2024 ANNUAL **REPORT**

SouthBank

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VISION

"To be one of the **leading** countryside banking institutions in the Philippines."

MISSION

SouthBank serves as a catalyst in providing quality financial products and services to its clientele; be an effective agent of financial inclusion as it provides an environment for its employees to grow while ensuring maximum return on investments to its stockholders.

To develop loan and other products that are attuned to the needs and are accessible to the unserved and underserved sectors of society, and to be an effective financial agent of inclusivity in the countryside;

To adopt a unique and operations-based core banking system which will drive the Bank's digitalization and online banking business in consonance with the Digital Transformation Roadways of Bangko Sentral ng Pilipinas (BSP).

To ensure full compliance with the BSP, Philippine Deposit Insurance Corporation (PDIC) and other regulatory requirements.

ABOUT THE BANK

SouthBank
Your Rural Bank

Southbank (A Rural Bank) Inc. was originally organized in 1993 by a group of Cagayan de Oro Businessmen as Kagay-anon Rural Bank (Cagayan de Oro) Inc. It was the only rural bank in Cagayan de Oro City at that time because the rural banking industry was not yet liberalized and branching out was limited.

In 1999, the Bank was bought by the A Brown Group of Companies, the real estate developer and owner of Xavier Estates. The A Brown conglomerate is headed by DR. Walter B. Brown a noted businessman who is also in power, mining, and other businesses. Kagay-anon Rural Bank then was a single branch unit. It was renamed Southbank (A Rural Bank) Inc. by the Brown Group.

In 2004, the Bank was acquired by the Zealep Group of Companies and has since grown from a single branch unit to seven branches and a full fledged Head Office. The Zealep Group led by its Chairman, Dr. Rafaelita P. Pelaez owns Liceo de Cagayan University has interests in real estate and financing among others.

BUSINESS MODEL

1.Customer Segments

SouthBank Inc. serves a diverse range of customers, primarily in Dep Ed and Private companies - employees offering salary loans for personal consumption, balance transfer, start up and additional capital, house renovation and etc. It also offers loans to Pensioners, Barangay employees and individuals for working capital of their small businesses.

2.Value Propositions

Accessible and Affordable Banking for Communities

SouthBank's core offering is low-barrier financial access—both in terms of physical reach and affordability by locating branches in key municipalities and cities Bukidnon, Cagayan de Oro, Pagadian and Butuan enabling transactions through face-to-face engagement with clients. The bank ensures even geographically isolated populations can access formal financial services. Products are priced with minimal fees and flexible terms to meet the realities of identified individual incomes.

Trusted and Regulated Financial Institution

SouthBank is regulated by the Bangko Sentral ng Pilipinas (BSP) and deposits are insured by the Philippine Deposit Insurance Corporation (PDIC). This provides customers with a sense of trust, legitimacy, and security, especially important for first-time or cautious users entering the formal banking system.

BUSINESS MODEL

3.Channels

SouthBank maintains physical branch locations in key municipalities and cities. These branches serve as physical center for customers who prefer face-to-face transactions, especially for account opening, loan applications, and customer service. Branch staff also play a key role in community engagement and trust-building.

For customers with limited internet access or non-smartphone users, SMS messaging remains an important channel for transaction alerts, account reminders, and promotional messages. Meanwhile, Website, Facebook and other social media platforms are used to share updates, financial education content, and community events, helping the bank stay visible and engaged.

4. Revenue Streams

Interest Income from Loans and Credit Lines

The primary source of revenue is interest earned on loans issued to individuals, pensioners, and small businesses. These include microfinance loans, agricultural loans, salary loans, and working capital for small business. Interest rates are designed to be competitive yet sufficient to cover operational risks associated with lending in areas where it operates.

5. Key Resources

Trained Staff and Field Officers

The bank’s human capital is a crucial resource. From loan officers and branch personnel to customer service and compliance staff, SouthBank’s employees are trained to deliver personalized service, evaluate credit risk, and support clients who may be new to formal finance. Staff training also ensures alignment with regulatory, customer service, and internal standards.

FINANCIAL HIGHLIGHTS

A SNAPSHOT OF THE BANK'S PERFORMANCE

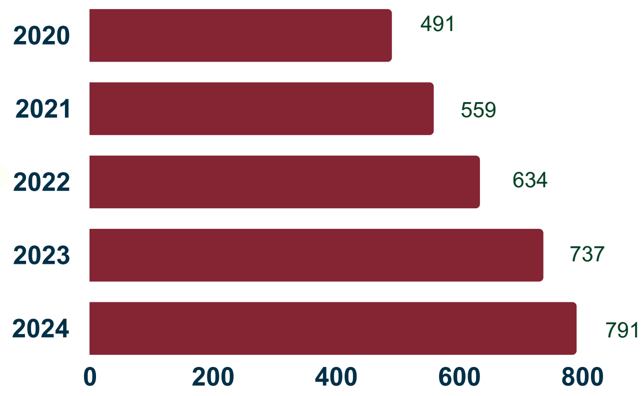
SOLO

Minimum Required Data	2023	2024	Change
Profitability			
Total Net Interest Income	Php 93,727,063.83	Php 104,781,812	12%
Total Non-Interest Income	34,621,510	34,807,443	0.54%
Total Non-Interest Expenses	104,525,286	111,408,923	6.59%
Pre-Provision Profit	23,823,288	28,180,332	18.2%
Allowance for Credit Losses	5,945,856	13,101,509	120%
Net Income	17,877,432	4,989,943	-72%
Selected Balance Sheet Data			
Liquid Assets [1/]	130,077,654	160,171,318	23.14%
Gross Loans	640,253,316	638,884,575	-0.21%
Total Assets	737,413,823	791,507,152	7%
Deposit Liabilities	416,174,491	394,183,494	-5%
Total Equity	126,759,305	131,749,248	4%
Selected Ratios			
Return on Equity	18%	14.88%	
Return on Assets	3%	1%	
Capital Adequacy Ratio	15.39%	14.37%	
Others			
Cash Dividends Declared		0	
Headcount	121	119	
Officers	31	30	
Staff	90	89	

