Welcome

Welcome Bank (Rural Bank), Inc.

ANNUAL REPORT

2025



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Ortigas, Pasig City, Metro Manila

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About Our Company

COMPANY PROFILE

Welcome Bank (Rural Bank), Inc. is a Philippine subsidiary of Welcome Financial Group and is duly regulated by the Bangko Sentral ng Pilipinas. Welcome Financial Group operates Korea's fourth-largest savings bank in terms of assets and has twelve (12) affiliated companies across various financial sectors, with total assets amounting to approximately USD 3.6 billion.

Backed by the strong liquidity and operational expertise of its parent company in Korea, Welcome Bank leverages extensive experience in banking and consumer finance to strengthen its operations in the Philippines. The Bank currently operates its Head Office in Ortigas Center, Pasig City, along with two (2) branches and six (6) branch-lite units.

BUSINESS TRANSITION

In May 2014, Welcome Finance, Inc. was established through a joint venture between Welcome Financial Group (Korea) and Flowtiger Ventures, Inc. to enter the Philippine financial market. Since then, the company has been engaged in providing consumer loans to salaried individuals and small business owners.

As part of its strategic expansion into banking operations, the two joint venture partners executed a Share Purchase Agreement in November 2018 for the acquisition of Smart Bank (Rural Bank), Inc.

The Bangko Sentral ng Pilipinas (BSP) approved the transfer of shares in August 2019, the relocation of the Bank's Head Office from Muntinlupa City to Pasig City in December 2019, and the change of corporate name to Welcome Bank (Rural Bank), Inc. in April 2020.

BUSINESS MODEL

Taking full use of the expertise gained in the Philippines financial industry since May 2014 through Welcome Finance, Inc., Welcome Bank (Rural Bank), Inc. operates as a rural banking institution focused on providing deposit-taking and lending services to individuals, salaried employees, entrepreneurs, Micro, Small, and Medium Enterprises (MSMEs), and local communities. Its business model centers on prudent financial management, relationship-driven banking, and sustainable growth through a balanced portfolio of deposit products and loan services.

The Bank's lending portfolio primarily caters to the following market segments:

1. **Small Business Owners** - through Business Loans and Premier Business Loans designed to support working capital and business expansion requirements;

2. **Salaried Customers** - through Salary Loans, Personal Loans, and Personal Happy Loans intended to address personal financing needs; and

3. **Secured Loan** - through Salary Loans, Personal Loans, and Personal Happy Loans intended to address personal financing needs; and

On the deposit side, the Bank offers competitive interest rates across various deposit products, including:

1. **Time Deposits** - targeted toward high-potential customers seeking higher interest earnings;

2. **Savings Deposits** - designed for the general public with competitive interest rate offerings; and

3. **Demand Deposits** - serving both individual and corporate customers, including arrangements facilitated through the Land Bank of the Philippines.

The Bank's business model is anchored on customer-focused financial solutions, prudent risk management, financial inclusion, and sustainable growth through the continuous enhancement of its lending, deposit, and digital banking services.

The Bank generates revenue primarily from lending activities, investment income, and other banking-related services, while maintaining sound risk management practices, regulatory compliance, and customer-focused operations.

OUR MARKET

Welcome Bank (Rural Bank), Inc. is committed to providing accessible, reliable, and customer-focused banking services that support financial inclusion, sustainable growth, and community development. Guided by its vision and mission, the Bank aims to build lasting relationships with its customers through responsible banking practices, innovative financial solutions, and excellent customer service while contributing to the economic progress of the communities it serves.

The Bank's brand is anchored on trust, accessibility, innovation, and community-centered banking. Welcome Bank differentiates itself from other banks through its personalized customer service, strong community presence, commitment to financial inclusion, and continuous adoption of digital banking solutions.

In line with its digital transformation efforts and fintech-ready initiatives, the Bank continues to strengthen and modernize its banking services and operations. These initiatives enable the Bank to serve more clients efficiently by providing convenient, seamless, and accessible banking services through digital platforms, allowing customers to conduct financial transactions safely and conveniently.

The Bank likewise promotes responsible and sustainable banking practices that are aligned with evolving customer needs, technological advancements and regulatory standards.



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 is adhering to the highest ethical standards in all personal and professional interactions.

2. Professional digitalization entails completing work precisely, efficiently, and effectively. Exceeded expectations by consistently enhancing goods and services, as well as systems and procedures, in order to achieve the greatest outcomes.

3. Financial Excellence Provider entails the capacity to please and delight our clients while also helping small savers to increase productivity and small borrowers to have better access to cash.

OUR PRODUCTS AND SERVICES

DEPOSIT PRODUCTS



Regular Savings

Deposit accounts that provide customers with a secure and convenient way to save funds while earning interest.



Checking Account

Deposit accounts designed for customers who require convenient access to funds through check issuance and regular business or personal transactions.



Time Deposit

Fixed-term deposit products that offer higher interest rates based on agreed maturity periods.

LOAN PRODUCTS



Personal Loan

A non-collateral loan facility designed for qualified credit card holders, offering competitive interest rates and higher loanable amounts to support personal financial needs such as emergencies, education, travel, home improvement, or other planned expenses.



Salary Loan

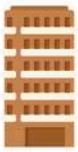
A non-collateral loan facility intended for salaried individuals who do not possess credit cards, providing accessible financing solutions for personal consumption, emergencies, and other legitimate financial requirements.



Business Loan

A non-collateral financing product intended for business owners and entrepreneurs, aimed at supporting working capital requirements, business expansion, inventory purchases, operational expenses, and other business-related financial needs.

LOAN PRODUCTS



Condo Loan

Convert your condominium equity into financial opportunity through our refinancing program.



Auto Loan

A collateral-based loan facility designed for clients intending to purchase pre-owned vehicles, wherein the financed vehicle serves as collateral subject to applicable loan evaluation and approval processes.



OFW LOAN

A non-collateral loan facility specifically designed for land-based Overseas Filipino Workers (OFWs), providing financial assistance for family support, personal investments, debt consolidation, and other lawful financial purposes.

Financial SUMMARY

AS OF DECEMBER 31, 2025

	2025	2024
PROFITABILITY (in Php)		
Net Interest Income	212,119	164,754
Non-Interest Income	30,637	26,258
Non-Interest Expenses	160,211	142,868
Profit before Tax and Provision	45,478	46,313
Income Tax	9,359	980
Provision for Credit and Impairment Losses	45,478	46,312
Net Income	27,709	851
BALANCE SHEET DATA (in Php)		
Liquid Assets	163,462	116,851
Gross Loans	709,079	581,943
Total Assets	928,461	759,766
Deposits	586,654	450,330
Total Equity	155,832	128,242
SELECTED RATIOS		
Tier 1 Capital		
Common Stock	100,000	100,000
Accumulated other comprehensive loss	(754)	(635)
Deficit	(46,063)	(46,914)
Total comprehensive income (loss) for the year	27,590	851
	80,892	53,302
Adjustment to CET 1		
Less: Deferred tax asset, net of Deferred tax liability	(19,649)	(21,812)
Total CET 1 Capital	61,243	31,490
Additional Tier 1 (AT1) Capital		
Paid-up perpetual and cumulative preferred stock	74,940	74,490
Total Tier 1 Capital	136,183	106,429
Tier 2 Capital		
General Loan Loss Provision	2,258	5,634
Total Qualifying Capital	138,442	112,064
Credit Risk-weighted asset	901,560	733,284
Operational Risk-weighted asset	199,582	128,365
Risk-weighted assets	1,101,142	861,649
Capital Ratios		
Total Tier A Capital expressed as percentage of total risk weighted assets	5.56%	3.65%
Total CET Capital expressed as percentage of total risk weighted assets	12.37%	12.35%
Capital conservation buffer	(0.44%)	(2.35%)
Total Regulatory Capital expressed as percentage of total risk weighted assets	12.57%	13.01%

Financial HIGHLIGHTS

DECEMBER 31, 2025 vs DECEMBER 31, 2024

	DECEMBER 2025	DECEMBER 2024	Increase / (Decrease)
Interest Income	251,406,907.00	207,948,531.00	43,458,376.00
Interest Expenses	39,287,619.00	43,193,991.00	(3,906,372.00)
Other Income	30,637,758.00	26,257,707.00	4,380,051.00
Gross Income	282,044,665.00	234,206,238.00	47,838,427.00
Operational Expenses	160,211,564.00	142,868,180.00	17,343,384.00

	DECEMBER 2025	DECEMBER 2024	Increase / (Decrease)
Total Assets	928,461,491.00	759,765,809.00	168,695,682.00
Due from Other Banks	156,295,611.00	109,146,829.00	47,148,782.00
Loans & Receivables	709,079,623.00	581,943,302.00	127,136,321.00
Deposit Liabilities	586,654,077.00	450,329,794.00	136,324,283.00
Total Liabilities	772,629,046.00	631,523,987.00	141,105,059.00
Total Equity	155,832,445.00	128,241,822.00	27,590,623.00

President's REPORT



The inflationary pressure, which negatively impacted the Philippine economy in previous years, continued to stabilize throughout 2025. This favourable circumstance allowed the BSP to pivot its monetary policy, **bringing the policy interest rate down to 4.5% by the end of 2025**, after reaching a peak of 6.45% during the year. Despite these monetary adjustments, the Philippine economy recorded a GDP growth of **4.4% in 2025**, which fell short of the government's 6.5% target.

Similar to our approach in 2024, Welcome Bank continued to place significant weight on **risk management** with the aim of sustaining the soundness of our loan portfolio. In consideration of potential downward economic risks, the Bank maintained a cautious yet steady strategy toward asset build-up. As a result, the loan volume disbursed in 2025 reached **Php611.2 million**, representing an **89.8% achievement** of our Php680.0 million target. Notably, this reflects a healthy **11.5% growth** compared to the Php548.3 million booked in 2025.

A key highlight of our 2025 performance is the ongoing optimization of our product mix. The ratio of **Personal Loans**—our most resilient product in terms of overdue management—**increased to 50.9%** of the total loan volume, up from 44.4% a year ago. While the ratio of secured loans remained modest at 2.3%, we continue to refine our operational strategy for this segment to ensure future growth.

Regarding asset quality, the overdue of loan assets was managed effectively through our conservative and strict credit approval process. The Bank met its challenging target by keeping the **average monthly net increase of overdue over 10-day at exactly 0.55%** in 2025, demonstrating our unwavering commitment to maintaining a high-quality portfolio. At the end of 2025, the **loan outstanding of the Company reached Php709.1 million**, a **21.9% surge** from Php581.9 million at the end of 2024.

On the funding side, the Bank successfully expanded its deposit base to reduce reliance on external debt and lower interest expenses. The **deposit outstanding at the end of 2025 rose to Php586.7 million**, compared to Php450.3 million in 2024, representing a robust growth of **30.3%**. In line with our strategy to strengthen financial independence, the Bank has decided to progressively reduce its external borrowings. Moving forward, we plan to **repay Php50 million of debt in 2026 and an additional Php50 million in 2027**, ensuring a leaner and more stable capital structure.

Financial Performance of Welcome Bank for the Year 2025

- **Total Assets**: Increased significantly from PhP759.8 million to **PhP928.5 million** at the end of 2025, primarily driven by the steady expansion of loan receivables.
- **Total Liabilities**: Stood at **PhP772.6 million**, as we balanced our deposit growth with proactive debt management.
- **Total Equity**: Strengthened to **PhP155.8 million** by the end of 2025.
- **Interest Income**: Grew to PhP251.4 million (from PhP207.9 million in 2024), while **Net Interest Income** after interest expenses rose to **PhP212.1 million**.
- **Net Income**: Most notably, net income after tax surged to **PhP27.6 million**. This represents a monumental increase from the PhP851 thousand posted in 2024, signaling that Welcome Bank has successfully entered a phase of robust and sustainable profitability.

In the coming years, our business target remains the constant and healthy growth of our loan assets. This goal will be underpinned by our ability to maintain the increasing trend of deposit outstanding as our primary funding source.

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

Together, we look forward to standing in an even stronger position as we achieve our balanced goals in 2026 and beyond.



