Accumulated depreciation of retired asset	-	1,667	-	128,992	130,659
Depreciation charges for the year	(206,166)	(3,811,145)	-	(2,757,361)	(6,774,672)
Balance at December 31, 2023, net of accumulated depreciation	P 4,646,665	P 9,102,051	P -	P 5,227,714	P 18,976,430

As at December 31, 2024 and 2023, the Bank has fully depreciated bank premises, furniture, fixtures and equipment that are still in use with an original cost amounting to P3,386,102 and P1,233,628, respectively.

Under BSP regulation Section 109, investments in bank premises, furniture, fixtures and equipment should not exceed 50.00% of the Banks' net worth. In 2024 and 2023, the Bank satisfactorily complied with this requirement.

In 2024 and 2023, no bank premises, furniture, fixtures and equipment that are pledged as security for liabilities.

As at December 31, 2024 and 2023, management believes that there is no indication of impairment and that the carrying value of the bank premises, furniture, fixtures and equipment can be recovered through use in operations.

10. INVESTMENT PROPERTY

Investment property consists of acquired properties, mainly condominium unit, in the settlement of loans and receivables from defaulting customers. The details of this account are shown in the reconciliation below:

	2024	2023
Cost		
Balance at January 1	**P 3,619,035**	P 3,619,035
Additions	**6,435,000**	-
Balance at December 31	**10,054,035**	3,619,035
Accumulated depreciation		
Balance at January 1	**965,076**	241,269
Depreciation for the year	**902,557**	723,807
Balance at December 31	**1,867,633**	965,076
Carrying amount as at December 31	**P 8,186,402**	P 2,653,959

As at December 31, 2024 and 2023, the fair value of the investment property is approximately P10,316,472 and P3,885,400, respectively, as assessed by the management based on the current market price per square meter.

As at December 31, 2024 and 2023, no investment property pledged as security or collateral for liabilities.

11. LEASES

The Bank leases a property for its operations. The Bank leases a certain office space with a remaining term of two years and six months.

With the exception of short-term leases and leases of low-value underlying assets, the lease is reflected in the statements of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset.

Right-of-use Asset

The Bank's right of use asset pertains to office space rental. The carrying amount of this right-of-use asset as at December 31 and the movement during the year are shown below:

	2024	2023
Cost		
Balance at beginning of year	**P 4,840,799**	P 12,034,605
Additions	**-**	734,994
Reversal	**-**	(7,928,800)
Balance at end of year	**4,840,799**	4,840,799
Accumulated amortization		
Balance at beginning of year	**2,880,118**	9,297,401
Amortization for the year	**1,613,600**	1,511,517
Reversal	**-**	(7,928,800)
Balance at end of year	**4,493,718**	2,880,118
Carrying amount at end of year	**P 347,081**	P 1,960,681

Lease Liabilities

The lease liabilities are secured by the related underlying assets. The movement of lease liabilities as at December 31, 2024 and 2023 is presented in Note 28.

As at December 31, 2024 and 2023, the Bank had committed to leases that had not yet commenced. The total future cash outflows for the lease that had not yet commenced amounted to P1,019,480 and P2,801,895, respectively.

The undiscounted maturity analysis of lease liabilities as at December 31, 2024 is as follows:

	Within 1 year	1 to 2 years	Total
Lease payment	P 909,480	P 110,000	P 1,019,480
Finance charges	(37,456)	(4,058)	(41,514)
Net present values	**P 872,024**	**P 105,942**	**P 977,966**

The undiscounted maturity analysis of lease liabilities as at December 31, 2023 is as follows:

	Within 1 year	1 to 2 years	Total
Lease payment	P 1,782,415	P 1,019,480	P 2,801,895
Finance charges	(101,823)	(41,514)	(143,337)
Net present values	P 1,680,592	P 977,966	P 2,658,558

Lease Payment Not Recognized as Liabilities

The Bank has elected not to recognize a lease liability for short-term leases. Payments made under such leases are expense on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

In 2024 and 2023, the expenses relating to short-term leases amounted to P13,702,467 and P10,887,751, respectively, and are presented as Rental under Other administrative expenses in the statements of comprehensive income *(see Note 19)*.

Additional Profit and Loss and Cash Outflow Information

The total cash outflow with respect to leases amounted to P1,782,415 in 2024 and P1,600,109 in 2023. Interest expense in relation to lease liabilities amounted to P101,823 and P145,794 in 2024 and 2023, respectively, and is presented as Interest expense on lease liabilities under other administrative expenses *(see Note 19)*.

12. INTANGIBLE ASSETS

Intangible assets pertain to information technology software that consists of the loan management system, other software, and IT needs. The gross carrying amounts and accumulated amortization of this information technology software at the beginning and end of 2024 and 2023 are shown below:

	2024	2023
December 31		
Cost	P 15,130,472	P 14,819,515
Accumulated amortization	(7,278,213)	(5,570,364)
Net carrying amount	P 7,852,259	P 9,249,151

A reconciliation of the carrying amounts at the beginning and end of 2024 and 2023, of information technology software is shown as follows:

	2024	2023
Balance at January 1, net of accumulated amortization	P 9,249,151	P 10,210,242
Additions	310,957	608,302
Retirement of asset - cost	-	(304,702)
Accumulated amortization of retired asset	-	304,702
Amortization charges for the year	(1,707,849)	(1,569,393)
Balance at December 31, net of accumulated amortization	P 7,852,259	P 9,249,151

As at December 31, 2024 and 2023, management believes that there is no indication of impairment and that the carrying value of the intangible asset can be recovered through use in operations.

13. OTHER ASSETS

Other assets consist of the following as at December 31:

	2024	2023
Security deposits	P 3,592,427	P 2,773,820
Prepaid expenses	1,929,625	1,815,297
Prepaid income tax	1,749,052	-
Stationery and supplies	428,309	356,879
Petty cash fund	140,000	120,000
Advance rental	-	786,205
Others	-	341,164
	7,839,413	6,193,365
Allowance for impairment losses *(see Note 14)*	(34,209)	-
	P 7,805,204	P 6,193,365

Security deposits pertain to deposits made by the Bank related to various lease agreements. This will be refunded at the end of the lease agreement after all the valid claims have been cleared.

Prepaid expenses pertain to prepaid insurances which are expected to be amortized within 12 months after the end of the financial reporting period.

Prepaid income tax relates to creditable withholding tax, which is claimed against income tax due, are carried over in the succeeding period for the same purpose.

Advance rental pertains to advance payment of rentals on various lease agreements which will be applied over the lease term.

Others include construction bonds, electricity and water security deposit, refundable deposit and installation fee.

All of the Bank's other assets have been reviewed for indicators of impairment. Based on management's evaluation, no impairment losses on other asset need to be recognized in 2023.

14. ALLOWANCE FOR IMPAIRMENT AND CREDIT LOSSES

The changes in the allowance for impairment and credit losses of loans and other receivables follow:

	Loans Receivable *(see Note 7)*	Accounts Receivable *(see Note 7)*	Other Asset *(see Note 13)*	Total
Balance at January 1, 2024	P 24,295,016	P 2,708,094	P -	P 27,003,110
Impairment losses for the year	46,278,307	-	34,209	46,312,516
Transfer to ROPA	(262,437)	-	-	(262,437)
Accounts written-off	(15,539,933)	-	-	(15,539,933)
Balance at December 31, 2024	**P 54,770,953**	**P 2,708,094**	**P 34,209**	**P 57,513,256**
Balance at January 1, 2023	P 14,229,898	P 2,708,094	P -	P 16,937,992
Impairment losses for the year	10,065,118	-	-	10,065,118
Balance at December 31, 2023	P 24,295,016	P 2,708,094	P -	P 27,003,110

Per BSP regulations, the Bank shall look beyond the past due/missed amortizations in classifying exposures and in providing an allowance for credit losses. On the other hand, the Bank with credit operations that may not economically justify the adoption of simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up an allowance for credit losses prescribed under the Appendix 15 of the MORB.

In 2024, the Bank adopted the guidelines in setting-up an allowance for credit and impairment losses prescribed pursuant to Appendix 15 to Section 143 of the MORB *(see Note 2)*. In 2023, the Bank uses its own methodology in computing ACL using transition matrix approach which is compliant with PFRS 9 and said appendix. This is based on Markov properties; lifetime PD is estimated by transition matrix multiplication. Transitions matrix which follows Markov properties are dependent only on the values of current states, and not on the previous history data up to that point.

The Bank's allowance for impairment and credit losses on loans and receivables as at December 31, 2024 are as follows:

	Loan Amount	ACL %	Amount of ACL	Stage
Pass	P 563,445,467	1%	P 5,634,455	1
Especially mentioned	4,733,662	2%	94,673	2
Substandard				
Underperforming	603,649	10%	60,365	2
Nonperforming	2,589,627	25%	647,407	3
Doubtful	5,049,114	50%	2,524,557	3
Loss	45,809,496	100%	45,809,496	3
	P 622,231,015		**P 54,770,953**	

An analysis of changes in the corresponding ECL allowances of loans and receivable are as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2024	P 3,937,000	P 1,581,754	P 18,776,262	P 24,295,016
Transfer to ROPA	(262,437)	-	-	(262,437)
Amounts written-off	-	-	(15,539,933)	(15,539,933)
Provision for credit losses	1,959,892	-	44,318,415	46,278,307
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	(1,426,716)	1,426,716	-
ECL allowance as at December 31, 2024	**P 5,634,455**	**P 155,038**	**P 48,981,460**	**P 54,770,953**

As mentioned above, the Bank uses its own methodology in computing ACL using transition matrix approach in 2023. The analysis of changes in the corresponding ECL on loans and receivables as at December 31, 2023 are presented below:

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2023	P 2,337,997	P 2,135,830	P 9,756,071	P 14,229,898
Amounts written-off	-	-	-	-
Provision for credit losses	1,599,003	-	8,466,115	10,065,118
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	(554,076)	554,076	-
ECL allowance as at December 31, 2023	P 3,937,000	P 1,581,754	P 18,776,262	P 24,295,016

With the foregoing level of allowance for impairment and credit losses, management believes that the Bank has sufficient allowance to take care of any losses that the Bank may incur from the non-collection or non-realization of its receivables and other risks assets. The management continuously perform quality credit review on its loan portfolio to maintain adequate allowance for impairment and credit losses commensurate to the quality of its asset portfolio.