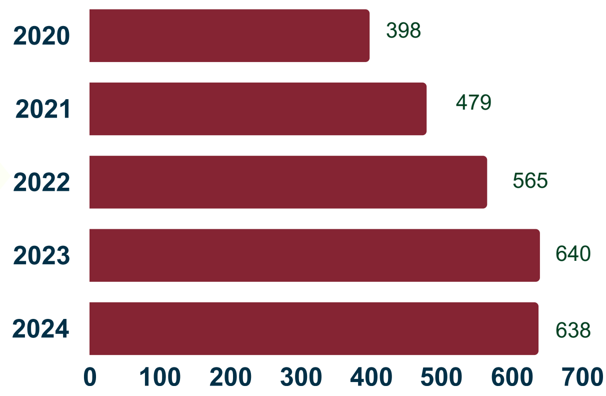
1/-Cash on Hand, Due from BSP, Due from Other Banks

HISTORICAL TRENDS

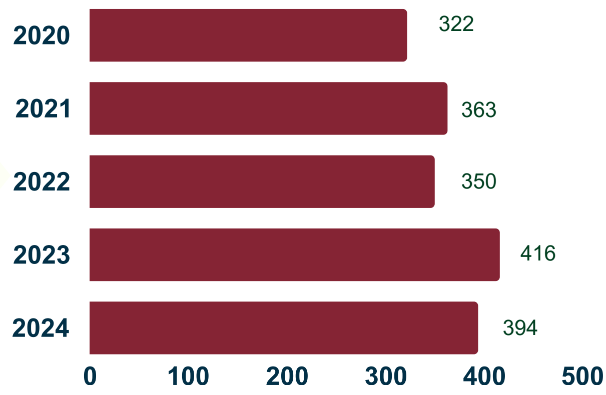
Resources
(in million Php)
CAGR : 10.01%



Gross Loan Portfolio
(in million Php)
CAGR : 9.90%



Deposit Liabilities
(in millions Php)
CAGR : 4.12%

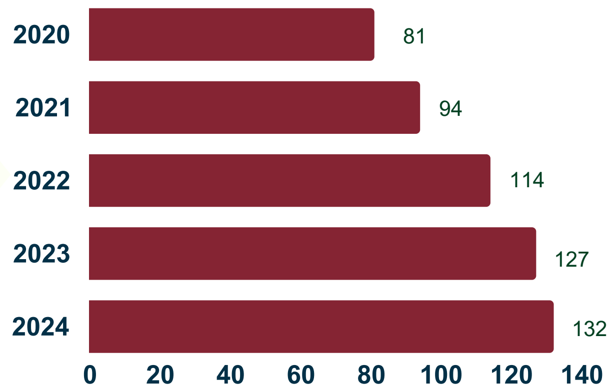


HISTORICAL TRENDS

Capital Funds

(in million Php)

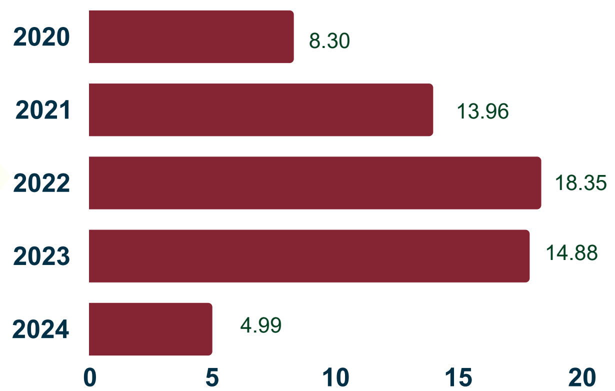
CAGR : 10.26%



Net Income

(in million Php)

CAGR : -9.68%



MESSAGE FROM THE PRESIDENT AND CEO

MESSAGE FROM THE PRESIDENT AND CEO

Dear Stockholders and Friends,

In behalf of our Chairman, Dr. Rafaelita P. Pelaez, the members of the Board of Directors and the officers and staff of Management, it is my pleasure to report the results of the operations of the Bank for the year 2024.

2024 Financial Performance

Total Revenue amounted to P139.6; it is P11.2M or 8.81% higher than the P128.3M total in 2023.

We reported a gross income (before tax) of P7.06M lesser by 67.76% from 2023 balance of P21.9M.

Net income of P4.9M is 72% lower than 17.8M in 2023.

Provision for losses stood at P13.01.

Total assets at Year-end 2024 stood at P791M up by P54M or 7% from P737M in 2023.

Gross Loan Portfolio amounting to P638.8M is P1.3M or 0.21% lesser than P640.1M in 2023.

Total Deposits amounting to P394.1M however is lesser by P21.9M or 5% from the 2023 balance of P416.1M.

On the other hand, total liabilities amounting to P659.7M which include bills payables of P223M is P49.1M higher than our balance of P610.6M in 2023.

Total Capital amounting to P131.7M improved by P4.9M or 4% from the 2023 balance. CAR of 14.37% remains within regulatory requirements.