SUK SUB SHIM
President & CEO

Risk Management FRAMEWORK

The Bank recognizes that operational risk is inherent in its day-to-day operations, including lending activities, deposit-taking functions, customer service, information technology, and administrative processes. Operational risk pertains to the risk of loss arising from inadequate or failed internal processes, people, systems, or from external events.

Considering the nature, size, and complexity of its operations, the Bank adopts a practical and proportionate operational risk management framework designed to identify, assess, monitor, and control operational risks. The framework aims to protect the Bank's assets, preserve its reputation, and ensure compliance with applicable laws, rules, and regulations.

RISK APPETITE AND STRATEGY

Considering that the loan market for low-risk premium customers is already highly saturated and largely dominated by major commercial banks, the Bank's strategic focus is directed toward serving medium-risk customers, thereby supporting the broader objective of financial inclusion. In line with this strategy, the Bank adopts a more flexible risk appetite that accommodates a wider range of customer credit profiles compared to traditional commercial banks. Recognizing that medium-risk customers inherently carry a higher probability of delinquency, the Bank applies risk-based pricing by charging relatively higher interest rates to adequately cover the expected loan loss provisions associated with such exposures.

As the Bank continues to accumulate sufficient historical data and strengthen its credit analytics capabilities, it expects to further enhance its ability to assess the relationship between credit risk and loan yield. This will enable the Bank to establish more refined and appropriate pricing structures tailored to the different risk profiles of its customers.

BANK-WIDE GOVERNANCE STRUCTURE AND RISK MANAGEMENT PROCESS

The Board of Directors exercises overall oversight responsibility for the Bank's operational risk management framework and ensures that appropriate policies and controls are in place. Senior Management is responsible for the implementation of operational risk management processes, maintenance of effective internal controls, and monitoring of operational risk exposures within approved risk tolerance levels. The Bank's business units and branches serve as the first line of defense and are responsible for managing risks arising from their day-to-day operations. All employees are expected to perform their duties in accordance with established policies, procedures, and internal controls, and are accountable for managing operational risks within their respective functions.

The Bank adopts a continuous risk management process that includes risk identification, assessment, monitoring, control, and reporting. Key risks monitored by the Bank include credit risk, liquidity risk, operational risk, compliance risk, and information technology risk.

Risk reports are submitted to Management and the Board and include information on loan portfolio quality, liquidity position, operational incidents, compliance matters, and other significant risk exposures.

Anti-Money Laundering Governance, Culture and Terrorist Financing Risk Management Framework

Welcome Bank is committed to maintaining a strong Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) governance culture and to preventing the use of the Bank for money laundering (ML), terrorism financing (TF), and other unlawful activities. The Bank upholds high standards of integrity, ethical conduct, and regulatory compliance in all its business activities and operations.

The Board of Directors provides overall oversight of the Bank's AML/CTF compliance program and ensures that appropriate policies, systems, and controls are established in accordance with applicable laws, rules, regulations, and regulatory expectations. Senior Management is responsible for implementing the Bank's AML/CTF policies and procedures and for promoting a culture of compliance and risk awareness across all levels of the organization.

The Bank has adopted a risk-based ML/TF risk management framework designed to identify, assess, monitor, and mitigate money laundering and terrorism financing risks associated with its customers, products and services, delivery channels, transactions, and geographic exposure. The framework includes customer due diligence procedures, customer acceptance policies, transaction monitoring processes, reporting of suspicious transactions and covered transactions, record-keeping practices, employee training programs, and independent compliance testing.

The Compliance Officer, together with the Compliance Unit, is responsible for overseeing the implementation and effectiveness of the Bank's AML/CTF compliance program and ensuring timely reporting to the Anti-Money Laundering Council (AMLC) and other regulatory authorities, as required.
All directors, officers, and employees are expected to adhere strictly to the Bank's AML/CTF policies and procedures and to actively support the Bank's efforts to detect, prevent, and report suspicious activities. The Bank continuously reviews and enhances its AML/CTF controls to ensure that they remain appropriate to the nature, size, and complexity of its operations and responsive to emerging ML/TF risks.

Corporate GOVERNANCE



Welcome Bank is committed to upholding the principles of good corporate governance, anchored on fairness, accountability, transparency, and integrity in all its dealings. The Bank continuously strives to maintain the highest standards of ethical conduct and organizational efficiency in the pursuit of sustainable growth and long-term value creation.

The Bank adopts a transparent selection process for members of the Board of Directors and Senior Management to ensure that only qualified individuals possessing integrity, competence, experience, and sound judgment are appointed. The assessment includes a review of the individual's educational background, professional experience, leadership capabilities, integrity, reputation, and regulatory qualifications, consistent with the Bank's fit and proper standards and applicable regulatory requirements.
The selection process also considers the candidate's ability to contribute to the effective oversight and strategic direction of the Bank, including diversity of skills, expertise, and perspectives relevant to the Bank's operations and risk profile. Background verification, reference checks, and validation of qualifications are likewise conducted as part of the due diligence process. Appointments are subject to approval by the Board of Directors and, where applicable, confirmation or clearance by the relevant regulatory authorities.

The Board of Directors serves as the highest governing body and primarily responsible for setting the Bank's strategic direction, risk appetite, corporate values, and overall governance standards. The Board ensures that effective oversight mechanisms, internal controls, risk management systems, and compliance functions are in place to safeguard the interests of stakeholders and promote the Bank's long-term sustainability.

To support the effective discharge of its responsibilities, the Board is assisted by Boar-level committees operating under approved charters and mandates.

Senior Management is responsible for implementing the strategic objectives and policies approved by the Board and for managing the day-to-day operations of the Bank in a sound and prudent manner. The Bank likewise maintains policies and procedures that foster ethical conduct, regulatory compliance, effective risk governance, and continuous performance monitoring across all levels of the organization.

The Chairman of the Board is responsible for ensuring the effective functioning of the Board and fostering an environment that encourages constructive discussions, independent perspectives, and sound decision-making. The Chairman promotes open and transparent communication among Board members and ensures that all views and opinions are duly considered in the decision-making process.

The Chairman likewise helps ensure that the Board maintains effective oversight of the Bank's risk management systems, internal controls, compliance framework, and overall performance. Through active leadership and stewardship, the Chairman contributes significantly to strengthening the Bank's governance framework and sustaining stakeholder confidence.

Member of the BOARD OF DIRECTORS



SUELKI KANG
Chairman of the Board

He joined Welcome F&D Co., Ltd. as Team Head in October 2021. Prior to this, he served as Sr. Manager of Ernst & Young Korea from January 2009 to September 2021.

He earned his Bachelor's Degree in Business Administration from Yonsei University in February 2009.

He held a Directorship at Welcome Bank (Rural Bank), Inc. beginning January 2024. He is a Korean national.



SUK SUB SHIM
President and Executive Director

From December 2015 to August 2019, he has served as President of Welcome Finance, Inc. Upon his resignation from the said position, he was elected as President and Director of Welcome Bank (Rural Bank), Inc. in 2019.

He obtained his Bachelor's Degree in Economics & Business Administration from Seoul National University in February 1985 and completed his Master's Degree in Business Administration from the University of Washington in 1996. He has extensive experience in banking, finance and leasing industries having worked in various capacities since January 1985. He has approximately fourteen (14) years of experience in the leasing and financing sector, where he served as Finance Manager at Korea Development Leasing Corporation. He also held key leadership positions in several companies, including serving as Country Manager for Medical Equipment Credit from 2001 to 2003 and De Lage Landen in Korea from 2004-2006. He likewise served as Treasurer of Renault Samsung Motors Co., Ltd. from 2003-2004.

He also holds a directorship with Welcome Finance Inc., contributing his extensive expertise in finance and strategic management across multiple institutions.

He likewise contributed to the strategic leadership and governance of Welcome Bank (Rural Bank), Inc. over a six-year period as President and Director.



KYOCHAN AN
Executive Director

From 2007-2021, he worked with Welcome Financial Group, where he progressed through various roles from Associate to Branch Manager, Loan Center Manager, Call Center Manager, General Manager, and eventually to Senior Manager within Welcome Creditline Corp. and Welcome Savings Bank, demonstrating progressive leadership and extensive operational experience. He was also appointed as Director of Welcome Leasing Lao Co., Ltd. from 2018-2020.

He obtained his Bachelor's Degree in Conservation Cultural Property from Yong-In University in 2004.

Member of the Board of Directors of Welcome Bank (Rural Bank), Inc. for over four (4) years.



JOB ADRIAN MESINA AMBROSIO
Director

From June 2006 to May 2014, he served as Partner of PJS Law Firm, where he gained extensive experience in legal practice and corporate advisory work. He is the President and Managing Director of Flowtiger Ventures, Inc. since October 2013.

He obtained his Bachelor's Degree in Economics from Ateneo de Manila University in 1994 and earned his Master's Degree from the Ateneo de Manila Law School in 1998.

He has held a Board position at Welcome Bank (Rural Bank), Inc. for six (6) consecutive years, contributing to the Bank's governance and strategic direction. Filipino national.



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 substantial experience and expertise in the field of law.

He earned his Bachelor's Degree in Psychology from Ateneo de Manila University in 1996 and obtained his Master's Degree in Law from the Ateneo de Manila Law School 2000.

He has been actively serving as an Independent Director of Welcome Bank (Rural Bank), Inc. for over six (6) years, contributing significantly to the Bank's governance, oversight functions and strategic direction.

Director's Attendance on Board and Committee Meetings



Suelki Kang 85%



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 who steer the Bank's Strategic Direction, the Board has established committees that provide focus and in-depth oversight of 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 and deliberating on significant issues, findings and corresponding resolutions identified during the conduct of audit activities. The Committee ensures that the audit processes are effectively carried out in accordance with established policies, regulatory requirements, and sound corporate governance practices. Significant audit issues and the corresponding recommendations of the Audit and Compliance Committee are reported to the Board on a quarterly basis for appropriate action and oversight. The management is responsible for implementing the corrective measures and action plans recommended by the Audit and Compliance Committee to strengthen internal controls, enhance corporate governance practices, and improve the Bank's overall financial performance and operational efficiency. The Audit and Compliance Committee is composed of three (3) members.



Edward Relucio
Chairman



Suelki Kang
Member



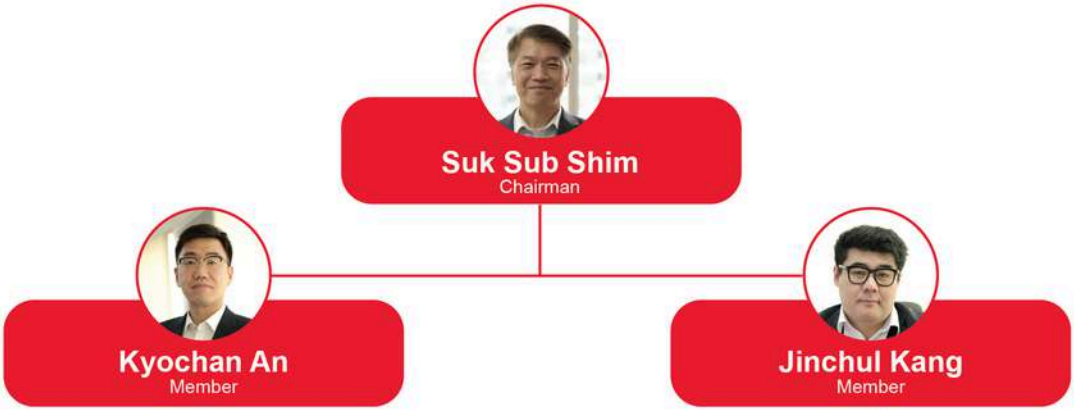
Job Adrian Ambrosio
Member

Executive Committee (EXCOM)

The Executive Committee is appointed by the Board of Directors to assist in overseeing the day-to-day operations of the Bank and in implementing its business plan and strategic objectives. The Committee is delegated the authority and responsibility to manage the Bank's operations in accordance with the policies and directions approved by the Board. The Executive Committee ensures that matters relating to the Bank's strategic direction, operational performance and management concerns receive timely and focused attention at the executive level. It likewise promotes a coordinated and efficient decision-making process to support the effective execution of the Bank's business strategies and operational objectives.