15. DEPOSIT LIABILITIES

This account consists of the following:

	2024	2023
Demand	P 1,440,176	P 1,725,582
Savings	31,681,787	6,678,460
Time	417,207,831	339,756,304
	P 450,329,794	P 348,160,346

The demand and savings deposits have annual effective interest ranging from 0.05% to 2% in 2024 and 1.5% to 2% in 2023, while time deposits have annual interest ranging from 3.90% to 7.75% in 2024 and 2.125% to 6.3% in 2023. The terms of time deposits ranges from 1 month to 5 years in 2024 and 2023. Interest expense on deposit liabilities amounted to P22,941,161 in 2024 and P14,889,429 in 2023 and is presented as Interest expense on deposit liabilities in the statements of comprehensive income.

Under Section 251 of MORB and BSP Circular No. 1175, *Reduction in Reserve Requirements*, dated June 23, 2023, the required reserves against deposit and deposit substitute liabilities was reduced from 2% to 1% for demand, savings, and time deposits effective reserve week starting June 30, 2023. On September 20, 2024, the BSP issued Circular No. 1201, *Reduction in Reserve Requirements* further reduced the reserve requirement against deposit liabilities from 1% to 0% for demand, savings and time deposits effective reserve week starting October 25, 2024. Available reserves reported to the BSP as at December 31, 2024 and 2023 consist of Due from BSP amounted to P5,985,077 and P6,704,153, respectively (*see Note 5*). As at December 31, 2024 and 2023, the Bank is in compliance with the aforementioned BSP regulation.

The Bank has no deposit liabilities from DOSRI as at December 31, 2024 and 2023.

16. BILLS PAYABLE

This account consists of the following:

	2024	2023
Industrial Bank of Korea	P 150,000,000	P 150,000,000
KEB Hana Bank	-	97,000,000
	P 150,000,000	P 247,000,000

The movement of bills payable is presented in *Note 28*.

The bills payable are unsecured, with an annual effective interest ranging from 6.10% to 7.80% in 2024 and 2023, and a term of one year.

The interest on bills payable amounted to P20,252,830 in 2024 and P7,049,383 in 2023 is presented as Interest expense on bill payable in the statements of comprehensive income.

17. ACCRUED INTEREST AND OTHER LIABILITIES

The breakdown of this account follows:

	2024	2023
Accrued other expenses	P 11,188,439	P 9,987,359
Accrued interest expense	6,107,372	5,347,661
Accounts payable	3,748,680	1,933,844
Accrued gross receipts tax payable	3,440,733	2,321,423
Withholding taxes payable	520,219	500,881
SSS, PHIC and Pag-IBIG contributions payable	598,237	462,345
Others	7,230	13,559
	P 25,610,910	P 20,567,072

Accrued other expenses include accruals for professional fees and incurred expenses. These are expected to be settled within one to three months after the end of each financial reporting period.

Accrued interest expense pertains to accrual of incurred interest on deposit liabilities and bills payable.

Accounts payable consists of non-trade payables which is to be settled within one to three months after the end of each financial reporting periods.

Accrued gross receipts tax payable withholding tax payable and, SSS, PHIC, Pag-IBIG contributions payable pertains to statutory payables to BIR and other government agencies which are remitted at an average term of 15 days after the end of the financial reporting period.

18. COMPENSATION AND FRINGE BENEFITS

Expenses recognized for compensation and fringe benefits are presented below:

	2024	2023
Salaries and wages	P 32,125,724	P 22,528,993
Other benefits	16,629,715	12,531,711
Retirement expense	3,555,732	281,432
Social security costs	3,407,149	2,203,680
Directors' compensation	53,333	112,222
	P 55,771,653	P 37,658,038

Post-Employment Benefits

The Bank accrues post-employment benefits for its employees in accordance with the provisions of Republic Act No. 7641 *(Retirement Pay Law)* and PAS 19 *Employee Benefits*. The retirement plan is a defined benefit plan that provides retirement benefits to employees who have reached the retirement age as defined by the law.

As at December 31, 2024 and 2023, no independent actuary has been engaged to determine the defined benefit obligation (DBO). However, the Bank has estimated the DBO using reasonable assumptions based on available market data and internal policies.

The assumptions used in the estimation of DBO are as follows:

	2024	2023
Discount rate	**7.18%**	7.18%
Retiring age (in years)	**60**	60

The DBO represents the Bank's best estimate of the liability as at December 31, 2024 and 2023. The Bank intends to engage an independent actuary in the future to refine these estimates to reassess the defined benefit obligation and actuarial assumptions in the coming year.

The amount of DBO recognized in the statements of position amounted to P4,605,317 and P1,343,210 as at December 31, 2024 and 2023, respectively.

The movement in the DBO as presented in the statement of financial position are as follows:

	2024	2023
Balance at January 1	**P 1,343,210**	P 1,061,778
Current service cost	**3,459,290**	205,196
Interest cost	**96,442**	76,236
Benefits paid	**(293,625)**	-
Retirement benefit obligation	**P 4,605,317**	P 1,343,210

The retirement expense recognized in profit or loss in respect of the defined benefit post-employment plan are as follows:

	2024	2023
Current service cost	**P 3,459,290**	P 205,196
Interest cost	**96,442**	76,236
	P 3,555,732	P 281,432

As at December 31, 2024 and 2023, the Bank has not set aside any assets specifically for this obligation.

19. OTHER ADMINISTRATIVE EXPENSES AND OTHER INCOME

Other Administrative Expenses

The composition of this account is shown below:

	2024	2023
Rental *(see Note 23)*	P 13,702,467	P 10,887,751
Fees and commission expense	13,034,235	8,672,011
Advertising	8,515,596	3,962,317
Information technology expenses	4,556,638	5,573,058
Postage, telephone, cables and telegrams	4,329,989	4,099,474
Power, light and water	2,098,761	1,693,950
Management and professional fees *(see Note 22)*	1,667,248	4,694,508
Stationery and supplies	1,523,409	726,329
Transportation and travel	1,325,342	778,789
Insurance	1,261,384	937,158
Security, clerical, messengerial and janitorial	1,119,779	1,051,349
Fines, penalties and other charges	672,819	1,350
Membership fees and dues	624,876	178,973
Repairs and maintenance	230,124	301,539
Representation and entertainment	112,071	252,206
Interest on lease liabilities *(see Note 11)*	101,823	145,794
Supervision and examination fees	100,021	76,132
Litigation expenses	95,284	202,000
Miscellaneous	4,670,239	3,179,850
	P 59,742,105	P 47,414,538

Miscellaneous pertains to various expenses such as purchases of cleaning supplies and tokens.

Other Income

The composition of this account is shown below:

	2024	2023
Inter-affiliate outsourcing *(see Note 22)*	P 3,710,000	P 6,708,072
Miscellaneous	8,160,016	388,392
	P 11,870,016	P 7,096,464

Miscellaneous pertains to income from documentation, mortgage, and notarial fees.

20. CURRENT AND DEFERRED TAXES

The components of tax benefit as reported in the profit or loss and other comprehensive income are as follows:

	2024	2023
Reported in profit or loss:		
Current tax expense:		
Final tax at 20%	P 1,206,081	P 434,248
Deferred income tax benefit relating to origination and reversal of temporary differences	(225,957)	(1,365,939)
	P 980,124	(P 931,691)

A reconciliation of tax on pretax profit (loss) computed at the applicable statutory rates to tax benefit reported in the profit or loss is as follows:

	2024	2023
Tax on pretax profit (loss) at 25%	P 457,887	(P 719,929)
Adjustment for profit subjected to lower income tax rate	(301,520)	(108,562)
Tax effect of non-deductible expenses	352,366	108,562
Deferred tax benefit relating to original and temporary differences	471,391	(211,762)
	P 980,124	(P 931,691)

The net deferred tax assets relate to the following as of December 31:

	Statements of Financial Position		Statements of Comprehensive Income			
			Profit or Loss		Other Comprehensive Income	
	2024	2023	2024	2023	2024	2023
Deferred tax assets:						
Net Operating Loss Carry-Over (NOLCO)	P 1,699,507	P 9,494,083	P 7,794,576	P 1,446,761	P -	P -
Impairment losses on loans and other receivable	14,378,314	6,750,778	(7,627,536)	(2,516,280)	-	-
Minimum corporate income tax (MCIT)	4,425,452	1,964,597	194,020	-	-	-
Lease liabilities	244,491	664,639	420,148	179,830	-	-
Post-employment benefit obligation	1,151,329	547,564	(603,765)	(282,119)	-	-
Deferred tax liabilities:						
Right-of-use assets	(86,770)	(490,170)	(403,400)	(194,131)	-	-
Net deferred tax assets	P21,812,323	P18,931,491				
Deferred tax expense (benefit)			P 225,957	(P 1,365,939)	P -	P -

The amount of NOLCO and its availment period are shown below:

Year Incurred	Amount	Applied Previous Year	Applied This Year	Unapplied	Valid Until
2021	P 26,678,464	P -	P 19,880,437	P 6,798,027	2026
2020	17,084,910	5,787,039	11,297,871	-	2025
	P 43,763,374	P 5,787,039	P 31,178,308	P 6,798,027	

Pursuant to Republic Act No. 11494, Bayanihan Recover as One Act dated September 11, 2020, and Revenue Regulations No. 25-2020 dated September 30, 2020, entities which incurred net operating loss for taxable years 2020 and 2021 shall be allowed to carry over the same as a deduction from gross income for the next five consecutive taxable years immediately following the year of such loss.