2024 FACTS & FIGURES

₱139.6
Total Revenue
(in million Php)

₱7.06
Gross Income
(in million Php)

₱4.99
Net Income
(in million Php)

₱638.9
Gross Loans Portfolio
(in million Php)

₱394.1
Total Deposits
(in million Php)

₱131.7
Total Capital
(in million Php)

MESSAGE FROM THE PRESIDENT AND CEO

Report on Operations

The Bank reported a 12% increase in Total Net Interest Income, from Php 93.7 million to Php 104.8 million in 2024. The major increase in interest income was from the proceeds of salary loans offered to Teachers which were bought out by other financial institutions and retention of loans due for renewal wherein, we recognized the 25% of the interest balance before its maturity.

Total Non-Interest Income was sustained at Php 34.8 million in 2024, reflecting a slight increase of 0.54% from Php 34.62 million in 2023. It denotes that no increase in service charges and fees had been imposed by the bank in its lending activities.

Operating costs rose by 6.59%, with Total Non-Interest Expenses increasing from Php 104.5 million to Php 111.4 million. The major contributor of the increase was the management and personnel expenses due to the performance-based salary adjustments and salary distortions mandated by DOLE, which directly impacts the increase in mandatory government contributions and other emoluments. While we have already initially started our analysis and evaluation of the expenses attributable to the increased Administrative and Operational Expenses, we have a Team of Operations and Credit Officers who meet regularly to analyze expense items line by line and to recommend to the Management's Execom the measures to be adopted to mitigate the rising costs. We have reviewed our CAPEX budget and cut the ones that are not urgent or those whose implementation can be delayed.

Allowance for Credit Losses, rose from Php 5.9 million to Php 13.1 million. This was due to the abnormal uptick of the on-line fund transfer and "Lost ATM's" by the teacher-clients, most probably because of the economic difficulties driven by inflation and other personal factors. There are also a sizable number of Teachers who went abroad and many resigned or retired from service optionally, leaving some unpaid balances. We have strengthened our loan evaluation process to control or mitigate credit risks, even as we have intensified our collection efforts.

Net Income declined from Php 17.9 million to Php 4.99 million due to the impact of increase in expenses and provision for losses.

Total Assets grew by 7%, from Php 737.4 million to Php 791.5 million, demonstrating continued expansion and resource mobilization.

MESSAGE FROM THE PRESIDENT AND CEO

Gross Loans slightly decreased by 0.21%, indicating stable but cautious lending activity due to the heightened competition with cooperatives and private financial institutions offering higher loanable amounts and longer terms. We have encouraged our branches to ramp up the on-boarding of new and qualified teacher loan and to ensure that all accounts that can be renewed shall be renewed on time. The market reach of our branches expanded to areas in Northern Cotabato, Davao de Oro, Zamboanga del Sur and Misamis Occidental where there are lesser competition.

Deposit Liabilities contracted by 5%, from Php 416.2 million to Php 394.2 million. This reduction was due to the withdrawals of some of the business account depositors which was used as working capital for business expansion.

On a positive note, Total Equity increased by 4%, from Php 126.8 million to Php 131.7 million. This growth, despite lower earnings, highlights the Bank's ability to preserve capital and maintain a sound financial position

Operations and Branches Supervision

The Operations Unit continued to further strengthen the operational framework of the branches in keeping with the directives of the regulators, particularly in identifying risks and mitigating them. The Bank has been transitioning the various aspects of its operations to risk-based mode.

There is an on-going effort to align the branches with the requirements and demands of Audit and Compliance and the directives of the regulators. Chief among the risks identified are credit, operational and liquidity risks.

Advances in Digitalization

The year 2024 saw the continuous attention given to the development of our core banking system. Significant progress has been made to address the monitoring of transaction usage of our digital platform, including substantial improvements in our cybersecurity awareness and preparation.

Noteworthy among the accomplishments in 2024 include the substantial traction gained by SBPay with transaction volume reaching up to as high as P195,516,143.98 facilitated by a user base of less than 3,000.00.

The integration of SBPay with G-Cash and 7/11 stores through the Quick Connect App enhanced financial accessibility and convenience for its users. On the other hand, the launching of SBPay Online Business Account Facility seeks to empower business with advanced digital banking solutions.

MESSAGE FROM THE PRESIDENT AND CEO

Southbank has also forged a partnership with RBAP in providing digital consultation services to other Rural Banks through its Angel Network.

CHALLENGES

The Bank continues to embrace the challenges that are common to Rural Banks, the more prevalent among others are low liquidity and the lingering adverse perception about the stability of the rural banking industry. We are confident, however, that our Capital build up program and plan to open the Bank to the possible entry of investors will generate fresh capital and enable the Bank to improve its liquidity.

We ended 2024 with renewed enthusiasm and thanks to our Chairman, the members of the Board and all our officers and staff for their support.

Again, thank you very much for your support to SBI.

WILHELMINO R. MENDOZA
President and CEO

RISK MANAGEMENT

OVERALL RISK MANAGEMENT CULTURE AND PHILOSOPHY

The Bank's risk management framework aims to establish an efficient process for managing risks throughout the organization. Risk management is essential to all the Bank's activities and is a shared responsibility among all employees. Managers, in particular, must assess their risk environment, implement appropriate controls, and monitor their effectiveness. The risk management culture prioritizes thorough analysis and management of risks in all business processes.

RISK APPETITE AND STRATEGY

South Bank gives emphasis on the fourteen (14) categories identified to where risk is being weighted. The Bank will act in accordance to this risk statement to where our policy formulation and decision-making strategy will be anchored to ensure transparency and effective implementation of a sound Banking practice.