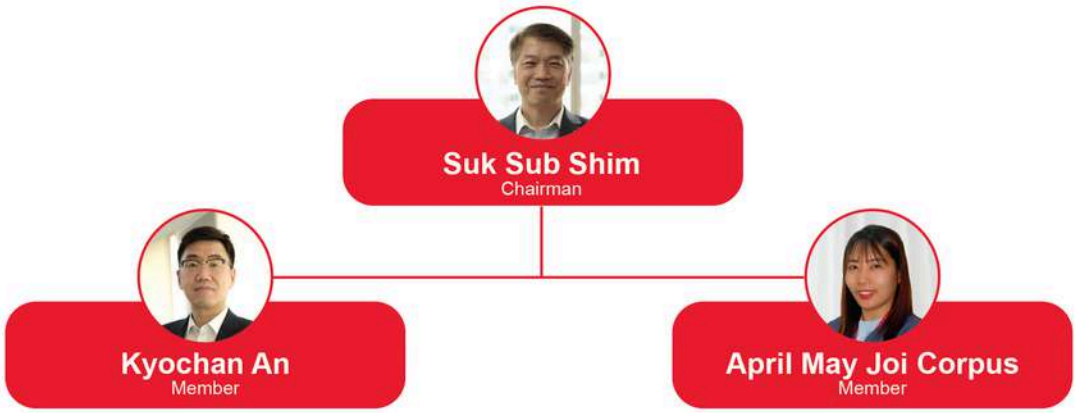
In addition, the Executive Committee is responsible for ensuring that the Bank's operations are conducted in compliance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP) and other applicable regulatory and governing authorities.

The Executive Committee is composed of three (3) executive officers, the President and two (2) Division Heads who are at the helm of the Bank's operations.



Credit Committee (CRECOM)

The primary responsibility of the Credit Committee is to oversee and monitor the Bank's exposure to credit risk, market risk and to provide appropriate guidance and recommendations in addressing identified and potential risks. The Credit Committee is likewise responsible for reviewing and approving loan transactions. The Credit Committee is composed of three (3) members.



Management Committee (ManCom)

The primary functions of the Management Committee (ManCom) are to initiate, develop, review, and update the Bank's systems, operating procedures, and operating manuals for endorsement to the Executive Committee (ExCom) and confirmation by the Board of Directors. The Committee likewise reviews and concurs with proposals relating to reports, forms, systems, and methods originating from various units and sources within the organization.

In addition, the Management Committee is responsible for monitoring and evaluating the implementation of the Bank's strategic plans by reviewing the actual performance of each department and team against approved objectives and targets.

The Management Committee is composed of the Bank's managers and team leaders who work collaboratively to ensure that the Bank's initiatives, actions, and operational efforts remain coordinated, efficient, market-driven, and customer-focused.

KEY OFFICERS



SUK SUB SHIM
President



JINCHUL KANG
Treasurer



JULIET ESPERANZA
Internal Audit and concurrent Chief Compliance Officer



ATTY. RIA CAMILLE SANCHEZ
Corporate Secretary

DEPARTMENT HEADS



CHERRY ALCANTARA
Human Resources and Development Department



AIZA RAMOS
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

TEAM LEADS



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

Branch Managers & Branch-lite Unit Heads



KATHERINE MAGSANAY
Head Office Branch



SHERYL PELAGIO
Alabang Branch



MARICAR EMATA
Davao Branch-lite Unit



JOHNRY S. GUINA
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



LOU GIUSEPPE PATIGAS
Cebu Branch-lite Unit

PERFORMANCE ASSESSMENT PROGRAM

The Board of Directors and Senior Management of Welcome Bank are subject to an annual performance assessment process based on established performance standards aligned with the Bank's strategic objectives, governance framework, and regulatory requirements.



The performance of the Board is evaluated collectively and individually based on factors such as strategic oversight, corporate governance, risk management, policy direction, attendance, and participation in meetings.

Senior Management performance is assessed using approved key performance indicators (KPIs) and measurable targets covering financial performance, operational efficiency, risk management, compliance, and implementation of strategic initiatives.

Assessment results are reviewed and are used to identify areas for improvement, training, and overall enhancement of governance and management effectiveness.

ORIENTATION AND EDUCATION PROGRAM



Welcome Bank provides orientation and continuing education program for its Directors and Senior Management to ensure that they continuously possess the necessary qualifications, knowledge, and competencies in the discharge of their duties and responsibilities.

New Directors and Senior Officers undergo an orientation program covering the Bank's business operations, corporate governance policies, risk management framework, compliance system and relevant rules and regulations of the Bangko Sentral ng Pilipinas.

Directors and Senior Management are also encouraged to attend in-house and external training programs, seminars, and workshops on areas such as corporate governance, risk management, compliance, anti-money laundering, cybersecurity, and emerging banking regulations conducted by the Bangko Sentral ng Pilipinas, banking associations, and accredited training institutions.

The Bank ensures continuous professional development through the regular participation in training programs relevant to the banking industry and regulatory environment.

RETIREMENT AND SUCCESSION PLANNING



Welcome Bank adopts a Retirement and Succession Policy to ensure continuity of leadership, effective governance, and orderly transition of responsibilities within the Bank.

The Bank's retirement age for members of the Board of Directors and Senior Management is set at sixty-five (65) years old, unless otherwise approved by the Board and allowed under applicable laws and regulations. Members of the Board are elected annually by the stockholders and may serve for such period as provided under the Bank's By-Laws and applicable regulatory requirements. Independent Directors shall observe the term limits prescribed under existing regulations of the Bangko Sentral ng Pilipinas.

The Bank maintains a succession planning process to identify and develop qualified individuals who may assume key leadership and management positions when necessary. Succession planning considers competence, experience, leadership capability, integrity, and regulatory qualifications to ensure continued stability and effective management of the Bank.

REMUNERATION POLICY



The Bank adopts a remuneration policy designed to attract, retain, and motivate qualified and competent members of the Board while ensuring that compensation practices are aligned with the Bank's strategic objectives, long-term interests, and sound corporate governance principles.

Executive and Non-Executive Directors receive compensation in the form of per diem, allowances, and other benefits as may be approved by the Board and stockholders, subject to applicable laws, rules, and regulations. The remuneration structure takes into consideration the Director's responsibilities, level of participation, attendance in Board and committee meetings, experience, and contribution to the Bank.
The Bank ensures that remuneration arrangements do not encourage excessive risk-taking and remain consistent with prudent risk management practices.

The remuneration of Senior Managers and Team Leaders is reviewed annually and determined based on a combination of factors, including performance evaluation results, prevailing market salary trends, internal equity, current compensation levels, and the overall financial performance of the Bank. Compensation is aligned with established performance standards, scope of responsibilities, individual qualifications and experience, market conditions, and the achievement of financial, operational and strategic objectives.

The remuneration package may include salaries, allowances, bonuses, and other incentives aligned with the Bank's performance, risk management framework, and long-term business objectives. The Bank likewise ensures that compensation practices are fair, reasonable, and compliant with applicable regulatory requirements.

RELATED PARTY TRANSACTIONS



The Bank adopts an overarching Related Party Transactions (RPT) Policy to ensure that all transactions with related parties are conducted in a fair, transparent, arm's length, and prudent manner, and in compliance with applicable laws, rules, and regulations.

The policy establishes guidelines for the identification, review, approval, monitoring, and reporting of RPTs, including mechanisms for managing actual or potential conflicts of interest. Directors, officers, and employees are required to disclose any material interest in transactions involving the Bank. Related parties with conflicts of interest are required to abstain from participating in the discussion and approval process of the transaction concerned.

Board of Directors exercises overall oversight of the Bank's RPT Framework, the CreCom/ExCom is responsible for reviewing material related party transactions and ensuring that such transactions are not undertaken on more favorable terms than similar transactions with non-related parties under comparable circumstances. The concerned business units are responsible for the proper identification and disclosure of RPTs, subject to review and approval in accordance with the Bank's established approval hierarchy and internal controls.

SELF-ASSESSMENT FUNCTIONS



Welcome Bank maintains independent Internal Audit and Compliance functions to support sound corporate governance, effective risk management, and compliance with applicable laws, rules, and regulations.

The Internal Audit function is headed by the Internal Audit Head (IAH), who reports functionally to the Board of Directors through the Audit Committee. The Internal Audit Department is responsible for conducting independent and objective assessments of the adequacy and effectiveness of the Bank's internal controls, risk management systems, governance processes, and operational procedures. It also evaluates compliance with internal policies and regulatory requirements, detects control weaknesses and irregularities, and recommends appropriate corrective actions and process improvements.

The Bank's Compliance Office is headed by a duly appointed and Bangko Sentral ng Pilipinas-confirmed Chief Compliance Officer (CCO) serving in a concurrent capacity. The Compliance Office is responsible for monitoring and ensuring the Bank's adherence to applicable laws, rules, regulations, and internal policies. It is also tasked with overseeing the timely submission of regulatory reports and ensuring that compliance-related issues are properly addressed.

The Internal Audit and Compliance functions maintain direct access to the Board of Directors and appropriate Board Committees to ensure independence and effective reporting of significant audit findings, compliance issues, and corrective actions.

The Board of Directors, through the Audit and Compliance Committee and Senior Management, regularly reviews the adequacy and effectiveness of the Bank's internal control system to ensure sound operations, reliable financial reporting, safeguarding of assets, and compliance with applicable laws and regulations.

The review process includes the evaluation of internal audit reports, compliance monitoring results, risk assessments, regulatory examination findings, and the status of corrective actions undertaken by Management. Significant findings and recommendations are discussed during Board and committee meetings to ensure that identified weaknesses are promptly addressed. Periodic audits, compliance reviews, and management reporting mechanisms are likewise conducted to support the continuous improvement of the Bank's internal control environment.

DIVIDENDS POLICY

Welcome Bank declares and pays dividends out of its unrestricted retained earnings, which may be in the form of cash, property, or stock dividends to stockholders in accordance with the Bank's Articles of Incorporation and By-Laws, and on the basis of the par value of shares. Dividend declaration shall be made as often and at such times as may be determined by the Board of Directors, and shall be subject to ratification by the stockholders in a duly convened stockholders' meeting, in compliance with applicable laws, rules, and regulations.



Pursuant to Section 57 of Republic Act No. 8791, the Bank shall not declare dividends in excess of its accumulated net profits on hand, after deducting losses and bad debts. The Bank shall likewise refrain from declaring dividends if, at the time of declaration, it is not in compliance with the dividend declaration requirements under Section 124 of the Bangko Sentral ng Pilipinas Manual of Regulations for Banks.

The Board of Directors retains the authority to withhold sufficient earnings as working capital to ensure compliance with minimum capitalization requirements, risk-based capital ratios, and other regulatory standards, as well as to support projected future investments and funding requirements necessary for the prudent conduct of the Bank's operations.
Upon dividend distribution, the Bank shall ensure compliance with all applicable tax laws, including the proper reporting, withholding, and remittance of taxes, and the securing of necessary tax certificates, receipts, and clearances from relevant tax authorities and government agencies, as may be required under prevailing laws and regulations.

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES



Welcome Bank (Rural Bank), Inc. remains committed to contributing to community development and promoting financial inclusion as part of its Corporate Social Responsibility (CSR) initiatives

During the year, the Bank undertook Corporate Social Responsibility focused on financial literacy, community support and employee volunteerism. These included financial education with the Archdiocesan Shrine of Nuestra Señora De Guia (Ermita Church) in collaboration with **Child Hope Philippines** to promote responsible savings, budgeting, and prudent use of financial services. The Bank alsoparticipated in outreach activities aimed at supporting underprevileged children and addressing the needs of local communities.

By reaching out to support vulnerable children, we aim to bring hope and encouragement to young lives, helping to create opportunities for their growth and development. This initiative embodies the core principles of compassion, unity, and shared purpose that are at the heart of the Welcome Bank family. It serves as a meaningful way for our organization to give back to the community that sustains us and to demonstrate our commitment to making a positive difference beyond financial services.

As part of this continuing initiative, Welcome Bank (Rural Bank), Inc. responsibly manages the disposal of electronic waste materials, including computers, monitors, and wiring, thereby strengthening its environmental sustainability and stewardship practices. This ongoing commitment to responsible waste management and environmentally sustainable operations is carried out in partnership with Edispo, a purpose-driven startup specializing in hazardous waste management solutions. Through this partnership, Edispo provides consultancy and coordination services by assisting the Bank in identifying and engaging Department of Environment and Natural Resources (DENR)-accredited service providers for the proper transport, treatment, and disposal of hazardous waste materials.