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises ("CREATE") Act was approved and signed into law. Under the CREATE Act, the RCIT of domestic corporations are taxed at 25% or 20% depending on the amount of total assets and total amount of taxable income. In addition, the MCIT was reduced from 2% to 1% of gross income until June 30, 2023.

The Bank is subject to the minimum corporate income tax (MCIT) which is computed at 2% in 2024 and 2023 of gross income, as defined under the tax regulations. The said MCIT can be claimed as a tax credit in the next three years from the year it was incurred whenever the regular income tax is higher than the MCIT.

The details of MCIT are presented as follows:

Year Incurred	Amount	Expired	Unapplied	Valid Until
2024	P 2,654,875	P -	P 2,654,875	2027
2023	1,136,776	-	1,136,776	2026
2022	633,801	-	633,801	2025
2021	194,020	194,020	-	2024
	P 4,619,472	P 194,020	P 4,425,452	

In 2024 and 2023, the Bank claims itemized deductions for income tax purposes.

21. EQUITY

Capital Stock

Capital stock consists of:

	Shares		Amount	
	2024	2023	2024	2023
Common shares - P10 par value Authorized, issued and outstanding	10,000,000	10,000,000	P 100,000,000	P 100,000,000
Preferred stock - Authorized				
Voting Preferred "A"- P100 par value	2,000,000	2,000,000	P 200,000,000	P 200,000,000
Voting Preferred "B"- P1.40 par value	10,000,000	10,000,000	P 14,000,000	P 14,000,000
Issued and outstanding				
Voting Preferred "A"-P100 par value	649,999	649,999	P 64,999,900	P 64,999,900
Voting Preferred "B"-P1.40 par value	7,099,996	7,099,996	9,939,994	9,939,994
	7,749,995	7,749,995	P 74,939,894	P 74,939,894
			P 174,939,894	P 174,939,894

In a regular meeting held on June 18, 2021, the Bank's Board of Directors approved the increased in capital stock from P100 million, divided into 10,000,000 common shares at P10 par value per share, to P314 million, divided as follows:

Share Type	No. of Shares	Par Value (Php)	Total Amount (Php)
Common (Existing)	10,000,000	P 10.00	P 100,000,000
Voting Preferred A (New)	2,000,000	100.00	200,000,000
Voting Preferred B (New)	10,000,000	1.40	14,000,000
	22,000,000		P 314,000,000

The BOD also approved the amendment on the following features, rights and restrictions in relation to the shares in the corporation:

1. Features rights and restrictions to the shares of corporation

   a. Voting. Holders of each share shall have one (1) vote each, regardless of its classification and par value.

   b. Ownership Restriction. Voting Preferred A Shares may be owned by Philippine nationals and non-Philippine nationals. Voting Preferred B Shares shall be owned exclusively by Philippine nationals, and shall at all times, together with any Common Shares owned by Philippine nationals, comprise of a minimum of at least forty percent (40%) of the total number of voting shares of the corporation.

c. All Preferred Shares shall be non-cumulative and perpetual.
d. Dividends and Liquidation. The distribution of dividends and liquidated value or a similar value shall be based on the par value of each share.

2. Restrictions on transfer of shares

Each shareholder may transfer its Common or Preferred shares subject to the terms below:

a. Right of First Offer and Right of First Refusal

i. If a shareholder ("Transferor") intends to sell, transfer, assign or otherwise dispose of its shares (the "Sale Shares") to a third party (the "Potential Purchaser"), it shall give written notice (the "Transfer Notice") to the other shareholders ("Transferee") of its intent to transfer its shares, specifying the offer price and all other terms of the transfer (the "Offer"). Within thirty (30) days from the date of the Transfer Notice (the "Offer Period"), the Transferee may exercise a right of first refusal to purchase the Sale Shares or to arrange for a qualified person as designee to purchase the Sale Shares.

ii. If the Transferee (or, as the case may be, its designee) accepts the Offer within the Offer Period, the Transferor shall be bound to sell the Sale Shares to the Transferee or its designee on the terms and conditions set forth in the Transfer Notice, and such sale and purchase of Sale Shares shall be completed within thirty (30) days from the date of the acceptance of the offer.

iii. If the Transferee does not exercise the right to purchase the Sale Shares prior to the expiry of the Offer Period, or following its exercise, the Sale Shares are not sold to the Transferee pursuant to the paragraphs above, the Transferor may transfer the Sale Shares to the Potential Purchaser at a price which is not lower than the offer price and on terms no more favorable than those specified in the Transfer Notice.

b. Representation of Successor Shareholders

No sale, transfer or other disposition of shares of stock, including any assignment of pre-emptive rights shall be made unless such person has the requisite legal personality under the laws of the Philippines or the country of its organization, has the financial capability to perform its obligations, and has the power to enter into and deliver an agreement for such sale, transfer or disposition, and to perform its obligations thereunder as evidenced by a duly adopted board resolution to such effect.

c. Validity of Shares Transfer

To the fullest extent allowed under applicable law, all sales, transfers or other dispositions of the shares of stock, including any assignment of pre-emptive rights, in the corporation in violation of this Article Twelfth shall be null and void ab initio for all intents and purposes, and shall not be registered in the books of the corporation.

The said increase in the Bank's authorized capital stock was approved by the BSP and SEC on August 23, 2022 and February 13, 2023, respectively *(see Note 1)*. Relatively to this, the Bank issued preferred stock of P74,939,894 in 2023 from the deposit for stock subscription *(see Note 25)*.

In a special meeting held on December 19, 2024, the Bank's Board of Directors approved the proposed amendment to the Articles of Incorporation, the increase in capital stock from P314 million, divided into 10,000,000 common shares at P10 par value per share, to P814 million, divided as follows:

Share Type	No. of Shares	Par Value (Php)	Total Amount (Php)
Common A	10,000,000	P 10.00	P 100,000,000
Common B	500,000	1,000.00	500,000,000
Voting Preferred A (New)	2,000,000	100.00	200,000,000
Voting Preferred B (New)	10,000,000	1.40	14,000,000
Total	22,500,000		P 814,000,000

As at December 31, 2024 and 2023, the Bank has two stockholders owning 100 or more shares each of the Bank's common stock.

Accumulated Other Comprehensive Loss

This account pertains to remeasurements of post-employment defined benefit plan amounting to P635,284, net of tax of P211,762, as at December 31, 2024 and 2023.

22. RELATED PARTY TRANSACTIONS

The Bank's related parties include the directors, officers, stockholders and related interests (DOSRI).

The summary of the Bank's transactions and outstanding balances with the related parties follows:

	2024		2023		
	Amount of Transactions	Outstanding Balance	Amount of Transactions	Outstanding Balance	Terms and Condition
Stockholders					
Deposits for stock subscription	P -	P -	P 74,939,894	P -	*See Note 21*
Affiliates under Common Control					
Welcome Finance, Inc. Management and professional fees	1,376,477	-	3,285,549	-	Payable monthly in advance within 15 days from receipt of billing
Outsourcing services	3,710,000	-	6,708,072	-	Payable every 5th working day receipt of billing or within 20 working days from end of previous month
Key Management Compensation	4,690,850	-	7,797,540	-	

Affiliates

The following are the transactions with affiliates under common control:

a. On September 1, 2020, the Bank entered into an agreement with Welcome Finance, Inc. (WFI), a company under common control, covering an inter-affiliate reciprocal outsourcing agreement that is computed on an actual basis. In 2024 and 2023, the outsourcing of services amounted to P3,710,000 and P6,708,072, respectively, presented as part of Other income in the statements of comprehensive income *(see Note 19)*. In 2024 and 2023, the insourcing of services amounted to P1,376,477 and P3,285,549, respectively, presented as part of Management and professional fees under Other administrative expenses in the statements of comprehensive income *(see Note 19)*.

On April 28, 2021, the Bank acquired a Solution Packages with Rule base Credit & Lending Integrated Planning System (R-CIIPS), N-Builder and N-Strategy covered by Sales Agreement amounting to P1,095,526 from Welcome Finance, Inc. (WFI), a company under common control *(see Note 12)*.

Key Management Personnel Compensation

Key management includes directors and officers with the position of manager and up. The compensations of key management personnel related mainly to short-term benefits amounting to P4,690,850 and P7,797,540 as for the year December 31, 2024 and 2023, respectively.

23. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments – Bank as Lessee

The Bank is a lessee under an operating lease agreement covering certain office spaces. The lease has a remaining term of five months with renewal options.

As discussed in Note 11, the Bank elected not to recognize a lease liability for short term leases and low value assets. Payments made on short-term leases are expense on a straight-line basis. The total rentals from this operating lease amounted to P13,702,467 in 2024 and P10,887,751 in 2023 which is presented as Rental under Other administrative expenses *(see Note 19)*.

Operating Lease Commitments – Bank as Lessor

The Bank is a lessor to its affiliates under common control under various operating lease contracts covering certain office spaces *(see Note 22)*. The lease has terms ranging from one year with renewal options. The future minimum lease collections under these operating leases as at December 31, are as follows:

	2024	2023
Within one year	P -	P 3,964,129
After one year but not more than two years	-	-
	P -	P 3,964,129

The total rental income from this operating lease amounted to nil in 2024 and 2023 which is presented as Rental in the statements of comprehensive income.