The Bank’s strategic objectives closely align with its mission, vision, and core values that adheres to best practices of a sound Banking institution. The Bank must maintain a highly motivated, diverse, talented, and empowered work force and will deploy resources to maximize their use and effectiveness. The Bank will operate with integrity, maintain strong ethical standards, and adhere to applicable legal and regulatory requirements. The Bank must maintain proactive supervisory approaches that address significant risks to the financial system and its consumers, recognizing the best supervisory processes will not always prevent Banks from experiencing problems or failing.

The Bank defines its risk appetite by setting thresholds and tolerances for each key risk area, balancing growth objectives with sound risk management practices. These thresholds are based on a combination of quantitative metrics (e.g., ratios, scores, limits) and qualitative judgments (e.g., market conditions, regulatory changes). The Bank regularly reviews these limits in light of its business strategy, capital position, and evolving risk landscape.

Southbank has identified the following key risk areas based on its operations and business profile:

Credit Risk
Assessed using borrower creditworthiness, portfolio concentration, non-performing loan levels, and internal credit scoring metrics.

Liquidity Risk
Guided by liquidity coverage ratios, stress test results, cash flow projections, and the stability of funding sources.

Market Risk
Informed by sensitivity to interest rate movements, foreign exchange exposure, and mark-to-market fluctuations in investment portfolios.

Operational Risk
Based on internal loss events, process control effectiveness, third-party dependencies, and business continuity readiness.

Financial Risk
Related to capital adequacy, earnings volatility, leverage ratios, and external economic indicators that impact profitability.

Reputation Risk
Evaluated through customer satisfaction, media exposure, social media sentiment, and stakeholder perception.

Technology Risk
Considered through system uptime, cybersecurity posture, incident response capacity, and IT infrastructure reliability.

Human Capital Risk
Managed via workforce planning, retention rates, key personnel risk, and training adequacy for critical roles.

Security Risk
Assessed through branch-level physical security measures, fraud prevention systems, and response protocols for theft or breach incidents.

Compliance and Regulatory Risk
Informed by the frequency and nature of regulatory updates, audit results, policy compliance rates, and regulatory examinations.

Legal Risk
Related to exposure to litigation, enforceability of contracts, and clarity of legal interpretations impacting bank operations.

Money Laundering / Terrorist Financing / Proliferation Financing (ML/TF/PF) Risk
Based on customer risk profiling, transaction monitoring effectiveness, geographic exposure, and internal KYC/AML controls.

Environmental and Social (E&S) Risk
Evaluated by identifying client sectors or transactions with environmental or social sensitivities, potential ESG violations, or community impact.

As part of the Bank's Risk Management Framework (RMF), the Risk Appetite Statement articulates the types and levels of risk the Bank is willing to accept in pursuit of its strategic and operational objectives. It serves as a key foundation for risk-informed decision-making, helping ensure that risk-taking activities are aligned with the Bank's mission, vision, values, and regulatory obligations. The statement is reviewed periodically to reflect changes in the internal and external environment and to ensure that risk exposures remain within acceptable bounds. Each risk category is assessed with clear parameters to support a prudent, sustainable, and well-governed risk culture.

Risk Category	Definition	Risk Appetite Statement
Strategic Risk	The risk that strategy selection, prioritization, modification, or implementation jeopardizes the achievement of defined goals and objectives	Strategic initiatives shall be aligned with the Bank's mission and vision. A disciplined approach shall be applied in the evaluation, prioritization, and execution of initiatives. Risks arising from strategic decisions shall be identified, assessed, and monitored through established governance and reporting structures.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people, systems, or external events.	Operational risk shall be minimized through implementation of robust internal controls, clear policies and procedures, effective training, and strong oversight. Risk mitigation strategies shall be cost-effective and proportionate to the exposure level.
Credit Risk	The risk of loss due to a borrower's failure to meet contractual obligations.	Southbank proactively manages credit risk and adheres to sound credit practices. The Bank implements rigorous credit assessments, risk-based lending practices, and robust pre- and post-release controls to ensure portfolio quality, while balancing credit expansion with risk mitigation.
Financial Risk	The risk that financial resources may be impaired due to mismanagement, poor spending decisions, or adverse market conditions.	Southbank exercises prudent financial stewardship, ensuring that resources are aligned with strategic priorities and financial obligations. The Bank maintains a moderate appetite for financial risk and aim to mitigate external impacts through conservative financial management.
Reputation Risk	Risk of stakeholder confidence loss due to fraud, unethical behavior, or service failure.	Southbank upholds the highest standards of integrity and transparency. The Bank maintains a low appetite for reputational risk and actively promote customer trust, ethical conduct, and timely issue resolution to protect the Bank's credibility.
Technological Risk	Risk from failures or vulnerabilities in IT systems, infrastructure, and cybersecurity.	Southbank has a low appetite for technology risk and prioritizes investment in secure, resilient, and scalable IT infrastructure. The Bank continuously monitor and upgrade our systems to ensure reliable service delivery and cyber threat protection.