Innovation. Inclusion. Connecting Solutions.

Welcome Bank (Rural Bank), Inc. likewise maintains an ongoing partnership with The Plastic Flamingo, also known as "The Plaf," as part of the Bank's continuing Corporate Social Responsibility (CSR) and environmental sustainability initiatives.



The Plastic Flamingo is a socio-enterprise organization that advocates for the reduction of marine plastic pollution through responsible plastic waste recovery and recycling initiatives. Through this partnership, the Bank aims to contribute to environmental preservation efforts by helping reduce plastic waste and preventing additional plastic pollution from reaching the oceans.

Through active employee engagement and participation in the program, the Bank continues to promote environmental awareness within its operations while supporting the implementation of Environmental, Social, and Governance (ESG) practices. This initiative reflects the Bank's commitment to conducting its business operations in a more responsible, sustainable, and environmentally conscious manner.

Going forward, the Bank intends to strengthen its CSR initiatives through expanded financial inclusion programs, continued financial literacy campaigns, and closer collaboration with community organizations and local government units to support sustainable development efforts.

SUSTAINABLE FINANCE FRAMEWORK

Welcome Bank recognizes the importance of sustainability and responsible banking practices in supporting long-term business growth, sound risk management, and positive social and environmental impact. The Bank's sustainability strategic objectives include promoting financial inclusion, supporting responsible lending practices, strengthening environmental and social governance (ESG) initiatives, enhancing operational resilience, and integrating sustainability considerations into its business operations and decision-making processes.



In pursuing these objectives, the Bank seeks to balance growth opportunities with prudent risk management practices. The Bank maintains a conservative risk appetite and ensures that sustainability-related risks, including environmental, social, operational, reputational, and compliance risks, are identified, assessed, monitored, and managed within acceptable levels. The Board of Directors and Senior Management oversee the implementation of the Bank's sustainability initiatives and ensure that sustainability objectives remain aligned with the Bank's strategic direction, regulatory expectations, and long-term interests of stakeholders.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

The Bank adopts an Environmental and Social Risk Management System (ESRMS) to identify, assess, monitor, and manage potential environmental and social risks associated with its operations, lending activities, and business relationships.



The Bank's E&S risk management framework is designed to ensure that business activities and financing decisions are conducted in a responsible and sustainable manner, while complying with applicable laws, regulations, and regulatory expectations.

As part of the ESRMS, the Bank incorporates environmental and social considerations into its credit evaluation and due diligence processes, particularly for borrowers and projects that may pose significant environmental or social impacts. The assessment includes, among others, compliance with environmental laws and regulations, occupational health and safety practices, community impact, and reputational risks.

The Board of Directors and Senior Management provide oversight on the implementation of the Bank's E&S risk management policies and procedures. Relevant business units and risk management personnel are responsible for the day-to-day implementation, monitoring, and reporting of E&S risk-related matters.

The Bank continuously evaluates opportunities to align its products, services, and operational practices with recognized sustainability principles and applicable regulatory guidelines. These initiatives include supporting environmentally responsible activities, promoting digital banking solutions to improve operational efficiency and reduce paper consumption, and participating in environmental and community development programs.

At present, Welcome Bank maintains investments in sustainability bonds in the form of Agrarian Reform Bonds issued through the Land Bank of the Philippines. These instruments support government agrarian reform programs aimed at promoting rural development, social equity, and financial inclusion in the agricultural sector.

The Bank likewise remains open to exploring additional sustainable finance opportunities and initiatives that support environmental and social objectives, consistent with its strategic direction, prevailing regulatory expectations, and market conditions.

Welcome Bank manages Environmental and Social (E&S) risks across its credit and investment portfolio, with exposures primarily concentrated in Medium Enterprises and Consumer and Retail Lending. Medium Enterprise exposures relate to local businesses engaged in trade, services, and small-scale production, with associated risks linked to operational resilience and community impact. Consumer and retail lending exposures involve individual borrowers, with limited environmental risk but potential social risks related to financial inclusion and responsible lending practices.

The Bank recognizes that E&S risks may have both financial and non-financial impacts on its operations. Social, regulatory, and reputational risks are emerging due to evolving expectations on consumer protection, data privacy, and sustainability practices. These risks are managed through the Bank's credit evaluation processes, ongoing monitoring, and compliance systems.

Welcome Bank continues to align its sustainability initiatives with internationally recognized standards and frameworks, including responsible banking and sustainable finance principles. These initiatives reflect the Bank's commitment to responsible banking, sustainable development, and alignment with evolving international sustainability expectations.

EMPLOYEE HEALTH AND WELL-BEING

Welcome Bank (Rural Bank), Inc. recognizes employee health and well-being as a key component of its Environmental, Social, and Governance (ESG) framework, specifically under the Social pillar.





The Bank is committed to providing a safe, healthy, and supportive working environment for all employees. This includes compliance with occupational safety and health standards, provision of appropriate medical and health benefits, and implementation of workplace practices that promote employee welfare and productivity.



The Bank also promotes work-life balance and employee engagement initiatives, and encourages programs that support physical and mental well-being. It provides employees with opportunities to participate in recreational activities designed to enhanced physical health, creativity and overall wellness. These initiatives aim to reduce stress levels, strengthen interpersonal relationships and foster a more collaborative workplace. They also allow employees to enjoy personal time for self-care or spend meaningful moments with family and colleagues, providing a balanced break form work while simultaneously promoting team bonding and cohesion.



Employee health and well-being initiatives form part of the Bank's broader commitment to responsible banking, human capital development, and sustainable business practices aligned with internationally recognized ESG principles.

FINANCIAL CONSUMER PROTECTION PRACTICES

The Board of Directors and Senior Management of Welcome Bank (Rural Bank), Inc. are committed to promoting fair treatment of customers and ensuring compliance with applicable consumer protection laws, rules, and regulations. The Board provides overall oversight in the development and implementation of the Bank's consumer protection strategy and programs, while Senior Management is responsible for implementing policies, procedures, and controls designed to uphold consumer rights and maintain high standards of service delivery.



The Board of Directors of Welcome Bank approved the adoption of the Financial Consumer Protection Manual, as revised pursuant to Bangko Sentral ng Pilipinas Circular No. 1160, and the Bank's Data Privacy Manual in accordance with applicable regulations and policies of the National Privacy Commission. These policies aim to provide an enabling environment that protects the interests of financial consumers and safeguards personal information against unauthorized disclosure without consent.

The Board and Senior Management ensure that consumer protection principles are integrated into the Bank's business operations, products, services, and customer relations practices, and that employees are provided with adequate guidance and training on consumer protection standards.

The Bank maintains a consumer protection risk management system designed to identify, measure, monitor, and control consumer protection risks inherent in its operations, products, and services.

The system includes policies and procedures relating to product transparency, fair treatment of customers, disclosure requirements, data privacy, information security, complaint handling, and compliance monitoring. Regular reviews and assessments are conducted to ensure that products and services remain suitable, transparent, and compliant with applicable regulations.

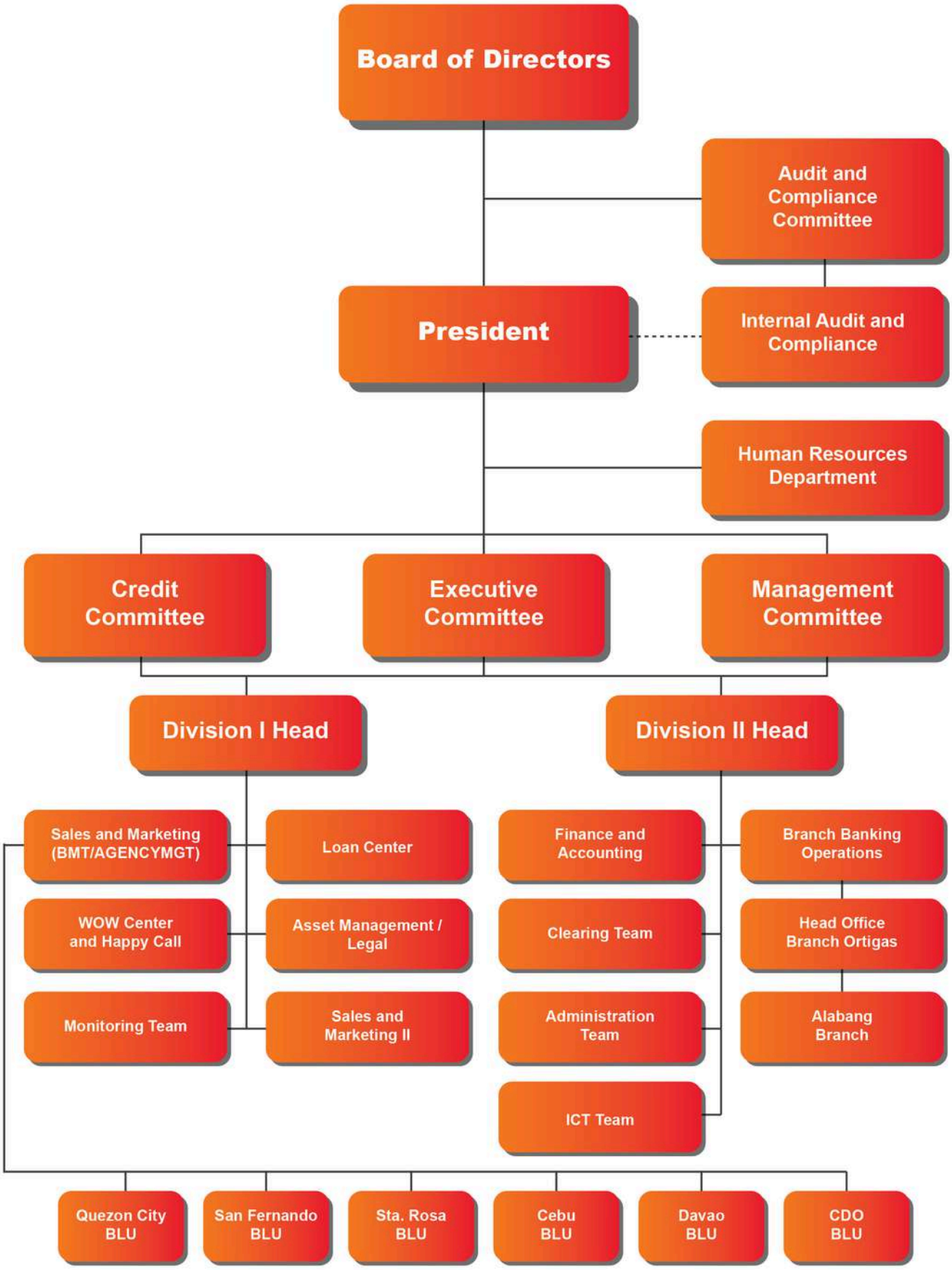
The Bank also implements internal controls and monitoring mechanisms to detect and address issues that may adversely affect customers and to ensure prompt corrective action when necessary.

The Bank maintains a Consumer Assistance Management System to ensure that customer concerns, inquiries and complaints are handled fairly, promptly, and efficiently.

The Bank has established policies and procedures governing the receipt, documentation, investigation, resolution, and monitoring of customer complaints. Customers may communicate their concerns through various channels, including branch visits, telephone calls, electronic mail, and written correspondence.

The designated responsible unit and/or Consumer Protection Officer oversees complaint handling and ensures that complaints are resolved within prescribed timelines. Significant complaints and consumer-related issues are reported to Senior Management and the Board, when necessary, to support continuous improvement of customer service and consumer protection practices.