Others

In the normal course of the Bank's operations, there are various commitments and contingent liabilities such as guarantees and commitments to extend credit, which may not be reflected in the accompanying financial statements. As at December 31, 2024 and 2023, there are no contingent liabilities and outstanding litigations that are not reflected in the accompanying financial statements. Management believed that losses, if any, from these claims will not have any material effect on the Bank's financial statements.

24. RISK MANAGEMENT OBJECTIVES AND POLICIES

As a financial institution, the Bank's activities expose it to credit, market and liquidity, and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from a shortage in funding and/or lack of market for the sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, processes, systems and information technology and external events, including legal risk but excludes reputational risk.

Although risks are inherent in the Bank's activities, these are carefully managed through a process of identification, measurement, and monitoring subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders, depositors and regulators.

The Board of Directors is mainly responsible for the overall risk management approach and the approval of risk strategies and principles of the Bank. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Bank's approach to risk issues in order to make relevant decisions.

Credit Risk

Credit risk is the risk that the counterparty may fail to discharge an obligation to the Bank. The Bank is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits and investments.

The Bank manages credit risk through its credit policies, which are regularly reviewed and updated to reflect changing risk conditions. The credit policies include the Bank's credit structure, target markets, credit evaluation, administration and monitoring and collection guidelines. The BOD ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business. A codified signing authority is in place for every level of loan processing and approval. Moreover, the Bank continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Bank performs regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. The Bank also subjects the loan portfolio to a regular loan portfolio quality review, credit portfolio stress testing and rapid portfolio reviews based on specific and potential events that may affect borrowers in particular geographic locations and industries. Writing-off of bad accounts are approved by the BOD and reported to the BSP in compliance with the rules and regulations for banks. The Bank's policy is to deal only with creditworthy counterparties. In addition, for a certain type of loans, collaterals or corporate and personal guarantees are required to mitigate credit risk.

Loan classification and credit risk rating are an integral part of the Bank's management of credit risk. Bank's exposures to credit risk on loans and other receivables and other details pertaining to loans and receivables as at December 31, 2024 and 2023 are disclosed in Notes 7 and 29.

The Bank's exposure to credit risk which arises from possible default of other counterparties with a maximum exposure equal to the carrying amounts of these instruments is addressed by investing its excess funds with various credit-worthy banks.

An analysis of the maximum exposure to credit risk, net of allowance for credit and impairment losses, to credit risk exposures before taking into account any collateral held or other credit enhancements for the components of the statements of financial position is shown below:

	2024	2023
Due from Bangko Sentral ng Pilipinas	P **5,985,077**	P 6,704,153
Due from other banks	**109,146,829**	262,026,044
Loans and other receivables - net	**581,943,302**	419,152,060
Financial assets at amortized cost	**400,625**	584,639
Security deposits *(presented under Other assets)*	**3,592,427**	2,773,820
	P **701,068,260**	P 691,240,716

Financial instruments are recorded at fair value, the amount representing the current credit risk exposure that could arise in the future as a result of changes in values.

The Bank's financial assets are in part secured by collateral guarantees and other credit enhancements, as described below and in the succeeding pages.

a. *Due from Bangko Sentral ng Pilipinas*

The Due from BSP account represents the aggregate balance of deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements.

b. *Due from other banks*

The Bank is able to manage the credit risk arising from Due from other banks by ensuring that banks where the financial assets are invested are of high reputation and good credit standing. Portion of due from other banks is secured by the lower of the aggregate maximum insurance coverage of P500,000 and the balance of the deposit account, as provided for under Republic Act (R.A.) No. 9576, *Amendment to Charter of Depository Insurance Corporation*. The insurance coverage was further increased to P1,000,000 effective March 15, 2025.

c. *Loans and receivables*

The Bank is able to manage the credit risk arising from loans and receivables to individuals through (a) adherence to the credit policy guidelines set by the BOD wherein credit approving authority is not exercised by a single individual but rather, through a hierarchy of limits, is effectively exercised collectively; (b) an independent credit risk assessment by the Credit Approval Committee summarized into a borrower risk rating, is provided as input to the credit decision-making process; and, (c) and conducting borrower credit risk assessment performed at least annually.

d. *Financial assets at amortized cost*

The carrying amount of Financial assets at amortized cost is the maximum possible credit risk exposure of the Bank in relation to the said investments.

e. *Other assets*

Other assets pertains to Security deposits. No significant credit risk is anticipated for these accounts.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees. With respect to foreclosed collaterals, the Bank is exerting effort to actively dispose of these foreclosed properties.

The Bank's loans are actively monitored to avoid significant concentrations of credit risk in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of persons in excess of 25.00% of its net worth.

In addition, the Bank has credit risk exposure on unimpaired loans and other receivables that are past due per BSP definition as at the end of the reporting period.

As at December 31, 2024 and 2023, all of the Bank's financial assets were classified as neither past due nor impaired, except for those loans and receivables which were provided with an allowance for impairment in prior years *(see Note 14)*.

The analysis of Bank's financial assets according to industry concentration, before taking into account any collateral held or other credit enhancements, follows:

	2024		2023	
	Gross Maximum Exposure	Net Maximum Exposure	Gross Maximum Exposure	Net Maximum Exposure
According to industry:				
Activities of households as employers and undifferentiated goods and services producing activities of household for own use	P 467,165,248	P 467,165,248	P 285,033,589	P 285,033,589
Wholesale and retail trade, repair of motor vehicles, motorcycles	84,697,748	84,697,748	72,575,483	72,575,483
Real estate activities	18,240,877	18,240,877	31,832,931	31,832,931
Construction	9,877,333	9,877,333	9,788,253	9,788,253
Human health and social work activities	7,153,724	7,153,724	1,965,002	1,965,002
Manufacturing	6,625,003	6,625,003	5,945,137	5,945,137
Accommodation and food service activities	3,596,595	3,596,595	2,342,953	2,342,953
Agriculture, forestry and fishing	1,997,568	1,997,568	1,232,769	1,232,769
Education	1,599,966	1,599,966	1,031,814	1,031,814
Transportation and storage	1,342,665	1,342,665	2,569,899	2,569,899
Electricity, gas, steam and air, conditioning supply	1,242,905	1,242,905	571,010	571,010
Water supply, sewerage, waste management and remediation activities	178,514	178,514	-	-
Information and communication	145,700	145,700	-	-
Financial and insurance activities	90,437	90,437	345,653	345,653
Other service activities	15,210,121	15,210,121	14,000,421	14,000,421
	619,164,404	619,164,404	429,234,914	429,234,914
Allowance for impairment	-	(54,770,953)	-	(24,295,016)
	P 619,614,404	P 564,393,451	P 429,234,914	P 404,939,898

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

The Bank holds collateral against loans and receivables in the form of real estate. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is assessed to be impaired. Generally, collateral is held over loans and advances to the Bank. Collateral is usually not held against investment securities, and no such collateral was held as of December 31, 2024 and 2023.

The estimated fair value of real estate held as collateral against loans and receivables as at December 31, 2024 and 2023 amounted to P39,241,500 and P60,110,696, respectively. The Bank is not permitted to sell or repledge the collateral held in the absence of default by the owner of the collateral.

The following tables show the credit quality of financial assets by class (gross of allowance) of the Bank:

	2024					
	Neither Past Due nor Specifically Impaired			Past Due		
	High Grade	Standard Grade	Substandard Grade	But Not Yet Impaired	Impaired	Total
Due from BSP	P 5,985,077	P -	P -	P -	P -	P 5,985,077
Due from other banks	109,146,829		-		-	109,146,829
Loans and other receivables						
Loans and discounts	19,137,832	510,853,042	-	34,402,577	54,770,953	619,164,404
Accounts receivable	-	4,915,780	-	-	2,708,094	7,623,874
Accrued interest receivable	-	12,634,071	-	-	-	12,634,071
Financial assets at amortized cost	400,625	-	-	-	-	400,625
Other assets		3,592,427	-			3,592,427
	P134,670,363	**P531,995,320**	**P -**	**P 34,402,577**	**P 57,479,047**	**P758,547,307**

	2023					
	Neither Past Due nor Specifically Impaired			Past Due		
	High Grade	Standard Grade	Substandard Grade	But Not Yet Impaired	Impaired	Total
Due from BSP	P 6,704,153	P -	P -	P -	P -	P 6,704,153
Due from other banks	262,026,044	-	-	-	-	262,026,044
Loans and other receivables						
Loans and discounts	33,948,742	341,605,458	-	29,385,698	24,295,016	429,234,914
Accounts receivable	-	5,513,553	-	-	2,708,094	8,221,647
Accrued interest receivable	-	8,698,609	-	-	-	8,698,609
Financial assets at amortized cost	584,639	-	-	-	-	584,639
Other assets	-	2,773,820	-	-	-	2,773,820
	P303,263,578	P358,591,440	P -	P 29,385,698	P 27,003,110	P718,243,826

The bases in grading the Bank's financial assets are as follows:

1. *High Grade or low-risk loans*

   These loans are neither past due nor impaired which are fully secured by collateral and with good collection status. These are financial assets that have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the security is readily enforceable.

2. *Standard Grade or medium risk loans*

   Standard grade loans are neither past due nor impaired with partially secured loan status. These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but with the experience of default.

3. *Substandard Grade*

   Substandard grade loans are those where the counterparties are, most likely, not capable of honoring their financial obligations. These loans include impaired loans which have continuous loan collection default issues or past due but not impaired loans and receivable accounts.

The succeeding tables show the aging analysis of past due but not impaired loans and receivables. Under PFRS Accounting Standards, a financial asset is past due when the counterparty has failed to make a payment when contractually due.

	2024					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and other receivables						
Loans and discounts	P 34,402,577	P -	P -	P -	P -	P 34,402,577

	2023					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and other receivables						
Loans and discounts	P 29,385,698	P -	P -	P -	P -	P 29,385,698

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings, or capital arising from the Bank's inability to meet its obligations when they fall due without incurring unacceptable losses or costs or there could be insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity.