Risk Category	Definition	Risk Appetite Statement
Human Capital Risk	Risk arising from misaligned workforce practices, inadequate staffing, or regulatory non-compliance.	Southbank recognizes employees as vital assets. The Bank maintain a moderate appetite for human capital risk and foster a culture of performance, diversity, and integrity through strategic recruitment, training, and succession planning.
Liquidity Risk	The current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they become due without incurring unacceptable losses or costs.	Southbank maintains a conservative liquidity risk appetite. The Bank ensures sufficient liquidity buffers, diversify funding sources, and comply with regulatory requirements to meet obligations under normal and stressed scenarios.
Security Risk	Risks associated with data breaches, fraud, physical threats, and operational disruptions.	Southbank has zero tolerance for security breaches. The Bank enforces robust security protocols, continuous monitoring, and proactive threat detection to safeguard our assets, personnel, and customer data.
Compliance and Regulatory Risk	The risk of legal or regulatory sanctions or loss due to non-compliance with laws, rules, and standards.	Southbank maintains a low appetite for compliance breaches. The Bank upholds strict adherence to regulatory requirements and ethical standards through a strong compliance culture and active monitoring.
Legal Risk	The risk of financial or reputational loss due to legal claims, contract issues, or regulatory non-compliance.	Southbank has a low appetite for legal risk. We emphasize sound contract management, legal due diligence, and compliance with applicable laws to minimize exposure to litigation and penalties.
Money Laundering / Terrorist Financing / Proliferation Financing Risk	The risk that the Bank is used as a conduit for laundering illicit funds or financing terrorism and proliferation activities.	Southbank enforces a zero-tolerance policy on ML/TF/PF risk. We strictly comply with AMLC and BSP guidelines, maintain rigorous KYC/CDD procedures, and continuously enhance our monitoring and reporting systems.
Market Risk	The risk of losses from changes in interest rates, foreign exchange rates, or other market prices.	Southbank maintains a moderate appetite for market risk. The Bank manages exposures through diversification, limit-setting, and alignment with strategic and regulatory guidelines.
Environmental and Social (E&S) Risk	The risk of adverse environmental and social impacts resulting from the Bank's lending or investment activities.	Southbank is committed to sustainable and responsible banking. The Bank shall integrate E&S risk considerations into credit decision-making, ensuring minimal adverse impact on communities, ecosystems, and stakeholders.

RISK GOVERNANCE STRUCTURE

Risk management at South Bank begins at the highest level of the organization. At the helm of the risk management infrastructure is the Board of Directors who is responsible for establishing and maintaining a sound risk management system. The Board of Directors assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution’s tolerance for risks, as well as its business strategy and risk philosophy

The Bank operates an enterprise-wide risk management framework to address the risks it faces in its banking activities. These risks are identified, assessed and managed at both an enterprise level (‘top down’) and business level (‘bottom-up’). Part of the framework is to establish a Risk Appetite Statement that articulates the level and type of risk the Bank will accept while conducting its mission. This statement is the result of a careful evaluation of how risks affect the Bank’s ability to achieve its strategic goals. Reporting systems are maintained to provide assurance that the risk appetite is effectively incorporated into management decisions.

The governance structure is further supported by clearly defined roles and responsibilities, as outlined below:

Unit/Committee	Duties and Responsibilities
Board of Directors	Approves risk appetite, overall RMF, and major risk-related policies.
Risk Management Committee	Develops risk policies, conducts risk identification and analysis, prepares risk reports, and monitors compliance with risk limits.
Senior Management	Implements risk strategies, ensures alignment of business decisions with the Bank's risk appetite.
Compliance Office	Ensures regulatory compliance, monitors adherence to laws, rules, and internal policies.
Internal Audit	Provides independent assurance on the effectiveness of the risk management processes.
Business Units	Identify, assess, and manage risks at the transactional and operational levels.

RISK MANAGEMENT PROCESS

SouthBank's risk management process is built on a comprehensive framework that enables the identification, assessment, monitoring, and mitigation of risks across the organization. This framework supports sound decision-making and promotes a risk-aware culture aligned with the Bank's strategic goals and regulatory expectations.

The process encompasses five key components:

- ***Risk Identification*** – Recognizing internal and external factors that may pose threats to the Bank's operations, financial position, or reputation.
- ***Risk Assessment and Measurement*** – Evaluating the likelihood and potential impact of identified risks using both qualitative and quantitative methodologies.
- ***Risk Control and Mitigation*** – Implementing measures and internal controls to manage or reduce risk exposures to acceptable levels in line with the Bank's risk appetite.
- ***Risk Monitoring and Reporting*** – Continuously tracking key risk indicators and control effectiveness, with timely reporting to ensure informed oversight and prompt corrective action.
- ***Communication and Consultation*** – Fostering ongoing dialogue among business units, control functions, and management to ensure a shared understanding of risk exposures and mitigation strategies.

Regular risk reporting is conducted across all levels of the organization, including Senior Management, the Board of Directors, and relevant external stakeholders. This ensures transparency and reinforces accountability in risk governance.

To further strengthen the Bank's risk oversight, SouthBank adopts the **Three Lines Model**, ensuring that risk management responsibilities are clearly defined and effectively executed:

- ***First Line:*** The business units and process owners are primarily responsible for identifying, managing, and mitigating risks within their areas of operation. They ensure that day-to-day controls are embedded in processes and that regulatory and internal policies are followed.

- ***Second Line:*** The Risk Management Committee and Compliance function provide independent oversight by developing risk frameworks, policies, and monitoring tools. They validate the effectiveness of controls, track key risk indicators, and support the business in maintaining compliance and mitigating risks.