Organizational Structure



Stockholders and Stockholdings

NAME	NATIONALITY	PERCENT (%) OF HOLDINGS
Welcome Capital Worldwide Pte. Ltd.	Singaporean	60.0%
Flowtiger Ventures, Inc.	Filipino	40.0%
Suelki Kang	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%

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
- 0917-119-4724
- banking@welcomebank.com.ph



Alabang Branch

- G/F Westgate Tower, 1708 Investment Drive, Madrigal Business Park, New Alabang Village, Muntinlupa City
- (02) 8282 8585
- 0917-701-9260
- banking@welcomebank.com.ph



Branch-Lite Units

Quezon City Branch-lite Unit

- MCC Square Building Block 2 Lot 1, Congressional Avenue, Brgy. Bahay Toro, Quezon City, 1100
- (632) 8562 5842
- 0917-159-5015
- 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
- 0917-117-7561
- sales@welcomebank.com.ph



Sta. Rosa Branch-lite Unit

- Unit B-18, 2nd Floor, Banawe De Sta. Rosa Bldg., F. Reyes Street, Brgy., Balibago, Sta. Rosa City, Laguna, 4026
- (049) 536 2751
- 0917-159-4822
- sales@welcomebank.com.ph



Branch-Lite Units

Cebu Branch-lite Unit

- Unit 101 GF J Block Banawa Bldg., R. Duterte St., Guadalupe, Cebu City, 6000
- (032) 412 2660
- 0917-159-4919
- sales@welcomebank.com.ph



Davao Branch-lite Unit

- 33, Ground Floor, Jeva Building, E. Quirino Avenue, Brgy. 11-B, Davao City, 8000
- (082) 233 9045
- (082) 300 0416
- 0917-159-5030
- sales@welcomebank.com.ph



CDO Branch-lite Unit

- Pelaez Commercial Arcade 3, Tirso Neri - Velez Streets, Brgy. 09, Cagayan De Oro City, 9000
- (088) 856 5051
- 0917-159-4938
- sales@welcomebank.com.ph



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS TO ACCOMPANY INCOME TAX RETURN

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, 2025, on which we have rendered the attached report dated March 16, 2026.

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

AMC & ASSOCIATES

By: **Ariel D. Gonzales**
Partner
CPA Cert. No. 89570
TIN 169-688-077-000
PTR No. 10770264, Jan. 9, 2026, 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. IC-EA-2025-0054-R (Group A)
(valid to audit 2025 to 2027 financial statements)
BSP Accreditation No. 89570-BSP (Group B)
(valid to audit 2021 to 2025 financial statements)

March 16, 2026

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
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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Certified Public Accountants
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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, 2025 and 2024, 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, 2025 and 2024, 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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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, 2025 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
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March 16, 2026

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WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2025 AND 2024
(Amounts in Philippine Peso)

	2025	2024
ASSETS		
Cash *(Note 4)*	P 1,319,533	P 1,318,488
Due from Bangko Sentral ng Pilipinas *(Note 5)*	5,633,525	5,985,077
Due from other banks *(Note 6)*	156,295,611	109,146,829
Loans and other receivables *(Note 7)*	709,079,623	581,943,302
Financial assets at amortized cost *(Note 8)*	213,505	400,625
Bank premises, furniture, fixtures and equipment *(Note 9)*	11,717,571	14,968,219
Investment property *(Note 10)*	5,317,595	8,186,402
Right-of-use assets *(Note 11)*	102,083	347,081
Intangible assets *(Note 12)*	6,178,605	7,852,259
Deferred tax assets *(Note 20)*	19,648,906	21,812,323
Other assets *(Note 13)*	12,954,934	7,805,204
TOTAL ASSETS	P 928,461,491	P 759,765,809
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit liabilities *(Note 15)*	P 586,654,077	P 450,329,794
Bills payable *(Note 16)*	150,000,000	150,000,000
Income tax payable	378,596	-
Lease liabilities *(Note 11)*	105,942	977,966
Retirement benefit obligation *(Note 18)*	5,721,900	4,605,317
Accrued interest and other liabilities *(Note 17)*	29,768,531	25,610,910
Total Liabilities	772,629,046	631,523,987
EQUITY		
Capital stock *(Note 21)*	174,939,894	174,939,894
Accumulated other comprehensive loss *(Note 21)*	(753,731)	(635,284)
Deficit	(18,353,718)	(46,062,788)
Total Equity	155,832,445	128,241,822
TOTAL LIABILITIES AND EQUITY	P 928,461,491	P 759,765,809

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, 2025 AND 2024
(Amounts in Philippine Peso)

	2025	2024
INTEREST INCOME		
Loans and other receivables *(Note 7)*	P 250,986,100	P 201,918,127
Bank deposits *(Note 6)*	404,190	5,991,128
Financial assets at amortized cost *(Note 8)*	16,617	39,276
	251,406,907	207,948,531
INTEREST EXPENSE		
Deposit liabilities *(Note 15)*	28,842,040	22,941,161
Bills payable *(Note 16)*	10,445,579	20,252,830
	39,287,619	43,193,991
NET INTEREST INCOME	212,119,288	164,754,540
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES *(Note 14)*	45,477,765	46,312,516
NET INTEREST INCOME AFTER CREDIT AND IMPAIRMENT LOSSES	166,641,523	118,442,024
OTHER INCOME		
Services charges and fees *(Note 7)*	18,368,835	14,387,691
Others *(Note 19)*	12,268,923	11,870,016
	30,637,758	26,257,707
OTHER EXPENSES		
Compensation and fringe benefits *(Note 18)*	60,954,084	55,771,653
Depreciation and amortization *(Notes 9, 10, 11 and 12)*	10,421,206	11,097,050
Taxes and licenses *(Note 30)*	21,446,125	16,257,372
Other administrative expenses *(Note 19)*	67,390,149	59,742,105
	160,211,564	142,868,180
PROFIT BEFORE TAX	37,067,717	1,831,551
TAX EXPENSE *(Note 20)*	9,358,647	980,124
NET PROFIT	27,709,070	851,427
Item that will not be reclassified subsequently to profit or loss		
Remeasurements of post-employment defined benefit plan *(Note 18)*	(157,930)	-
Tax effect *(Note 20)*	39,483	-
OTHER COMPREHENSIVE INCOME	(118,447)	-
TOTAL COMPREHENSIVE INCOME	P 27,590,623	P 851,427

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, 2025 AND 2024
(Amounts in Philippine Peso)

	Capital Stock *(Note 21)*	Other Comprehensive Loss *(Note 21)*	Deficit	Total
Balance at January 1, 2025	P 174,939,894	(P 635,284)	(P 46,062,788)	P 128,241,822
Total comprehensive income (loss) for the year	-	(118,447)	27,709,070	27,590,623
Balance at December 31, 2025	**P 174,939,894**	**(P 753,731)**	**(P 18,353,718)**	**P 155,832,445**
Balance at January 1, 2024	P 174,939,894	(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 635,284)	(P 46,062,788)	P 128,241,822

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, 2025 AND 2024
(Amounts in Philippine Peso)

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	P 37,067,717	P 1,831,551
Adjustments for:		
Provision for credit and impairment losses *(Note 14)*	45,477,765	46,312,516
Interest expense *(Notes 15 and 16)*	39,287,619	43,193,991
Depreciation and amortization *(Notes 9, 10, 11 and 12)*	10,421,206	11,097,050
Retirement expense *(Note 18)*	958,653	3,555,732
Accretion of interest on lease liabilities *(Note 11)*	37,456	101,823
Interest income *(Notes 6, 7 and 8)*	(251,406,907)	(207,948,531)
Operating loss before working capital changes	(118,156,491)	(101,855,868)
Increase in loans and other receivables	(170,039,384)	(211,603,296)
Increase in other assets	(5,149,730)	(1,611,839)
Increase in deposit liabilities	136,324,283	102,169,448
Increase in accrued interest and other liabilities	3,510,866	4,284,127
Cash used in operations	(153,510,456)	(208,617,428)
Interest received on loans and other receivables	248,407,864	197,986,427
Interest received on bank deposits *(Note 6)*	404,190	5,991,128
Interest paid on deposit liabilities	(28,195,285)	(22,181,450)
Cash paid for income taxes	(6,777,151)	(4,226,828)
Retirement paid *(see Note 18)*	-	(293,625)
Net Cash From (Used in) Operating Activities	60,329,162	(31,341,776)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from financial assets at amortized cost	187,120	184,014
Interest received on financial assets at amortized cost	20,151	35,514
Additions to intangible assets *(Note 12)*	(156,200)	(310,957)
Acquisitions of bank premises, furniture, fixtures and equipment *(Note 9)*	(2,226,899)	(2,864,833)
Net Cash Used in Investing Activities	(2,175,828)	(2,956,262)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of lease liabilities *(Note 11)*	(909,480)	(1,782,415)
Interest paid on bills payable *(Note 16)*	(10,445,579)	(20,252,830)
Repayments of bills payable *(Note 16)*	-	(97,000,000)
Net Cash Used in Financing Activities	(11,355,059)	(119,035,245)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	46,798,275	(153,333,283)
CASH AND CASH EQUIVALENTS AT BEGINNING 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
	116,450,394	269,783,677
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash *(Note 4)*	1,319,533	1,318,488
Due from Bangko Sentral ng Pilipinas *(Note 5)*	5,633,525	5,985,077
Due from other banks *(Note 6)*	156,295,611	109,146,829
	P 163,248,669	P 116,450,394

See Notes to Financial Statements.

WELCOME BANK (RURAL BANK), INC.
(FORMERLY SMART BANK (RURAL BANK), INC.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024
(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 under Registration Number A199906565. The Bank is 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.

The Bank operates one branch located in Alabang, Muntinlupa City, in addition to its head office in Pasig City. The Bank also maintains six branch-lite units.

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.

The Bank's head and main office branch is located at Units 1701 - 1703 and Unit 102-B The Taipan Place Building, F. Ortigas Jr. Road corner Ortigas Center, Barangay San Antonio, Pasig City.

Plan Merger

On April 24, 2025, the Banks Board of Directors approved the proposed merger with Welcome Finance, Inc., a company under common control, with the Bank as the surviving entity. As at reporting date, the proposed merger remains in the planning stage and the formal application has not yet been submitted to the BSP for approval. Management intends to submit the required documents and obtain the necessary regulatory approvals once the terms and conditions of the proposed merger have been finalized.

Approval of Financial Statements

The financial statements of the Bank as at and for the year ended December 31, 2025 (including the comparative financial statements as at and for the year ended December 31, 2024) were authorized for issue by the Bank's Board of Directors (BOD) on March 16, 2026.

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 Philippine 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 statements 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 Amended PFRS Accounting Standards

a. *Effective in 2025 that are Relevant to the Bank*

The Bank adopted for the first time amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability*, which are mandatorily effective for annual periods beginning on or after January 1, 2025. The amendments require entities to assess whether a currency is exchangeable and to determine a spot exchange rate when exchangeability is lacking. These amendments also mandate the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable. The amendments had no significant impact on the financial statements of the Bank.

b. *Effective Subsequent to 2025 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2025, 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 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).

ii. PFRS 9 and PFRS 7 (Amendments), *Financial Instruments, and Financial Instruments: Disclosures – Amendments to Contracts Referencing Nature-dependent Electricity* (effective from January 1, 2026).

iii. PFRS 17, *Insurance Contracts – Insurance Contracts* (effective from January 1, 2027).

iv. PFRS 17 (Amendments), *Insurance Contracts – Initial Application of PFRS 17* and PFRS 9 – *Comparative Information* (effective from January 1, 2027).

v. 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.

vi. 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.

vii. 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, 2025 and 2024, 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, 2025 and 2024, 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).

The Bank adopted and applied Appendix 15 of the Manual of Regulations for Banks (MORB) issued by the BSP, which provides the regulatory framework and methodologies for credit risk classification and the estimation of ECL in accordance with PFRS 9 Financial Instruments. The Bank's approach and methodology are discussed as follows:

Basic Guidelines in Setting up Allowance for Credit Losses

As a 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		Stage
		Other types of collateral	Secured by real estate	
31 - 90 days*	Substandard (underperforming)	10%	10%	2
91 - 120 days*	Substandard (non-performing)	25%	15%	3
121 - 360 days	Doubtful	50%	25%	3
361 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. 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

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)

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

The following are the specific recognition criteria of the Bank:

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 or losses on sale or Derecognition of Non-Financial Assets*

This includes net gains or losses from the disposals of bank premises, furniture, fixtures and equipment, and investment properties, including gains or losses on the sale of real and other properties acquired (ROPA) and repossessions of investment properties. Income or loss from assets sold is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. The gain or loss arising from the derecognition is recognized in the statement of income in the year of retirement or disposal.