The Bank's management is responsible for the overall management and oversight of the Bank's liquidity profile. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. A cash flow mismatch analysis is used to measure the Bank's liquidity. A maturity ladder is constructed to determine the cumulative net excess or deficit of funds at appropriate time bands. Net cumulative outflow limits have been put in place to ensure that the Bank's funding requirements are not strained. The Bank also seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The following table shows the maturity profile of the financial assets and liabilities, based on the Bank's management of its liquidity structure:

	2024				
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 year	Total
Financial assets					
Cash	P 1,318,488	P -	P -	P -	P 1,318,488
Due from BSP	5,985,077	-	-	-	5,985,077
Due from other banks	109,146,829	-	-	-	109,146,829
Loans and other receivables					-
Loans and discounts	18,086 346	6,667,791	50,118,837	544,291,430	619,164,404
Accounts receivable	7,623,874	-	-	-	7,623,874
Accrued interest receivable	12,634,071	-	-	-	12,634,071
Financial assets at amortized cost	-	-	-	400,625	400,625
Other assets	140,000	-	-	3,592,427	3,732,427
	154,934,685	6,667,791	50,118,837	548,284,482	760,005,795
Financial liabilities:					
Deposit liabilities	45,500,143	10,759,132	146,773,225	247,297,294	450,329,794
Bills payable			150,000,000	-	150,000,000
Lease liabilities			872,024	105,942	977,966
Accrued interest and other liabilities	16,096,693	595,371	2,686,318	1,673,339	21,051,721
	61,596,836	11,354,503	300,331,567	249,076,575	622,359,481
	P 93,337,849	(P 4,686,712)	(P 250,212,730)	P 299,207,907	P 137,646,314

	2023				
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 year	Total
Financial assets					
Cash	P 1,053,480	P -	P -	P -	P 1,053,480
Due from BSP	6,704,153	-	-	-	6,704,153
Due from other banks	262,026,044	-	-	-	262,026,044
Loans and other receivables					
Loans and discounts		21,782,726	45,100,230	362,351,958	429,234,914
Accounts receivable	8,221,647	-	-	-	8,221,647
Accrued interest receivable	8,698,609	-	-	-	8,698,609
Financial assets at amortized cost	-	-	-	584,639	584,639
Other assets	120,000	-	-	2,773,820	2,893,820
	286,823,933	21,782,726	45,100,230	365,710,417	719,417,306
Financial liabilities:					
Deposit liabilities	11,830,762	5,347,437	15,410,051	315,572,096	348,160,346
Bills Payable	-	-	247,000,000	-	247,000,000
Lease liabilities	-	-	1,680,592	977,966	2,658,558
Accrued interest and other liabilities	11,956,230	11,420	134,236	5,180,537	17,282,423
	23,786,992	5,358,857	264,224,879	321,730,599	615,101,327
	P 263,036,941	P 16,423,869	(P 219,124,649)	P 43,979,818	P 104,315,979

The negative liquidity gap is due to the timing difference in the contractual maturities of assets and liabilities. The management measures the maximum funding requirement the Bank may need to support its maturing obligations. To ensure that the Bank maintains a prudent and manageable level of a cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of deposits with banks. In addition, the majority of the stockholders have committed their financial support in the event of immediate funding requirements of its operations.

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

	2024	2023
Liquid Assets		
Cash on hand	P 1,318,488	P 1,053,480
Due from Bangko Sentral ng Pilipinas	5,985,077	6,704,153
Due from other banks	109,146,829	262,026,044
Financial assets at amortized cost	400,625	584,639
	P 116,851,019	P 270,368,316
Qualifying liabilities	P 467,628,689	P 607,030,527
Liquidity percentage	24.99%	44.54%

Based on the foregoing, the Bank was above the prudential MLR as at December 31, 2024 and 2023.

Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its assets and liabilities, embedded optionality in the loans and deposits due to pre-termination, and potential cash run-offs arising from changes in overall liquidity and funding conditions in the market. Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

a. *Foreign Currency Risk*

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

b. *Interest Rate Sensitivity*

Interest rate risk arises when there is a mismatch between positions that are subject to interest rate adjustments within a specified period. The most important source of interest rate risk is the Bank's lending, funding and investments activities, where fluctuations in interest rates are reflected in interest margins and earnings. Interest rate risk also arises in trading activities, where changes in interest rates may cause fluctuations in portfolio market values.

The Bank follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR).

EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from a one-year standard deviation change in interest rates, updated quarterly. EaR is calculated based on a 99.0% confidence level. It is accomplished monthly, with a quarterly stress test.

The Bank's policy is to minimize interest rate cash flow risk exposures. The Bank's cashflow interest rate risk relates primarily to the possible changes in the prevailing interest rates of due from other banks, financial assets at amortized cost and some floating-rate loans and payables.

The volatility in the interest rates of these financial instruments will result in an increase or decrease of the Bank's interest spread, and consequently will affect its financial performance. The Due from BSP was not included in the cash flow interest rate risk sensitivity since the potential effects on net results and capital funds will be immaterial. Majority of loans and other financial assets and liabilities have fixed rates.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's net interest income:

	2024			
	Increase (Decrease) in Basic Points			
	23	68	(23)	(68)
Change on net interest income:				
Loans and receivables	P 46,441,169	P 137,304,326	(P 46,441,169)	(P 137,304,326)
Due from other banks	1,102,368	3,259,174	(1,102,368)	(3,259,174)
Financial assets at amortized cost	7,227	21,366	(7,227)	(21,366)
Deposit liabilities	(5,276,467)	(15,599,989)	5,276,467	15,599,989
Bills payable	(4,658,151)	(13,771,924)	4,658,151	13,771,924
	P 37,616,146	**P 111,212,953**	**(P 37,616,146)**	**(P 111,212,953)**

	2023			
	Increase (Decrease) in Basic Points			
	23	68	(23)	(68)
Change on net interest income:				
Loans and receivables	P 26,312,991	P 77,794,930	(P 26,312,991)	(P 77,794,930)
Due from other banks	497,383	556,429	(497,383)	(556,429)
Financial assets at amortized cost	2,003	24,016	(2,003)	(24,016)
Deposit liabilities	(3,424,569)	(10,124,812)	3,424,569	10,124,812
Bills payable	(1,621,358)	(4,793,580)	1,621,358	4,793,580
	P 21,766,450	P 63,456,983	(P 21,766,450)	(P 63,456,983)

One of the goals in the risk management process is the adoption of the economic value approach in measuring the interest rate risk in the banking book to complement the earnings approach or EaR currently used.

c. *Price Risk*

Price risk is the risk that the Bank incurs losses due to changes in market values of financial instruments arising from movements in market prices. As at December 31, 2024 and 2023, the Bank has minimal exposure to price risk since the financial instruments held by the Bank pertains to cash, due from other banks, due from BSP, loans and other receivables, financial assets at amortized cost and other financial liabilities which are not affected by movements in market prices.

Operational Risk

Operational risks are risks arising from the potential inadequate information systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, and fraud or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payment failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately. It also includes the risk of loss due to the Bank's failure to comply with the defined operational procedures, inability to address fraud committed internally or externally, inability to handle system failures, and inability to cope with the impact of external events.

The Bank manages operational risks by instituting policies to minimize its expected losses and having an insurance and/or a business continuity plan to prepare for catastrophic losses.

True to its commitment to sound management and corporate governance, the Bank considers operational risk management as a critical element in the conduct of its business. The BOD has the ultimate responsibility for providing leadership in the management of operational risk in the Bank. The Bank has established measures to mitigate the effects of risks related to operations through its senior management. The Bank's Operational Risk Management tools are continually being reviewed and enhanced to proactively manage operational risks and increase the Bank's operational resilience. Operational risks arising from health, safety, and environmental issues are appropriately managed through policies and measures that are integrated into the Bank's day-to-day operations. These include environmental consciousness, occupational health and safety, and community health and safety.

The Bank continues to review its preparedness for major disaster scenarios and implements required changes in its Business Continuity Plan. At year-end, the Bank also ensures that disclosures are made in the financial statements for any significant accounts, if any, which may have been affected by such risk.

Legal Risk

Legal risk pertains to the Bank's exposure to losses arising from cases decided not in favor of the Bank where significant legal costs have already been incurred, or in some instances, where the Bank may be required to pay damages. The Bank is often involved in litigation in enforcing its collection rights under loan agreements in case of borrower default. The Bank may incur significant legal expenses as a result of these events, but the Bank may still end up with non-collection or non-enforcement of claims. The Bank has established measures to avoid or mitigate the effects of these adverse decisions and engages several qualified legal advisors, who were endorsed to and carefully approved by senior management.

At year-end, the Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Bank.

The monitoring of the Bank's compliance with these regulations, as well as the study of the potential impact of new laws and regulations to all units, is the primary responsibility of the Bank's Compliance Officer. The Compliance Officer is responsible for communicating and disseminating new rules and regulations, analyzing and addressing compliance issues, performing periodic compliance testing, and reporting compliance findings to the Audit Committee and the BOD.

Regulatory Risks

Regulatory risk refers to the potential risk for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of a country. The monitoring of the Bank's compliance with these regulations, as well as the study of the potential impact of new laws and regulations, is the primary responsibility of the Bank's Compliance Officer. The Compliance Officer is responsible for communicating and disseminating new rules and regulations to all units, analyzing and addressing compliance issues, performing periodic compliance testing and reporting compliance findings to the Audit and Compliance Committee and the BOD.

Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was enacted in September 2001 and was amended by RA Nos. 9194, 10167, 10365, and 10927 in 2003, 2012, 2013 and 2017, respectively. Furthermore, terrorist financing was criminalized in RA No. 10168. Under the AMLA, as amended, in order to prevent money laundering and financing activities, the Bank is required to (1) identify its customers, (2) report covered transactions and suspicious transactions to the Anti-Money Laundering Council (AMLC) and (3) retain customer identification records and transactional documents for a specified period.

On January 27, 2011, the BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Program (MTPP) designed according to the Bank's corporate structure and risk profile. Further amendments to the regulations on Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) were promulgated thru BSP Circular Nos. 950 and 1022 in March 2017 and November 2018, respectively.

The Board approved the MTPP setting forth Bank's AML/CFT policies and procedures. Under the MTPP, each business unit is required to verify the true identity of a customer based on official or other reliable identification documents or records before an account may be opened. Furthermore, the Bank is required to risk profile its customers to low, normal, or high with corresponding due diligence of reduced, average, or enhanced. Decisions to enter into a business relationship with a high-risk customer require management approval.

Under the reporting requirement, the Bank submits Covered Transaction Reports (CTRs) to the Anti-Money Laundering Council (AMLC) involving a single transaction in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank also submits Suspicious Transaction Reports (STRs) to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. As for record-keeping requirements, the Bank safe keeps, as long as the account exists, all the Know-Your-Customer (KYC) documents involving clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored. In cases involving closed accounts, the KYC documents must be kept after their closure.

On the other hand, all records of accounts with court cases must be kept until there is a final resolution.

25. CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and that it 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 and makes adjustments to it in light of changes in economic conditions and the risk level it recognizes at every point in time in the course of its business operations. No changes were made in the objectives, policies and processes from the previous years.

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

Under 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 net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

The BSP has adopted the "Revised Risk-Based Capital Adequacy Framework For Stand-Alone Thrift Banks, Rural Banks And Cooperative Banks" and referred by the BSP as Basel 1.5 framework, which requires the Bank to maintain:

a. Common Equity Tier 1 (CET 1) of at least 6.0% of risk-weighted assets;
b. Tier 1 Capital of at lease 7.5% of risk-weighted assets;
c. Capital Adequacy Ratio (CAR) or Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
d. Capital Conservation Buffer (CCB) of 2.5% of risk-weighted assets, comprised of CET 1 Capital

Qualifying capital and risk-weighted assets are computed based on BSP regulations. The regulatory capital is analyzed as CET 1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions. 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 of the BSP.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. The minimum capital ratios based on the new compositions under BSP Circular No. 1079 and capital conservation buffer or CCB requirement for the Bank became effective on January 1, 2023.

The 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 capital-to-risk assets ratio (CAR) considers relative credit risk. The Bank's policy is to maintain a strong capital base to maintain investor, creditor, and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is recognized by the Bank as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The adjusted capital-to-risk assets ratio of the Bank is shown in the table below:

	2024	2023 (As Restated)
Tier 1 Capital		
Common stock	P 100,000,000	P 100,000,000
Accumulated other comprehensive loss	(635,284)	(635,284)
Deficit	(46,914,215)	(44,966,186)
Total comprehensive income (loss) for the year	851,427	(1,948,029)
	53,301,928	52,450,501
Adjustments to CET 1		
Deferred tax assets, net of Deferred tax liability	(21,812,323)	(18,931,491)
Total CET 1 Capital	31,489,605	33,519,010
Additional Tier 1 (AT1) Capital		
Paid – up perpetual and cumulative preferred stock	74,939,894	74,939,894
Total TIER 1 Capital	106,429,499	108,458,904
Tier 2 Capital		
General loan loss provision	5,634,455	3,937,000
Total qualifying capital	112,063,954	112,395,904

	2024	2023 (As Restated)
Total Credit Risk-Weighted Assets	P 733,283,704	P 711,852,864
Total Operational Risk-Weighted Assets	128,365,398	72,915,465
Total Risk-Weighted Assets	P 861,649,102	P 784,768,329
Capital ratios		
Total Tier A capital expressed as percentage of total risk weighted assets	3.65%	4.27%
Total CET 1 capital expressed as percentage of total risk weighted assets	12.35%	13.82%
Capital conservation buffer	(2.35%)	(1.73%)
Total regulatory capital expressed as of total percentage of total risk weighted assets	13.01%	14.32%

The previously reported capital ratios and capital conservation buffer in 2023 was restated due to adjustment of defined benefit obligation presented under deductions from CET 1 Capital as follows:

	Previously Reported	As Restated
Total regulatory capital expressed as percentage of total risk weighted assets	14.47%	14.32%
Total CET 1 capital expressed as percentage of total risk weighted assets	4.43%	4.27%
Capital conservation buffer	(2.35%)	(1.73%)
Total Tier 1 capital expressed as of total percentage of total risk weighted assets	4.43%	13.82%

As at December 31, 2024 and 2023, the Bank complied with the minimum capital adequacy ratio, however, CET1 is below the BSP required capital ratios. Moreover, the capital conservation buffer has not met in both years.

Based on the Manual of Regulations for Banks Section 121, *Minimum Capitalization of Banks* of which a rural bank whose head office and a branch are located in the National Capital Region shall have a required minimum capital of P75 million, which must be satisfied within five years from the date of effectivity. Banks that comply with the amended capital levels must submit to the BSP a certification within 30 calendar days from the date of effectivity of this circular. Banks not meeting the minimum required capital must submit to the BSP within one year from the date of effectivity of this circular on an acceptable capital build-up program.

On November 25, 2015, the BSP approved the Bank's capital build-up program in compliance with Circular No. 854 subjects to satisfaction by 2019. In line with the Bank's capital build-up program, the Bank's new stockholders infused additional capital amounting to P25 million in 2020.

In 2021, the Bank received deposit for stock subscription amounting to P74,939,894 to comply with the required minimum capital. The said deposit for stock subscription was converted to preferred stock after obtaining approval of the amendment of the Article of Incorporation on February 13, 2023 by the SEC. *(see Note 21).*

On August 24, 2022, the BSP issued Circular No. 1151 Series of 2022 *Amendments to the Minimum Capitalization of Rural Banks* increasing the minimum capital requirements for rural banks. The new minimum capitalization requirement is part of the initiatives under the Rural Bank Strengthening Program (RBSP). The RBSP was developed to enhance the operations, capacity, and competitiveness of rural banks. It is anchored on the principle that a safe and sound bank is well-capitalized. A strong capital base enables rural banks to enhance their risk management systems, upgrade resources and manage operational costs, meet prudential standards, and accelerate digital transformation.

Under Section 121 of the MORB, as amended by Circular Nos. 1121 and 1142 dated June 8, 2021 and March 29 2022, respectively, the minimum capitalization of the Banks shall be P50 million.

As at December 31, 2024 and 2023, the Bank has satisfactorily meet the minimum capital requirement by the BSP.

Leverage Ratio and Total Exposure Measure

The Bank's leverage ratio and total exposure measure as of December 31 is presented as follows:

	2024	2023
Total capital	**P 128,241,822**	P 127,390,395
Total assets	**P 759,765,809**	P 747,485,453
Leverage ratio	**16.88%**	17.04%
Total exposure measure	**P 759,765,809**	P 747,485,453

Under BSP Circular No. 1079 Series of 2020 dated March 9, 2020, leverage ratio is computed as Total capital divided by Total asset.

26. FAIR VALUE MEASUREMENT

Carrying Amounts and Fair Values by Category

The table below presents a comparison by category of carrying amounts and estimated fair values of the Bank's financial assets and liabilities as at December 31;

	2024		2023	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash	P 1,318,488	P 1,318,488	P 1,053,480	P 1,053,480
Due from BSP	5,985,077	5,985,077	6,704,153	6,704,153
Due from other banks	109,146,829	109,146,829	262,026,044	262,026,044
Loans and other receivable	581,943,302	581,943,302	419,152,060	419,152,060
Financial assets at amortized cost	400,625	400,625	584,639	584,639
Other assets	3,732,427	3,732,427	2,893,820	2,893,820
	P 702,526,748	P 702,526,748	P 692,414,196	P 692,414,196
Financial Liabilities				
Deposit liabilities	P 450,329,794	P 450,329,794	P 348,160,346	P 348,160,346
Bills payable	150,000,000	150,000,000	247,000,000	247,000,000
Lease liabilities	977,966	977,966	2,658,558	2,658,558
Accrued interest and other liabilities	21,051,721	21,051,721	17,282,423	17,282,423
	P 622,359,481	P 622,359,481	P 615,101,327	P 615,101,327

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are as follows:

i. *Cash, Due from BSP and Due from other banks and Other Assets*

The carrying amounts approximate fair values given the short-term nature of the instruments.

ii. *Loans and other receivables and Financial assets at amortized cost*

Loans and other receivables and financial assets at amortized cost and are carried at amortized cost less allowance for impairment loss. The estimated fair value of loans and receivables and Financial assets at amortized cost represents the discounted amount of estimated future cash flows expected to be received. Long-term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

iii. *Deposit liabilities and Bills payable*

The estimated fair value of deposit liabilities and bills payable is estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being value, if any. The carrying amount of deposit liabilities and bills payable approximates fair value considering their short duration.

iv. Lease liabilities

The estimated fair values of lease liabilities are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those terms of underlying right-of-use assets being value. The carrying amount of lease liabilities approximates fair value.

v. Accrued interest and other liabilities

Accrued interest and other liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurements*, the fair value of financial assets and financial 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 Accounting Standard, 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 prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For financial assets and liabilities which do not have quoted market price, the fair value is determined by using generally accepted pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses the valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity-specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

There have been no significant transfers among Levels 1, 2 and 3 in the reporting periods.

As at December 31, 2024 and 2023, there were no financial assets and liabilities measured at fair value.

Fair Value Measurement for Non-financial Assets

There were no non-financial assets measured at fair value as at December 31, 2024 and 2023.