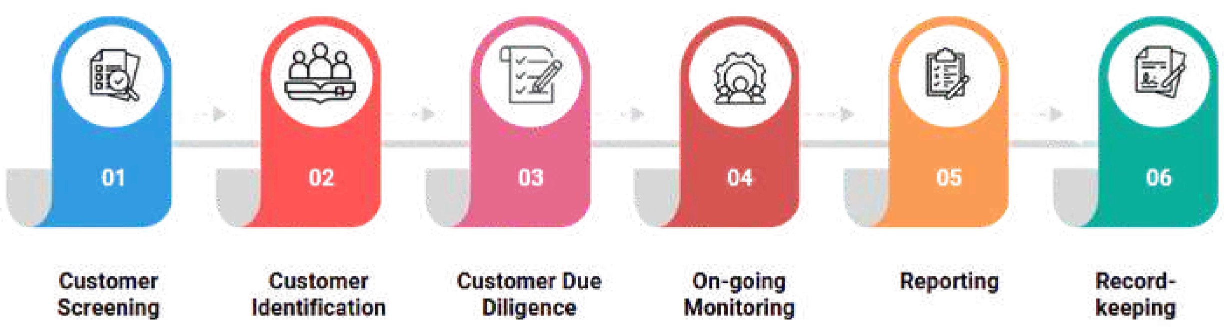
- ***Third Line:*** The Internal Audit function delivers independent assurance on the adequacy and effectiveness of the Bank's governance, risk management, and control processes. The Internal Audit also provides recommendations for continuous improvement and reports directly to the Audit and Compliance Committee.

The Board of Directors exercises active oversight over the Bank's risk management activities and ensures alignment with its risk appetite and long-term strategy. SouthBank also upholds transparency in its dealings with external auditors and regulators, supporting its commitment to sound governance, prudent risk-taking, and sustainable growth.

ANTI-MONEY LAUNDERING (AML) AND TERRORIST FINANCING (TF) PREVENTION

The Bank is dedicated to upholding the highest standards of integrity and reputation in its efforts to prevent money laundering (ML) and terrorist financing (TF). As a regulated entity, the Bank fully complies with all relevant laws, rules, and standards related to Anti-Money Laundering (AML) and Terrorist Financing Prevention (TFP).

The Bank has established robust risk management policies and practices to identify, assess, monitor, mitigate, and control risks associated with ML and TF, such as reputational, operational, and compliance risks. These measures ensure effective adherence to regulations set forth by the BSP, the AMLA (as amended), and its Revised Implementing Rules and Regulations (RIRR). The aim is to prevent the Bank from being used to legitimize proceeds of unlawful activities or to facilitate or finance terrorism.



The Bank's comprehensive risk management framework includes active oversight by the Board and Senior Management, sound policies and procedures encapsulated in the Money Laundering and Terrorist Financing Prevention Program (ML/TFPP), appropriate monitoring and Management Information Systems (MIS), and thorough internal controls and audits. While the Compliance Office and Internal Audit have specified duties and responsibilities, the ultimate responsibility for compliance with AML and TF provisions rests with the Bank’s Board of Directors, ensuring adequate oversight of the Bank’s AML/TF compliance management.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRACTICES

SOUTH BANK (A RURAL BANK), INC. upholds the principles of good governance, drawing from leading international and national best practices.

SBI is dedicated to corporate governance founded on the pillars of integrity, accountability, and transparency in all business activities. The Bank emphasizes fairness in its interactions with clients, investors, employees, stockholders, and the public; professionalism in managing the Bank; respect for all applicable laws and regulations; and adheres to the principles of rational checks and balances and a structured approach to its operational processes.

The Board of Directors, Management, Officers, and Staff of the Bank commit to the principles and best practices outlined in its Corporate Governance Manual. They recognize that these principles are essential for sound strategic business management and the achievement of corporate goals.

SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

The Board is composed of nine members, all of whom, other than the President and CEO, serve as non- executive directors and operate independently of management. Nominated and voted by shareholders every year, each director serves a one-year term until the election of another set of directors.

The Bank recognizes increasing diversity at the Board level as an essential element in maintaining a competitive advantage and achieving long-term growth and profitability. In determining the appropriate Board composition, Board diversity shall consider professional experience, skills, knowledge, background, moral standing in the community and other distinctions between Directors. All Board appointments are made on merit, in the context of integrity and reputation, skills, experience, independence and knowledge, which the Board as a whole requires to be effective.

Through the Board's Corporate Governance Committee, the Bank ensures that all directors are qualified for election based on their integrity, physical fitness, competence, education, moral standing in the community, and relevant business or banking experience, among others. The Bank does not discriminate against gender, age, nor ethnic, political, religious, or cultural backgrounds.

SouthBank follows a structured and principles-based process in the selection and appointment of Senior Management personnel. The process is designed to ensure that individuals entrusted with key leadership responsibilities possess the competence, integrity, and leadership qualities necessary to effectively guide the organization and uphold sound governance practices.

Selection is governed by internally established criteria and guided by applicable regulatory standards. The evaluation process involves a holistic review of each candidate's professional experience, academic qualifications, leadership potential, ethical conduct, and ability to contribute to the Bank's long-term goals.

SouthBank also upholds a commitment to fairness, inclusivity, and equal opportunity. All candidates are assessed based on merit and suitability for the role, without regard to gender, age, or background. Emphasis is placed on identifying individuals who not only meet the technical and managerial demands of the position but also embody the Bank's mission, vision, and core values. This approach ensures that leadership appointments are both strategic and aligned with SouthBank's commitment to ethical leadership, operational excellence, and regulatory compliance.

BOARD'S OVERALL RESPONSIBILITY

Compliance with the principles of good corporate governance begins with the Board of Directors. The Board is entrusted with fostering the long-term success of the Bank and ensuring its competitiveness and profitability, all while adhering to its fiduciary responsibility to act in the best interest of the Bank, its shareholders, and other stakeholders.