The Bank recognizes the gain or loss on sale at a point in time or the time the control of the assets is transferred to the buyer, when the Bank does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold, and when the collectability of the entire sales price is reasonably assured. Thus, revenue is recognized at a point in time.

Revenue from the sale of ROPA is recognized in accordance with PFRS 15. For installment sales where title transfers only upon full payment, a Sales Contract Receivable (SCR) is recognized at the present value of installment receivables discounted at the imputed rate of interest. The difference between the SCR and the carrying amount of the ROPA is recognized as a gain or loss at the date of sale. SCRs are considered performing assets if there has been a downpayment of at least twenty percent (20%) of the agreed selling price, or in the absence thereof, the installment payments on the principal have already amounted to at least twenty percent (20%) of the agreed selling price.

c. *Recovery from accounts written off*

Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery.

d. *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 postemployment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees.

The liability recognized in the statement of financial position for defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a derived discount rate based on the interest rates of zero-coupon government bonds as published by the Philippine Dealing and Exchange Corporation that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related post-employment liability.

Actuarial gains and losses are charged or credited to profit or loss in the year in which they arise.

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.

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

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.

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, 2025 and 2024 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

The determination of the retirement obligation and cost and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, and rates of compensation increase. In accordance with the PFRS Accounting Standards, actual results that differ from the assumptions are recognized as remeasurements in other comprehensive income and therefore, generally affect the recorded obligation in such future periods. While the Bank believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

Retirement benefits recognized for the years ended December 31, 2025 and 2024 are disclosed in Note 18. As at December 31, 2025 and 2024, the Bank's retirement benefit obligation amounting to P5,721,900 and P4,605,317, 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 P1,319,533 and P1,318,488 as at December 31, 2025 and 2024, respectively.

5. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account consists of deposits maintained with BSP which amounted to P5,633,525 and P5,985,077 as at December 31, 2025 and 2024, respectively. Deposits with BSP do not earn interest.

As per BSP Circular No. 1201 dated September 20, 2024, the rate of the required reserve against deposit and deposit substitute liabilities effective reserve week starting October 25, 2024 shall be 0% from 1%. Accordingly, the Bank is not required to maintain reserve deposits against its local currency deposit and deposit substitute liabilities as of December 31, 2025 and 2024 *(see Note 15)*.

6. DUE FROM OTHER BANKS

The details of the account are as follows:

	2025	2024
Savings deposits	P 81,978,820	P 63,332,020
Demand deposits	20,070,000	-
Time deposits	54,246,791	45,814,809
	P 156,295,611	P 109,146,829

Savings and demand deposits earns annual interest rates based on prevailing bank rates ranging from 0.05% to 1.25% in 2025 and 2024 while time deposits earn annual interest rates based on prevailing bank rates ranging from 5.05% to 6% in 2025 and 2024 and with a term of 90 days.

Total interest income earned amounted to P404,190 and P5,991,128 in 2025 and 2024, 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:

	2025	2024
Loans and discounts:		
Loans to individuals for consumption	P 577,163,768	P 452,688,667
Microenterprise loans	120,456,621	110,241,323
Loan accrued principal	51,049,531	45,128,188
Loans to individuals for other purposes	10,189,392	9,330,385
Loans to individuals for housing purposes	3,877,684	4,842,488
	762,736,996	622,231,051
Unamortized discount	(3,962,355)	(3,066,647)
	758,774,641	619,164,404
Other receivables:		
Accrued interest receivable	15,208,773	12,634,071
Accounts receivable	7,966,075	7,623,874
	781,949,489	639,422,349
Allowance for impairment losses *(see Note 14)*	(72,869,866)	(57,479,047)
	P 709,079,623	P 581,943,302

The credit terms of the Bank's loans and receivables ranges from one to ten years in both 2025 and 2024.

Annual effective interest rates of loans and discounts ranges from 10% to 58.2% in 2025 and 2024. Total interest income from loans and other receivables amounted to P250,986,100 and P201,918,127 in 2025 and 2024, respectively, and is presented as Interest income on loans and other receivables in the statements of comprehensive income. In 2025 and 2024, the Bank's service charges and fees on loans amounted to P18,368,835 and P14,387,691, 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:

	2025	2024
Agrarian Reform 10-year Bond:		
Land Bank Bonds	P 213,505	P 401,104
Unamortized discount	-	(479)
	P 213,505	P 400,625

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 P16,617 and P39,276 in 2025 and 2024, 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 2025 and 2024.

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 2025 and 2024 are shown below:

	Building and Improvements	Leasehold Improvements	Transportation Equipment	Furniture, Fixtures and Equipment	Total
December 31, 2025					
Cost	P 7,760,934	P 18,928,105	P 2,078,000	P 17,598,002	P 46,365,041
Accumulated depreciation	(3,506,600)	(16,511,622)	(294,383)	(14,334,865)	(34,647,470)
Net carrying amounts	P 4,254,334	P 2,416,483	P 1,783,617	P 3,263,137	P 11,717,571
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
January 1, 2024					
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

The reconciliation of the carrying amounts at the beginning and end of 2025 and 2024, 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, 2025, net of accumulated depreciation	P 4,440,499	P 5,309,224	P 1,991,417	P 3,227,079	P 14,968,219
Additions	-	-	-	2,226,899	2,226,899
Depreciation charges for the year	(186,165)	(2,892,741)	(207,800)	(2,190,841)	(5,477,547)
Balance at December 31, 2025, net of accumulated depreciation	P 4,254,334	P 2,416,483	P 1,783,617	P 3,263,137	P 11,717,571

	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

As at December 31, 2025 and 2024, the Bank has fully depreciated bank premises, furniture, fixtures and equipment that are still in use with an original cost amounting to P5,031,438 and P3,386,102, 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 2025 and 2024, the Bank satisfactorily complied with this requirement.

In 2025 and 2024, no bank premises, furniture, fixtures and equipment that are pledged as security for liabilities.

As at December 31, 2025 and 2024, 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:

	2025	2024
Cost		
Balance at January 1	P 10,054,035	P 3,619,035
Additions	-	6,435,000
Balance at December 31	10,054,035	10,054,035
Accumulated depreciation		
Balance at January 1	1,867,633	965,076
Depreciation for the year	2,868,807	902,557
Balance at December 31	4,736,440	1,867,633
Carrying amount as at December 31	P 5,317,595	P 8,186,402

As at December 31, 2025 and 2024, the fair values of the investment property is approximately P10,054,035 and P10,316,472, respectively. The fair values were estimated by management based on the prevailing market price per square meter of comparable properties located adjacent to the property.

As at December 31, 2025 and 2024, 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:

	2025	2024
Cost		
Balance at beginning of year	P 4,840,799	P 4,840,799
Additions	-	-
Balance at end of year	4,840,799	4,840,799
Accumulated amortization		
Balance at beginning of year	4,493,718	2,880,118
Amortization for the year	244,998	1,613,600
Balance at end of year	4,738,716	4,493,718
Carrying amount at end of year	P 102,083	P 347,081

Lease Liabilities

The lease liabilities are secured by the related underlying assets. The movement of lease liabilities as at December 31, 2025 and 2024 is presented in Note 28.

As at December 31, 2025 and 2024, 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 P110,00 and P1,019,480, respectively.

The undiscounted maturity analysis of lease liabilities as at December 31, 2025 is as follows:

	Within 1 year	1 to 2 years	Total
Lease payment	P 110,000	P -	P 110,000
Finance charges	(4,058)	-	(4,058)
Net present values	**P 105,942**	**P -**	**P 105,942**

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

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 2025 and 2024, the expenses relating to short-term leases amounted to P15,072,932 and P13,702,467 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 P909,480 in 2025 and P1,782,415 in 2024. Interest expense in relation to lease liabilities amounted to P37,456 and P101,823 in 2025 and 2024, 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 2025 and 2024 are shown below:

	2025	2024
December 31		
Cost	**P 15,286,672**	P 15,130,472
Accumulated amortization	**(9,108,067)**	(7,278,213)
Net carrying amount	**P 6,178,605**	P 7,852,259

A reconciliation of the carrying amounts at the beginning and end of 2025 and 2024, of information technology software is shown as follows:

	2025	2024
Balance at January 1, net of accumulated amortization	P 7,852,259	P 9,249,151
Additions	156,200	310,957
Amortization charges for the year	(1,829,854)	(1,707,849)
Balance at December 31, net of accumulated amortization	P 6,178,605	P 7,852,259

As at December 31, 2025 and 2024, 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:

	2025	2024
Security deposits	P 9,750,942	P 3,592,427
Prepaid expenses	2,704,520	1,929,625
Stationery and supplies	359,472	428,309
Petty cash fund	140,000	140,000
Prepaid income tax	-	1,749,052
	12,954,934	7,839,413
Allowance for impairment losses *(see Note 14)*	-	(34,209)
	P 12,954,934	P 7,805,204

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.

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 additional impairment losses on other asset need to be recognized in 2025 and 2024.

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, 2025	P 54,770,953	P 2,708,094	P 34,209	P 57,513,256
Impairment losses (reversal) for the year	41,852,099	3,659,875	(34,209)	45,477,765
Accounts written-off	(30,121,155)	-	-	(30,121,155)
Balance at December 31, 2025	P 66,501,897	P 6,367,969	P -	P 72,869,866
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

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.

The Bank's allowance for impairment and credit losses on loans and receivables are as follows:

	2025			
	Loan Amount	ACL %	Amount of ACL	Stage
Pass	P 225,888,247	1%	P 2,258,883	1
Especially mentioned	469,461,330	2%	9,389,227	2
Substandard				
Underperforming	878,136	10%	87,814	2
Nonperforming	10,508,699	25%	2,627,175	3
Doubtful	7,723,500	50%	3,861,750	3
Loss	48,277,048	100%	48,277,048	3
	P 762,736,960		P 66,501,897	

	2024			
	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, 2025	P 5,634,455	P 155,038	P 48,981,460	P 54,770,953
Amounts written-off	-	-	(30,121,155)	(30,121,155)
Provision for credit losses	(3,374,162)	9,322,003	35,904,258	41,852,099
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(1,410)	-	1,410	-
ECL allowance as at December 31, 2025	P 2,258,883	P 9,477,041	P 54,765,973	P 66,501,897

	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

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:

	2025	2024
Demand	P 2,422,913	P 1,440,176
Savings	10,998,453	31,681,787
Time	573,232,711	417,207,831
	P 586,654,077	P 450,329,794

The demand and savings deposits have annual effective interest ranging from 0.05% to 2% in 2025 and 2024, while time deposits have annual interest ranging from 3.90% to 7.75% in 2025 and 2024. The terms of time deposits ranges from 1 month to 5 years in 2025 and 2024. Interest expense on deposit liabilities amounted to P28,842,040 in 2025 and P22,941,161 in 2024 and is presented as Interest expense on deposit liabilities in the statements of comprehensive income.

Under BSP Circular No. 1201 dated September 20, 2024, the reserve requirements for rural banks was reduced from 1% to 0% effective reserve week beginning October 25, 2024. Accordingly, the applicable reserve requirement ratio is 0% as of December 31, 2025 and 2024. The Bank is therefore not required to maintain reserve deposits against its local currency deposit and deposit substitute liabilities as of reporting periods.

Deposits maintained with the Bangko Sentral ng Pilipinas amounting to P5,633,525 and P5,985,077 as of December 31, 2025 and 2024, respectively, represent balances in the Bank's demand deposit account with the BSP *(see Note 5)*.

The Bank has no deposit liabilities from DOSRI as at December 31, 2025 and 2024.

16. BILLS PAYABLE

This account pertains to Industrial Bank of Korea amounting to P150,000,000 as at December 31, 2025 and 2024.

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 2025 and 2024, and a term of one year.