The fair value disclosed for the Bank's investment property, which mainly consist of condominium unit, is based on Level 2. The Level 2 fair value of condominium was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2 *(see Note 10)*.

27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table shows an analysis of assets and liabilities and analyzed them according to whether they are expected to be recovered or settled within one year and beyond one year from the reporting date.

As at December 31, the maturity profile of assets and liabilities follows:

	2024		
	Due Within One Year	Due Beyond One Year	Total
Assets:			
Cash	P 1,318,488	P -	P 1,318,488
Due from BSP	5,985,077	-	5,985,077
Due from other banks	109,146,829	-	109,146,829
Loans and discount receivables:			
Loans and discounts - gross	74,872,974	544,291,430	619,164,404
Accounts receivable	7,623,874	-	7,623,874
Accrued interest receivable	12,634,071	-	12,634,071
Financial assets at amortized cost	-	400,625	400,625
Bank premises, furniture, fixtures and equipment	-	14,968,219	14,968,219
Investment property	-	8,186,402	8,186,402
Right-of-use assets	-	347,081	347,081
Intangible assets	-	7,852,259	7,852,259
Deferred tax asset	-	21,812,323	21,812,323
Other assets	4,206,905	3,592,427	7,799,332
	P 215,788,218	**P 601,450,766**	**P 817,238,984**
Liabilities			
Deposit liabilities	P 203,032,500	P 247,297,294	P 450,329,794
Bills payable	150,000,000	-	150,000,000
Lease liabilities	872,024	105,942	977,966
Retirement benefit obligation	4,605,317	-	4,605,317
Accrued interest and other liabilities	23,937,571	1,673,339	25,610,910
	P 382,447,412	**P 249,076,575**	**P 631,523,987**

	2023		
	Due Within One Year	Due Beyond One Year	Total
Assets:			
Cash	P 1,053,480	P -	P 1,053,480
Due from BSP	6,704,153	-	6,704,153
Due from other banks	262,026,044	-	262,026,044
Loans and discount receivables:			
Loans and discounts - gross	66,882,956	362,351,958	429,234,914
Accounts receivable	8,221,647	-	8,221,647
Accrued interest receivable	8,698,609	-	8,698,609
Financial assets at amortized cost	-	584,639	584,639
Bank premises, furniture, fixtures and equipment	-	18,976,430	18,976,430
Investment property	-	2,653,959	2,653,959
Right-of-use assets	-	1,960,681	1,960,681
Intangible assets	-	9,249,151	9,249,151
Deferred tax asset	-	18,931,491	18,931,491
Other assets	3,419,545	2,773,820	6,193,365
	P 357,006,434	P 417,482,129	P 774,488,563
Liabilities			
Deposit liabilities	P 32,588,250	P 315,572,096	P 348,160,346
Bills payable	247,000,000	-	247,000,000
Lease liabilities	1,680,592	977,966	2,658,558
Retirement benefit obligation	-	1,343,210	1,343,210
Income tax payable	365,872	-	365,872
Accrued interest and other liabilities	15,386,535	5,180,537	20,567,072
	P 297,021,249	P 323,073,809	P 620,095,058

28. STATEMENTS OF CASH FLOWS

a. *Supplemental Information on Non-cash Investing and Financing Activities*

The Bank recognized right-of-use assets amounting to P347,081 and P1,960,681 as at December 31, 2024 and 2023, respectively, and lease liabilities amounting to P977,966 and P2,658,558 as at December 31, 2024 and 2023, respectively.

In 2024, the Bank acquired a certain condominium unit amounting to P6,435,000, in settlement of loans and receivables *(see Note 10)*.

b. *Reconciliation of Liabilities Arising from Financing Activities*

Presented below is the reconciliation of the Bank's liabilities arising from financing activities, which includes both cash and non-cash changes:

	Bills Payable *(see Note 16)*	Lease Liabilities *(see Note 11)*	Deposit for Stock Subscription *(see Note 21)*	Total
Balance ay January 1, 2024	P 247,000,000	P 2,658,558	P -	P 249,658,558
Cash flows from financing activities:				
Repayments of bills payable	(97,000,000)	-	-	(97,000,000)
Repayments of lease liabilities	-	(1,782,415)	-	(1,782,415)
Non-cash financing activities:				
Interest amortization on lease liabilities	-	101,823	-	101,823
Balance at December 31, 2024	P 150,000,000	P 977,966	P -	P 150,977,966
Balance ay January 1, 2023	P 100,000,000	P 3,377,879	P 74,939,894	P 178,317,773
Cash flows from financing activities:				
Proceeds from bills payable	147,000,000			147,000,000
Repayments of lease liabilities	-	(1,600,109)		(1,600,109)
Non-cash financing activities:				
Additions		734,994	-	734,994
Interest amortization on lease liabilities		145,794		145,794
Conversion to preferred shares			(74,939,894)	(74,939,894)
Balance at December 31, 2023	P 247,000,000	P 2,658,558	P -	P 249,658,558

29. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR NO. 1074

On February 7, 2020, the BSP issued Circular No. 1074 to amend certain provisions of the Manual of Regulations for Banks (MORB) and Manual of Regulations for Foreign Exchange Transactions (MORFXT). The Circular provides for new and amended disclosure requirements to the audited financial statements, which are to be presented either (i) on specific notes to the financial statements, or (ii) in a separate note containing supplementary information as required by the BSP.

This supplementary information is not a required disclosure under PFRS Accounting Standards. In compliance with the requirements set forth by Circular No. 1074, hereunder is the supplementary information:

a. Financial Performance Indicators

The following basic ratios measure the financial performance of the Bank:

	2024	2023
Return on average equity	**0.67%**	(1.52%)
Return on average assets	**0.11%**	(0.32%)
Net interest margin	**23.78%**	17.05%

The following formulas were used to compute the indicators:

i. Return on Average Equity (%) = $\frac{\text{Net Income (or Loss) After Income Tax x 100}}{\text{Average Total Capital Accounts}}$

Where:

Average Total Capital Accounts = $\frac{\text{Current calendar/fiscal year-end Total Capital Accounts balance + previous calendar/fiscal year-end Total Capital Accounts balance}}{2}$

ii. Return on Average Assets (%) = $\frac{\text{Net Income (or Loss) After Income Tax x 100}}{\text{Average Total Assets}}$

Where:

Average Total Assets = $\frac{\text{Current calendar/fiscal year-end Total Assets balance + previous calendar/fiscal year-end Total Assets balance}}{2}$

iii. Net Interest Margin (%) = $\frac{\text{Net Interest Income x 100}}{\text{Average Interest Earning Assets}}$

Where:

Net Interest Income = Total Interest Income – Total Interest Expense

Average Interest Earning Assets = $\frac{\text{Current calendar/fiscal year-end Total Interest Earnings Assets balance + previous calendar/fiscal year-end Total Interest Earning Assets balance}}{2}$

b. Capital Instruments

As at December 31, 2024 and 2023, the Bank has two classes of capital stock, which are common and preferred shares.

The details of capital stock and CAR are presented in Notes 21 and 25, respectively.

c. Significant Credit Exposures as to Industry/Economic Sector

The classification of loans as to industry and economic activity concentration follows:

	2024		2023	
	Amount	%	Amount	%
Activities of households as employers and undifferentiated goods-and services producing activities of households for own use	P 467,165,248	75.45	P 285,033,552	66.41
Wholesale and retail trade of motor vehicles, motorcycles	84,697,748	13.68	72,575,483	16.91
Real estate activities	18,240,877	2.95	31,832,931	7.42
Construction	9,877,333	1.60	9,788,253	2.28
Human health and social work activities	7,153,724	1.16	1,965,002	0.46
Manufacturing	6,625,003	1.07	5,945,137	1.39
Accommodation and food service activities	3,596,595	0.58	2,342,953	0.55
Agriculture, forestry and fishing	1,997,567	0.32	1,232,769	0.29
Education	1,599,966	0.26	1,031,814	0.24
Transportation and storage	1,342,665	0.22	2,569,899	0.60
Electricity, gas, steam and air, conditioning supply	1,242,905	0.20	571,010	0.13
Water supply, sewerage, waste management and remediation act	178,515	0.03		
Information and communication	145,700	0.02		
Financial and insurance activities	90,437	0.01	345,654	0.08
Other service activities	15,210,121	2.46	14,000,457	3.26
	P 619,164,404	100.00	P 429,234,914	100.00

The BSP considers the significant credit exposures when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. Significant credit exposures of the Bank were noted for Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use with 75.45% and 66.41% in 2024 and 2023, respectively.

d. Breakdown of Total Loans as to Security and Status

As to security, the composition of total loan portfolio (net of unamortized discount) is presented below:

	2024		2023	
	Amount	%	Amount	%
Secured				
Real estate mortgage	P 15,584,203	2.52	P 29,170,584	6.80
Other collateral	6,322,708	1.02	4,778,158	1.11
	21,906,911	3.54	33,948,742	7.91
Unsecured	597,257,493	96.46	395,286,172	92.09
	P 619,164,404	100.00	P 429,234,914	100.00

As at December 31, 2024 and 2023, the fair value of the collaterals of secured loans of the Bank amounts to P39,241,500 and P60,110,696, respectively. Estimates of fair value (for determining loanable amount) are based on the value of collateral assessed at the time of borrowing and generally not updated except when a loan is individually assessed as impaired.