The Board holds the primary responsibility for approving and overseeing the implementation of the Bank's strategic objectives, business plans, risk strategy, corporate governance, and corporate values. It conducts regular and special meetings to review senior management's performance against the Bank's strategic plan and annual budget, and to address policies and developments in risk management, corporate governance, compliance, and relevant operational functions.

South Bank is led by a competent and active Board that effectively oversees the implementation of the Bank's strategic objectives, governance framework, and corporate values.

ROLE OF INDEPENDENT, EXECUTIVE AND NON-EXECUTIVE DIRECTORS

Independent directors are established to reinforce the Board's independence in order to provide independent and objective judgment on significant corporate matters and ensure that key issues and strategies are objectively reviewed, constructively challenged, thoroughly discussed and rigorously examined. In 2019, two of the nine directors are Independent Directors, which still qualified for the minimum requirement for rural banks.

The President and CEO of the Bank, being an executive director, ensures that orders and resolutions of the Board and BSP circulars, rules and regulations governing rural banks are carried into effect. He shall have direct and immediate supervision over the long-term and daily operations and management of the Bank and shall execute and administer the administrative and operational policies approved by the Board.

The non-executive directors, on the other hand, are not involved in the day-by-day management operations of the Bank to promote independent oversight of management.

ROLE OF THE CHAIRMAN OF THE BOARD

The Chairperson is primarily responsible for leading the Board and ensuring its effectiveness. She provides independent leadership to the Board, fosters constructive relationship between Directors, promotes an open environment for critical discussions and constructive debate on key issues and strategic matters, and ensures that the Board of Directors exercises strong oversight over the Bank's business and performance of senior management. She takes a lead role in ensuring that the Board provides effective governance of the Bank and continues to operate at a very high standard of independence with the full support of the director.

BOARD COMPOSITION

Director	Position / Type of Director	Years as Director	Total No. of Direct (D) and Indirect (I) Shares held as of December 31, 2024	% to Total Outstanding Shares
Dr. Rafaelita P. Pelaez	Chairman of the Board Non-Executive Director	20	27,600,000.00	60
Mr. Wilhelmino R. Mendoza	President and CEO Executive Director	11	100.00	0.00
Dr. Mariano M. Lerin	Non-Executive Director	20	3,700,000.00	8.04
Dr. Alain Marc P. Golez	Non-Executive Director	20	5,536,100.00	12.04
Engr. Elpidio M. Paras	Non-Executive Director	20	543,100.00	1.18
Dr. Ferdinand A. Rodriguez	Independent Director	9	100.00	0.00
Dr. Anselmo B. Mercado	Independent Director	9	100.00	0.00
Mr. Jaime Rafael U. Paguio	Non-Executive Director	9	100.00	0.00
Atty. Ramon M. Velez	Non-Executive Director	9	100.00	0.00

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Dr. Rafaelita P. Pelaez
Chairman
Non-Executive Director

Dr. Rafaelita P. Pelaez has served as the Bank's Chairman and is the majority stockholder since February 2005 when the Pelaez family acquired it in 2004. She is the Chairman of the ZEALEP Group of Companies with business interests in education, real estate and finance among others.

Aside from the Bank, the corporations which she heads as Chairman are: Liceo de Cagayan University, Zealep, Inc., Gopel Finance Corporation, Factors Lending Corporation, Paseo del Rio, Bently Realty and Development Corporation, Cagayande Oro Academy for International Education, Divine Shepherd Memorial Gardens, and Pelaez-Golez Management Corporation.

She holds a Bachelor of Arts degree from the Colegio dela Immaculada Concepcion, a Master of Arts in Literature from the University of San Carlos and Doctor in Management from University of San Jose Recoletos. She has attended the Corporate Governance Seminar conducted by Rural Bankers Association of the Philippines (RBAP).

Wilhelmino R. Mendoza
President and CEO
Executive Director

Mr. Wilhelmino R. Mendoza has served as the Bank's President and Chief Executive Officer and Director since December 2013. He is a Director of Gopel Finance Corporation and Factors Lending Corporation. Mr. Mendoza has spent may years in the banking industry and has attended many leadership management and financial trainings and seminars, foremost of which are his attendance in the Pacific Rim Bankers Program at the University of Washington in Seattle, USA and a Leadership Program conducted by the National Defense College of the Philippines at Fort Bonifacio in Taguig, Metro Manila.

He worked in various capacities in many banks. He started his banking career at the Philippine National Bank and rose to become manager of Republic Planters Bank. Afterwards he became Vice President and Region Head of Land Bank of the Philippines and Solid bank Corporation. He retired in 2013, as First Vice President and Area Head of BDO Unibank. For a time, he also worked as Senior Vice President and Consultant of A. Brown Company and other affiliates of the said group in Cagayan de Oro.

Mr. Mendoza holds a Bachelor of Arts degree from Ateneo de Zamboanga. He has attended the Corporate Governance Seminar and Advance Corporate Governance Course conducted by RBAP last September 2016 and October 2017, respectively.

BOARD OF DIRECTORS

Dr. Mariano M. Lerin
Non-Executive Director

Dr. Mariano M. Lerin has served as a Director of the Bank since 2005 and corporate secretary until 2018. He was President of Liceo de Cagayan University from 2007 until his retirement in 2020. Dr. Lerin held directorship and officership positions in Gopel Finance Corporation, Factors Lending Corporation, Paseo del Rio, Zealep Hotels, Inc., Bently Realty and Development Corporation, Divine Shepherd Memorial Gardens, Zealep Insurance Agency and Allied Services, Inc., Zealep Holdings, Inc. and Propiedades Maternales, Inc as Director; and Cagayan de Oro Academy for International Education as Director and Corporate Secretary.