The interest on bills payable amounted to P10,445,579 in 2025 and P20,252,830 in 2024 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:

	2025	2024
Accrued other expenses	P 12,999,229	P 11,188,439
Accrued interest expense	6,754,127	6,107,372
Accounts payable	4,254,519	3,748,680
Accrued gross receipts tax payable	3,779,294	3,440,733
Withholding taxes payable	1,223,993	520,219
SSS, PHIC and Pag-IBIG contributions payable	754,596	598,237
Others	2,773	7,230
	P 29,768,531	P 25,610,910

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:

	2025	2024
Salaries and wages	P 36,284,302	P 32,125,724
Other benefits	19,328,154	16,629,715
Social security costs	4,294,087	3,407,149
Retirement expense	958,653	3,555,732
Directors' compensation	88,888	53,333
	P 60,954,084	P 55,771,653

Post-Employment Benefits

a. *Characteristics of the Defined benefit Plan*

The Bank does not have an established retirement plan and only conforms to the minimum regulatory benefit under *The Retirement Law* (RA No. 7641). The Bank's regulatory benefit is paid in a lump sum upon retirement.

Actuarial valuations by an independent actuary are made to estimate retirement benefit-cost and the amount of contributions. The latest actuarial valuation by independent actuary was made on February 25, 2026.

b. *Explanation of Amounts Presented in the Financial Statements*

The amount of post-employment defined benefit obligation recognized in the statement of financial position are determined as follow:

	2025	2024
Present value of the obligation	P 5,721,900	P 4,605,317
Fair value of plan assets	-	-
Balance at end of year	P 5,721,900	P 4,605,317

The movements of present value of the post-employment defined benefit obligation recognized in the books are as follows:

	2025	2024
Balance at January 1	P 4,605,317	P 1,343,210
Current service cost	627,991	3,459,290
Interest cost	330,662	96,442
Actuarial loss (gain) due to:		
Demographic assumptions	562,289	-
Changes in financial assumptions	595,439	-
Experience adjustment	(999,798)	-
Retirement paid	-	(293,625)
Balance at end of year	P 5,721,900	P 4,605,317

The movements in the defined benefit obligation are presented below:

	2025	2024
Balance at beginning of year	P 4,605,317	P 1,343,210
Defined benefit cost recognized in profit and loss	958,653	3,555,732
Defined benefit cost recognized in other comprehensive income	157,930	-
Retirement paid	-	(293,625)
Balance at end of year	P 5,721,900	P 4,605,317

The components of amounts recognized in profit or loss and other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2025	2024
Reported in profit or loss:		
Service cost	P 627,991	P 3,459,290
Interest cost	330,662	96,442
Balance at end of year	P 958,653	P 3,555,732
Reported in comprehensive income:		
Actuarial loss due to liability experience	P 157,930	P -

In the determination of the retirement benefit obligation, the following actuarial assumptions were used for both years:

	2025	2024
Discount rates	6.37%	7.18%
Expected rate of salary increase	4.00%	4.00%

19. OTHER ADMINISTRATIVE EXPENSES AND OTHER INCOME

Other Administrative Expenses

The composition of this account is shown below:

	2025	2024
Rental *(see Note 23)*	P 15,072,932	P 13,702,467
Fees and commission expense	14,924,175	13,034,235
Advertising	9,473,540	8,515,596
Information technology expenses	6,136,561	4,556,638
Postage, telephone, cables and telegrams	3,587,340	4,329,989
Power, light and water	2,404,646	2,098,761
Membership fees and dues	1,892,582	624,876
Insurance	1,649,987	1,261,384
Stationery and supplies	1,562,295	1,523,409
Management and professional fees *(see Note 22)*	1,387,689	1,667,248
Security, clerical, messengerial and janitorial	1,348,832	1,119,779
Transportation and travel	1,095,456	1,325,342
Repairs and maintenance	346,928	230,124
Fines, penalties and other charges	165,407	672,819
Supervision and examination fees	149,770	100,021
Litigation expenses	128,863	95,284
Representation and entertainment	74,396	112,071
Interest on lease liabilities *(see Note 11)*	37,456	101,823
Miscellaneous	5,951,294	4,670,239
	P 67,390,149	P 59,742,105

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

Other Income

The composition of this account is shown below:

	2025	2024
Inter-affiliate outsourcing *(see Note 22)*	P 1,032,453	P 3,710,000
Recovery on Charged off Assets	11,445	-
Miscellaneous	11,225,025	8,160,016
	P 12,268,923	P 11,870,016

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

20. CURRENT AND DEFERRED TAXES

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

	2025	2024
Reported in profit or loss:		
Current tax expense:		
Final tax at 20%	P 84,161	P 1,206,081
Deferred income tax benefit relating to origination and reversal of temporary differences	9,274,486	(225,957)
	P 9,358,647	P 980,124
Reported in comprehensive income:		
Deferred income tax benefit relating to origination and reversal of temporary differences	(P 39,483)	P -

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

	2025	2024
Tax on pretax profit at 25%	P 9,266,929	P 457,887
Adjustment for profit subjected to lower income tax rate	(21,040)	(301,520)
Tax effect of non-deductible expenses	62,391	352,366
Deferred tax benefit relating to original and temporary differences	50,367	471,391
	P 9,358,647	P 980,124

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	
	2025	2024	2025	2024	2025	2024
Deferred tax assets:						
Net Operating Loss Carry-Over (NOLCO)	P -	P 1,699,507	P 1,699,507	P 7,794,576	P -	P -
Impairment losses on loans and other receivable	18,217,466	14,378,314	(3,839,152)	(7,627,536)	-	-
Minimum corporate income tax (MCIT)	-	4,425,452	11,536,521	194,020	-	-
Lease liabilities	26,486	244,491	218,005	420,148	-	-
Post-employment benefit obligation	1,430,475	1,151,329	(279,146)	(603,765)	(38,483)	-
Deferred tax liabilities:						
Right-of-use assets	(25,521)	(86,770)	(61,249)	(403,400)	-	-
Net deferred tax assets	P19,648,906	P21,812,323				
Deferred tax expense (benefit)			P 9,274,486	(P 225,957)	(P 39,483)	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 19,880,437	P 6,798,027	P -	2026
2020	17,084,910*	17,084,910	-	-	2025
	P 43,763,374	P 36,965,347	P 6,798,027	P -	

**Presented as part of 2022 NOLCO in the income tax return*

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.

Under the Corporate Recovery and Tax Incentives for Enterprises ("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. The Bank is subject to the 25% RCIT rate under this provision.

The Bank is subject to the minimum corporate income tax (MCIT) which is computed at 2% 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	Applied this Year	Unapplied	Valid Until
2024	P 2,654,875	P 2,654,875	P -	2027
2023	1,136,776	1,136,776	-	2026
2022	633,801	633,801	-	2025
	P 4,425,452	P 4,425,452	P -	

In 2025 and 2024, the Bank claims itemized deductions for income tax purposes.

21. EQUITY

Capital Stock

Capital stock consists of:

	Shares		Amount	
	2025	2024	2025	2024
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

The following are the 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.

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, 2025 and 2024, 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 (net of deferred tax) amounting to P753,731 and P635,284 as at December 31, 2025 and 2024, respectively.

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:

	2025		2024		
	Amount of Transactions	Outstanding Balance	Amount of Transactions	Outstanding Balance	Terms and Condition
Stockholders Affiliates under Common Control					
Welcome Finance, Inc. Management and professional fees	P -	P -	P 1,376,477	P -	Payable monthly in advance within 15 days from receipt of billing
Outsourcing services	P 1,032,453	P -	P 3,710,000	P -	Payable every 5th working day receipt of billing or within 20 working days from end of previous month
Key Management Compensation	P 1,403,531	P -	P 4,690,850	P -	

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 2025 and 2024, the outsourcing of services amounted to P1,032,453 and P3,710,000, respectively, presented as part of Other income in the statements of comprehensive income *(see Note 19)*. In 2025 and 2024, the insourcing of services amounted to nil and P1,376,477, 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 P1,403,531 and P4,690,850 as for the year December 31, 2025 and 2024, 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 P15,072,932 in 2025 and P13,702,467 in 2024 which is presented as Rental under Other administrative expenses *(see Note 19)*.

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, 2025 and 2024, 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, 2025 and 2024 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:

	2025	2024
Due from Bangko Sentral ng Pilipinas	P 5,633,525	P 5,985,077
Due from other banks	156,295,611	109,146,829
Loans and other receivables - net	709,079,623	581,943,302
Financial assets at amortized cost	213,505	400,625
Security deposits *(presented under Other assets)*	9,750,942	3,592,427
	P 880,973,206	P 701,068,260

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 P1,000,000 and the balance of the deposit account, as provided for under Republic Act (R.A.) No. 9576, *Amendment to Charter of Depository Insurance Corporation.*

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, 2025 and 2024, 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:

	2025		2024	
	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 590,333,826	P 590,333,826	P 467,165,248	P 467,165,248
Wholesale and retail trade, repair of motor vehicles, motorcycles	90,925,190	90,925,190	84,697,748	84,697,748
Real estate activities	16,592,790	16,592,790	18,240,877	18,240,877
Construction	11,358,098	11,358,098	9,877,333	9,877,333
Human health and social work activities	7,483,258	7,483,258	7,153,724	7,153,724
Manufacturing	7,749,392	7,749,392	6,625,003	6,625,003
Accommodation and food service activities	5,938,624	5,938,624	3,596,595	3,596,595
Agriculture, forestry and fishing	2,951,629	2,951,629	1,997,568	1,997,568
Education	2,368,007	2,368,007	1,599,966	1,599,966
Transportation and storage	1,951,390	1,951,390	1,342,665	1,342,665
Electricity, gas, steam and air, conditioning supply	1,815,245	1,815,245	1,242,905	1,242,905
Water supply, sewerage, waste management and remediation activities	-	-	178,514	178,514
Information and communication	118,146	118,146	145,700	145,700
Financial and insurance activities	75,760	75,760	90,437	90,437
Other service activities	19,113,286	19,113,286	15,210,121	15,210,121
	758,774,641	758,774,641	619,164,404	619,164,404
Allowance for impairment	-	(66,501,897)	-	(54,770,953)
	P 758,774,641	P 692,272,744	P 619,614,404	P 564,393,451

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, 2025 and 2024.

The estimated fair value of real estate held as collateral against loans and receivables as at December 31, 2025 and 2024 amounted to P20,829,167 and P39,241,500, 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:

	2025					
	Neither Past Due nor Specifically Impaired			Past Due		
	High Grade	Standard Grade	Substandard Grade	But Not Yet Impaired	Impaired	Total
Due from BSP	P 5,633,525	P -	P -	P -	P -	P 5,633,525
Due from other banks	156,295,611	-	-	-	-	156,295,611
Loans and other receivables						
Loans and discounts	16,282,456	639,910,262	-	36,080,026	66,501,897	758,774,641
Accounts receivable	-	1,598,106	-	-	6,367,969	7,966,075
Accrued interest receivable	-	15,208,773	-	-	-	15,208,773
Financial assets at amortized cost	213,505	-	-	-	-	213,505
Other assets	-	9,750,942	-	-	-	9,750,942
	P178,425,097	P666,468,083	P -	P 36,080,026	P 72,869,866	P953,843,072

	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

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.

	2025					
	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 36,080,026	P -	P -	P -	P -	P 36,080,026

	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

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:

	2025				
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 year	Total
Financial assets					
Cash	P 1,319,533	P -	P -	P -	P 1,319,533
Due from BSP	5,633,525	-	-	-	5,633,525
Due from other banks	156,295,611	-	-	-	156,295,611
Loans and other receivables					-
Loans and discounts	9,567,231	6,566,006	69,698,136	672,943,268	758,774,641
Accounts receivable	7,966,075	-	-	-	7,966,075
Accrued interest receivable	15,208,773	-	-	-	15,208,773
Financial assets at amortized cost	-	-	-	213,505	213,505
Other assets	140,000	-	-	9,750,942	9,890,942
	196,130,748	6,566,006	69,698,136	682,907,715	955,302,605
Financial liabilities:					
Deposit liabilities	45,500,143	10,759,132	146,773,225	383,621,577	586,654,077
Bills payable	-	-	150,000,000	-	150,000,000
Lease liabilities	-	-	105,942	-	105,942
Accrued interest and other liabilities	18,093,230	1,303,834	3,071,814	1,541,770	24,010,648
	63,593,373	12,062,966	299,950,981	385,163,347	760,770,668
	P 132,537,375	(P 5,496,960)	(P 230,252,845)	P 297,744,368	P 194,531,937

	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

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:

	2025	2024
Liquid Assets		
Cash on hand	P 1,319,533	P 1,318,488
Due from Bangko Sentral ng Pilipinas	5,633,525	5,985,077
Due from other banks	156,295,611	109,146,829
Financial assets at amortized cost	213,505	400,625
	P 163,462,174	P 116,851,019
Qualifying liabilities	P 605,485,230	P 467,628,689
Liquidity percentage	27.00%	24.99%

Based on the foregoing, the Bank was above the prudential MLR as at December 31, 2025 and 2024.