The breakdown of loans and discounts (net of unamortized discount) by status is presented below:

	2024	2023
Current	P 529,990,874	P 375,554,200
Past due but not yet non-performing	28,341,825	35,553,385
Past due and already non-performing	56,831,705	14,127,329
Items in litigation	4,000,000	4,000,000
	P 619,164,404	P 429,234,914

	2024				
	Current	Past due but Not yet Non-performing	Past due and already Non-performing	Items in Litigation	Total
Agrarian reform/other agricultural loans	P 11,630,217	P 2,855,726	P 4,973,441	P 4,000,000	P 23,459,384
Loans to individuals for consumption	417,660,225	20,666,098	28,838,923	-	467,165,246
Microenterprise loans	2,265,833	214,321	261,607	-	2,741,761
Loans to individuals for housing purposes	14,217,945	-	2,606,002	-	16,823,947
Small scale enterprise	76,917,810	4,483,048	17,229,724	-	98,630,582
Loans to individual for other purposes	7,298,844	122,632	2,922,008	-	10,343,484
	P 529,990,874	P 28,341,825	P 56,831,705	P 4,000,000	P 619,164,404

	2023				
	Current	Past due but Not yet Non-performing	Past due and already Non-performing	Items in Litigation	Total
Agrarian reform/other agricultural loans	P 15,138,169	P 2,184,348	P 971,858	P 4,000,000	P 22,294,375
Loans to individuals for consumption	252,900,008	23,711,592	8,421,953	-	285,033,553
Microenterprise loans	1,586,978	-	-	-	1,586,978
Loans to individuals for housing purposes	28,802,538	399,942	1,867,567	-	31,070,047
Small scale enterprise	62,480,685	9,200,765	2,865,951	-	74,547,401
Loans to individual for other purposes	14,645,822	56,738	-	-	14,702,560
	P 375,554,200	P 35,553,385	P 14,127,329	P 4,000,000	P 429,234,914

An analysis of changes in the gross carrying amounts of loans as at December 31, 2024 and 2023 follows:

	2024			
	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2024	P 375,554,200	P 14,127,329	P 39,553,350	P 429,234,879
New assets originated	441,830,033	-	-	441,830,033
Assets derecognized or prepaid	(236,360,575)	-	(15,539,933)	(251,900,508)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(14,214,496)	14,214,496	-	-
Transfer to Stage 3	(36,818,288)	-	36,818,288	-
Balance as at December 31, 2024	P 529,990,874	P 28,341,825	P 60,831,705	P 619,164,404

	2023			
	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2023	P 205,661,585	P 36,436,515	P 13,276,631	P 255,374,731
New assets originated	345,120,000	-	-	345,120,000
Assets derecognized or prepaid	(171,259,817)	-	-	(171,259,817)
Transfer to Stage 1	22,309,186	(22,309,186)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(26,276,719)	-	26,276,719	-
Balance as at December 31, 2023	P 375,554,235	P 14,127,329	P 39,553,350	P 429,234,914

Per BSP's Manual of Regulations for Banks (MORB), 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 due date, in which case, the total outstanding balance thereof shall be considered as past due. However, the Bank may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. Provided, that any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays. Provided, further, that the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that the Bank shall regularly review the reasonableness of its cure period policy. For microenterprise and other small loans that feature high-frequency payments, the cure period allowable by the policy shall not exceed ten (10) days.

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

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

Restructured loans, which do not meet the requirements to be treated as performing loans, shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

As of December 31, 2024 and 2023, non-performing loans of the Bank amounted to P60,831,705 and P18,127,329, respectively, including loans in litigations amounting to P4,000,000 as at December 31, 2024 and 2023. The Bank does not have restructured loans in both years.

e. *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the Bank's total regulatory capital or 15% of total loan portfolio, whichever is lower.

On March 15, 2004, the BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts. Any violation of the provisions under Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availment of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until the said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10% of bank's net worth, the unsecured portion shall not exceed 5% of such net worth. Further, the total outstanding exposures shall not exceed 20% of the net worth of the lending bank. The said Circular became effective on February 15, 2007.

The Bank has no DOSRI loans subject to aforementioned ceilings in both years.

f. Aggregate Amount of Secured Liabilities and Assets Pledged as Security

The Bank did not have any secured liabilities or assets pledged as security as at December 31, 2024 and 2023, except for lease liabilities amounting to P977,966 and P2,658,558, respectively, which are secured by the underlying Right-of-use asset with a net carrying value of P347,081 and P1,960,681, respectively *(see Note 11)*.

g. Commitments and Contingent Liabilities

As at December 31, 2024 and 2023, the Bank has no commitments and contingent liabilities arising from off-balance sheet items. Relevant disclosures on commitments and contingencies liabilities are fully discussed in Note 23.

30. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in succeeding pages are the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS Accounting Standards.

Requirements under Revenue Regulations (RR) 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 issued on November 25, 2010 are as follows:

a. Gross Receipts Tax

In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the Tax Code and RA 9238.

GRT is levied on the Bank's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income (per RA 9337).

The Bank reported total gross receipts tax (GRT) amounting to P12,344,690 for the year ended December 2024. The GRT paid is presented as part of Taxes and licenses in the statements of comprehensive income.

b. Documentary Stamp Taxes

In general, the Bank's DST transactions arise from the execution of debt instruments, time deposits, and the issuance of new shares. DST pertaining to the Bank's loan releases are shouldered by its corresponding borrowers.

The Bank paid documentary stamp taxes (DST) amounting to P3,134,551 pertaining to the execution of the debt instrument.

c. *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2024 are shown below:

Expanded	P	2,731,131
Final		2,112,723
Compensation		1,738,359
	P	6,582,213

d. *Taxes and Licenses*

The details of taxes and licenses for the year ended December 31, 2024 are as follows:

Gross receipt taxes	P	12,344,690
Documentary stamp taxes		3,134,551
Manual licenses and permits		744,763
Real properties taxes		32,868
Annual registration fee		500
	P	16,257,372

e. *Value Added Tax, Excise Tax and Customs Duties and Tariff fees Paid*

The Bank is not subject to value-added tax (input and output) and excise tax due to the nature of its business. Moreover, the Bank did not pay any customs duties and tariff fees as it did not import any goods for the year ended December 31, 2024.

f. *Deficiency Tax Assessments and Tax Cases*

The Bank received a Letter of Authority dated September 12, 2024, from the Bureau of Internal Revenue (BIR) authorizing the examination of its books of accounts and other accounting records for all internal revenue taxes covering the period from January 1 to December 31, 2023. As at December 31, 2024, the said LOA has been settled.

Requirements under Revenue Regulations (RR) 34-2020

On December 18, 2020, the BIR issued RR 34-2020 which prescribes the guidelines and procedures for the submission of BIR Form No. 1709, *Transfer Pricing Documentation* (TPD) and other supporting documents. As at December 31, 2024, the Bank is not covered by the requirements and procedures for related party transactions provided under this RR.

WELCOME BANK (RURAL BANK), INC.
(Formerly Smart Bank (Rural Bank), Inc.)
SUPPLEMENTARY SCHEDULE OF EXTERNAL AUDITOR
FEE-RELATED INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
(Amounts in Philippine Peso)

	2024	2023
Total Audit Fees (Section 2.1a)	P 150,000	P 105,000
Non-audit services fees:		
Other assurance services	-	-
Tax services	-	-
All other services	-	-
Total Non-audit Fees (Section 2.1b)	-	-
Total Audit and Non-audit Fees	P 150,000	P 105,000

Audit and Non-audit Fees of Other Related Entities (Section 2.1c)

	2024	2023
Audit fees	P -	P -
Non-audit services fees:		
Other assurance services	-	-
Tax services	-	-
All other services	-	-
Total Audit and Non-audit Fees of Other Related Entities	P -	P -

CAPITAL STRUCTURE and CAPITAL ADEQUACY

As of December 31, 2024 and 2023, the Bank complied with the capital adequacy ratio (CAR) prescribed by the BSP. The adjusted capital-to-risk assets ratio of the Bank is shown in the table below:

	2024	2023 (As Restated)
Tier 1 Capital		
Common Stock	100,000,000	100,000,000
Accumulated other comprehensive loss	(635,284)	(635,284)
Deficit	(46,914,215)	(44,966,186)
Total comprehensive income (loss) for the year	851,427	(1,948,029)
CET 1	53,301,928	52,450,501
Adjustment to CET 1		
Less: Deferred tax asset, net of Deferred tax liability	(21,812,323)	(18,931,491)
Total CET 1 Capital	31,489,605	33,519,010
Additional Tier 1 (AT1) Capital		
Paid-up perpetual and cumulative preferred stock	74,939,894	74,939,894
Total Tier 1 Capital	106,429,499	108,458,904
Tier 2 Capital		
General Loan Loss Provision	5,634,455	3,937,000
Total Qualifying Capital	112,063,954	112,395,904
Credit Risk-weighted asset	733,283,704	711,852,864
Operational Risk-weighted asset	128,365,398	72,915,465
Risk-weighted assets	861,649,102	784,768,329
Capital Ratios		
Total Tier A capital expressed as percentage of total risk weighted assets	3.65%	4.27%
Total CET capital expressed as percentage of total risk weighted assets	12.35%	13.82%
Capital conservation buffer	(2.35%)	(1.73%)
Total regulatory capital expressed as percentage of total risk weighted assets	13.01%	14.23%

Risk-based Capital ADEQUACY RATIO

	2024	2023 (As Restated)
Total Qualifying Capital	112.064	112.396
Credit Risk-Weighted Assets		
Risk-Weighted Assets On – Balance Sheet Assets	733.284	711.853
Risk-Weighted Assets Off – Balance Sheet Assets	-	-
Total Credit Risk-Weighted Assets	733.284	711.853
Total Market Risk-Weighted Assets	-	-
Total Operational Risk-Weighted Assets	128.365	72.915
Net Risk-Weighted Assets	861.65	784.77
Risk-Based CAR	13.01%	14.32%

SPECIAL EVENTS

2024 Red Christmas Thanksgiving Party
























Team Building 2024



















Welcome Group Philippines Anniversary