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:

	2025			
	Increase (Decrease) in Basic Points			
	23	68	(23)	(68)
Change on net interest income:				
Loans and receivables	P 57,726,803	P 170,670,548	(P 57,726,803)	(P 170,670,548)
Due from other banks	92,964	274,849	(92,964)	(274,849)
Financial assets at amortized cost	3,822	11,300	(3,822)	(11,300)
Deposit liabilities	(6,633,669)	(19,612,587)	6,633,669	19,612,587
Bills payable	(2,402,483)	(7,102,994)	2,402,483	7,102,994
	P 48,787,437	P 144,241,116	(P 48,787,437)	(P 144,241,116)

	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	1,377,959	4,073,967	(1,377,959)	(4,073,967)
Financial assets at amortized cost	9,033	26,708	(9,033)	(26,708)
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 37,893,543	P 112,033,088	(P 37,893,543)	(P 112,033,088)

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, 2025 and 2024, 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:

	2025	2024
Tier 1 Capital		
Common stock	P 100,000,000	P 100,000,000
Accumulated other comprehensive loss	(753,731)	(635,284)
Deficit	(46,062,788)	(46,914,215)
Total comprehensive income (loss) for the year	27,709,070	851,427
	80,892,551	53,301,928
Adjustments to CET 1		
Deferred tax assets, net of Deferred tax liability	(19,648,906)	(21,812,323)
Total CET 1 Capital	61,243,645	31,489,605

	2025	2024
Additional Tier 1 (AT1) Capital		
Paid – up perpetual and non-cumulative preferred stock	74,939,894	74,939,894
Total TIER 1 Capital	136,183,539	106,429,499
Tier 2 Capital		
General loan loss provision	2,258,883	5,634,455
Total qualifying capital	P 138,442,422	P 112,063,954
Total Credit Risk-Weighted Assets	P 901,560,785	P 733,283,704
Total Operational Risk-Weighted Assets	199,582,007	128,365,398
Total Risk-Weighted Assets	P 1,101,142,792	P 861,649,102
Capital ratios		
Total Tier 1 capital expressed as percentage of total risk-weighted assets	12.37%	12.35%
Total CET 1 capital expressed as percentage of total risk-weighted assets	5.56%	3.65%
Capital conservation buffer	(0.44%)	(2.35%)
Total regulatory capital expressed as of total percentage of total risk weighted assets	12.57%	13.01%

As at December 31, 2025 and 2024, the Bank complied with the minimum capital adequacy ratio, however, CET1 is below the BSP required capital ratio. Moreover, the capital conservation buffer has not met in both years.

As at December 31, 2025 and 2024, the Bank complied with the minimum CAR requirement set by the BSP. However, the Bank's CET1 ratio was below the BSP-prescribed minimum regulatory threshold, and the required capital conservation buffer was not maintained in both years.

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, 2025 and 2024, 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:

	2025	2024
Total capital	P 155,832,445	P 128,241,822
Total assets	P 928,461,491	P 759,765,809
Leverage ratio	16.78%	16.88%
Total exposure measure	P 928,461,491	P 759,765,809

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:

	2025		2024	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash	P 1,319,533	P 1,319,533	P 1,318,488	P 1,318,488
Due from BSP	5,633,525	5,633,525	5,985,077	5,985,077
Due from other banks	156,295,611	156,295,611	109,146,829	109,146,829
Loans and other receivable	709,079,623	709,079,623	581,943,302	581,943,302
Financial assets at amortized cost	213,505	213,505	400,625	400,625
Other assets	9,890,942	9,890,942	3,732,427	3,732,427
	P 882,432,739	P 882,432,739	P 702,526,748	P 702,526,748
Financial Liabilities				
Deposit liabilities	P 586,654,077	P 586,654,077	P 450,329,794	P 450,329,794
Bills payable	150,000,000	150,000,000	150,000,000	150,000,000
Lease liabilities	105,942	105,942	977,966	977,966
Accrued interest and other liabilities	24,010,648	24,010,648	21,051,721	21,051,721
	P 760,770,667	P 760,770,667	P 622,359,481	P 622,359,481

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, 2025 and 2024, 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, 2025 and 2024.

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:

	2025		
	Due Within One Year	Due Beyond One Year	Total
Assets:			
Cash	P 1,319,533	P -	P 1,319,533
Due from BSP	5,633,525		5,633,525
Due from other banks	156,295,611		156,295,611
Loans and discount receivables:			
Loans and discounts - gross	85,831,373	672,943,268	758,774,641
Accounts receivable - gross	7,966,075		7,966,075
Accrued interest receivable	15,208,773		15,208,773
Financial assets at amortized cost	-	213,505	213,505
Bank premises, furniture, fixtures and equipment	-	11,717,571	11,717,571
Investment property	-	5,317,595	5,317,595
Right-of-use assets	-	102,083	102,083
Intangible assets	-	6,178,605	6,178,605
Deferred tax asset	-	19,648,906	19,648,906
Other assets	3,203,992	9,750,942	12,954,934
	P 275,458,882	P 725,872,475	P 1,001,331,357
Liabilities			
Deposit liabilities	P 203,032,500	P 383,621,577	P 586,654,077
Bills payable	150,000,000	-	150,000,000
Lease liabilities	105,942	-	105,942
Retirement benefit obligation	5,721,900	-	5,721,900
Income tax payable	378,596	-	378,596
Accrued interest and other liabilities	28,226,761	1,541,770	29,798,531
	P 387,465,699	P 385,163,347	P 772,629,046

	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	4,212,777	3,592,427	7,805,204
	P 215,794,090	P 601,450,766	P 817,244,856
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

28. STATEMENTS OF CASH FLOWS

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

The Bank recognized right-of-use assets amounting to P102,083 and P347,081 as at December 31, 2025 and 2024, respectively, and lease liabilities amounting to P105,942 and P977,966 as at December 31, 2025 and 2024, 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)*	Total
Balance ay January 1, 2025	P 150,000,000	P 977,966	P 150,977,966
Cash flows from financing activities:			
Repayments of bills payable	-	-	-
Repayments of lease liabilities	-	(909,480)	(909,480)
Non-cash financing activities:			
Interest amortization on lease liabilities	-	37,456	37,456
Balance at December 31, 2025	P 150,000,000	P 105,942	P 150,105,942
Balance ay January 1, 2024	P 247,000,000	P 2,658,558	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 150,977,966

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 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:

	2025	2024
Return on average equity	**19.42%**	0.67%
Return on average assets	**3.27%**	0.11%
Net interest margin	**27.04%**	23.78%

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, 2025 and 2024, 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:

	2025		2024	
	Amount	%	Amount	%
Activities of households as employers and undifferentiated goods-and services producing activities of households for own use	P 590,333,826	77.80	P 467,165,248	75.45
Wholesale and retail trade of motor vehicles, motorcycles	90,925,190	11.98	84,697,748	13.68
Real estate activities	16,592,790	2.19	18,240,877	2.95
Construction	11,358,098	1.50	9,877,333	1.60
Human health and social work activities	7,483,258	0.99	7,153,724	1.16
Manufacturing	7,749,392	1.02	6,625,003	1.07
Accommodation and food service activities	5,938,624	0.78	3,596,595	0.58
Agriculture, forestry and fishing	2,951,629	0.39	1,997,568	0.32
Education	2,368,007	0.31	1,599,966	0.26
Transportation and storage	1,951,390	0.26	1,342,665	0.22
Electricity, gas, steam and air, conditioning supply	1,815,245	0.24	1,242,905	0.20
Water supply, sewerage, waste management and remediation act	-	-	178,514	0.03
Information and communication	118,146	0.02	145,700	0.02
Financial and insurance activities	75,760	0.01	90,437	0.01
Other service activities	19,113,286	2.52	15,210,121	2.46
	P 758,774,641	100.00	P 619,164,404	100.00

Under MORB, when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio it will indicate a significant credit exposure. 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 77.80% and 75.45% in 2025 and 2024, 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:

	2025		2024	
	Amount	%	Amount	%
Secured				
Real estate mortgage	P 14,466,711	1.91	P 15,584,203	2.52
Other collateral	7,018,495	0.92	6,322,708	1.02
	21,485,206	2.83	21,906,911	3.54
Unsecured	737,289,435	97.17	597,257,493	96.46
	P 758,774,641	100.00	P 619,164,404	100.00

As at December 31, 2025 and 2024, the fair value of the collaterals of secured loans of the Bank amounts to P46,529,167 and P39,241,500, 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:

	2025	2024
Current	P 656,192,718	P 529,990,874
Past due but not yet non-performing	33,815,568	28,341,825
Past due and already non-performing	64,766,355	56,831,705
Items in litigation	4,000,000	4,000,000
	P 758,774,641	P 619,164,404

	2025				
	Current	Past due but Not yet Non-performing	Past due and already Non-performing	Items in Litigation	Total
Agrarian reform/other agricultural loans	P 11,681,960	P 877,142	P 4,457,627	P 4,000,000	P 21,016,729
Loans to individuals for consumption	535,405,781	22,056,493	32,871,551	-	590,333,825
Microenterprise loans	1,883,179	115,562	333,225	-	2,331,966
Loans to individuals for housing purposes	10,556,797	2,160,879	2,566,797	-	15,284,473
Small scale enterprise	86,789,336	7,611,750	21,620,474	-	116,021,560
Loans to individual for other purposes	9,875,665	993,742	2,916,681	-	13,786,088
	P 656,192,718	P 33,815,568	P 64,766,355	P 4,000,000	P 758,774,641

	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

An analysis of changes in the gross carrying amounts of loans as at December 31, 2025 and 2024 follows:

	2025			
	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2025	P 529,990,874	P 28,341,825	P 60,831,705	P 619,164,404
New assets originated	483,461,162	-	-	483,461,162
Assets derecognized or prepaid	(313,729,770)	-	(30,121,155)	(343,850,925)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(43,529,548)	43,529,548	-	-
Transfer to Stage 3	-	(38,055,805)	38,055,805	-
Balance as at December 31, 2025	P 656,192,718	P 33,815,568	P 68,766,355	P 758,774,641

	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	(51,032,784)	51,032,784	-	-
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

Per BSP's 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, 2025 and 2024, non-performing loans of the Bank amounted to P68,766,355 and P60,831,705, respectively, including loans in litigations amounting to P4,000,000 as at December 31, 2025 and 2024. 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, 2025 and 2024, except for lease liabilities amounting to P105,942 and P977,966, respectively, which are secured by the underlying Right-of-use asset with a net carrying value of P102,083 and P347,081, respectively *(see Note 11)*.

g. *Commitments and Contingent Liabilities*

As at December 31, 2025 and 2024, 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 P14,686,497 for the year ended December 2025. 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 P5,588,959 pertaining to the execution of the debt instrument.

c. Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2025 are shown below:

Expanded	P	2,875,625
Final		2,434,466
Compensation		2,077,327
	P	7,387,418

d. *Taxes and Licenses*

The details of taxes and licenses for the year ended December 31, 2025 are as follows:

Gross receipt taxes	P	14,726,289
Documentary stamp taxes		5,588,959
Manual licenses and permits		1,061,403
Real properties taxes		69,474
	P	21,446,125

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, 2025.

f. *Deficiency Tax Assessments and Tax Cases*

The Bank received a Letter of Authority (LOA) from the BIR to examine the books of accounts and other accounting records for all internal revenue taxes for the year 2022. As of the reporting date, the examination is still on-going and no final assessment has been issued by the BIR.

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, 2025, the Bank is not covered by the requirements and procedures for related party transactions provided under this RR.

CAPITAL STRUCTURE and CAPITAL ADEQUACY

As of December 31, 2025 and 2024, 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:

	2025	2024 (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

	2025	2024 (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

2025 Thanksgiving Party




























Summer Outing 2025






















Welcome Group Philippines Anniversary





























Outreach Program



