He is an accomplished educator and has been faculty and dean of various schools before joining Liceo de Cagayan University. He was President of Philippine Institute of Certified Public Accountants (PICPA) in 1991 and of ASEAN Federation of Accountants (AFA) in 1996. He has attended various seminars in his field, including Corporate Governance Seminar which was conducted by RBAP in 2016.

He holds a Bachelor of Science degree in Commerce from the University of San Carlos, AB Economics from University of San Carlos, Bachelor of Science in Education Major in Economic from University of San Jose Recoletos, Master in Business Administration from University of San Jose Recoletos and Doctor in Management from the University of Sto. Tomas.

Dr. Alain Marc P. Golez
Executive Director

Dr. Alain Marc P. Golez has served as a Director of the Bank since 2005. He has also been the Bank's Treasurer from 2005 to 2018. He was elected as President of Liceo de Cagayan University in 2020. He also holds directorship and officership positions in Gopel Finance Corporation, Factors Lending Corporation, Paseo del Rio, Bently Realty and Development Corporation, Divine Shepherd Memorial Gardens, and Pelaez-Golez Management Corporation as Corporate Secretary; Cagayan de Oro Academy for International Education and Golez and Golez Ventures as President; Zealep Holdings, Inc. as Chief Executive Officer; and Zealep, Inc. and Zealep Insurance Agency and Allied Services as Director.

He holds a Bachelor of Arts degree major in English from the University of San Carlos, Master in Entrepreneurship from the Asian Institute of Management and Doctor in Philosophy Major in Commerce from the University of Sto. Thomas. He attended the Corporate Governance Seminar in 2016.

BOARD OF DIRECTORS

Engr. Elpidio M. Paras
Director

Engr. Paras has served as a Director of the Bank since 2005. He is one of Cagayan de Oro City's prominent and pioneering businessmen. He is the President and CEO of UC-1 Corporation, Parasat Cable TV, Inc., Arriba Telecontact Inc. and Paramedix Inc. His newest business establishment, Seven Seas, is a popular and the only water sports adventure park in Cagayan de Oro City. He has been the President of Cagayan De Oro Chamber of Commerce and Chairman of the Board of Trustees of Xavier University in 2007.

Engr. Paras holds a Bachelor of Science degree in Mechanical Engineering from De Lasalle University. He attended the Corporate Governance Seminar in 2016.

Dr. Ferdinand A. Rodriguez
Independent Director

Dr. Ferdinand A .Rodriguez has served as one of the Bank's Independent Directors since 2016. He is a Certified Public Accountant and is the Managing Director of FAR Management Consultancy and Accounting Office and the Review Director of Professional Review and Training Center (PRTC) – Cagayan de Oro City. He has been the President of Philippine Council of Deans and Educators in Business in 2016 up to 2017; President of National Association of CPAs in Education in 2014 up to 2015. He was appointed as Second Member of Professional Regulation Commission-Continuing Professional Development Council for Accountancy in 2017.

He is also the Regional Director of Philippine Institute of Certified Public Accountants since 2018 and National Director of Association of Certified Public Accountants in Public Practice since January 2019.

He holds a Bachelor of Science degree in Accountancy from Polytechnic University of the Philippines, Master of Business Administration from Xavier University and Doctor in Management from Capitol University in Cagayan de Oro City. Recently, he completed academic requirement in Doctor in Business Administration from La Consolacion University Philippines in Malolos, Bulacan.

BOARD OF DIRECTORS

Dr. Anselmo B. Mercado
Independent Director

Dr. Anselmo B. Mercado has served as one of the Bank's Independent Directors since 2016. He is the Chairman of the Board of Water Consumers Cooperative, Cagayan de Oro Cooperative Advisory Committee, and First Community Credit Cooperative Foundation (FCOF). He served as Dean of Xavier University – College of Agriculture and previously held directorship in various institutions.

Dr. Mercado holds a Bachelor of Science degree in Agriculture Major in Animal Science from Xavier University, Master of Science in Education, Virginia Polytechnic Institute & State University and Doctor of Philosophy major in Adult and Extension Education from North Carolina State University. He attended the Corporate Governance Seminar in 2016.

Atty. Ramon M. Velez
Director

Atty. Ramon M. Velez has served as a Director of the Bank since March 9, 2017. He is the Senior Manager for Legal Services of Del Monte Philippines, Inc. He is also engaged in restaurant business and is an avid golfer.

Atty. Velez holds a degree in AB Economics from Xavier University and Bachelor of Laws from University of the Philippines. He attended the Corporate Governance Seminar on September 2017.

BOARD OF DIRECTORS

Mr. Jaime Rafael U. Paguio
Director

Mr. Jaime Rafael U. Paguio has served as a director of the Bank since 2016. Currently, he is the President of Allied Power Industries of Mindanao, Inc. (A Power); Senior Vice President of the Cagayan Electric Power and Light Co., Inc. (CEPALCO) and Executive Vice President of the CEPALCO Energy Services Corporation (CESCO). He is past President of the Cagayan de Oro Chamber of Commerce and Industry Foundation, Inc. and the 2020 Vice President for the Manufacturing and Industry Sector of the Cagayan de Oro Chamber of Commerce and Industry Foundation Inc. (Oro Chamber) and holds a Bachelor of Arts degree major in Economics from Xavier University; Finance and Economic Analysis of Energy Projects at the Colorado School of Mines; Electric Utility Management at Swedpower-Vattenfall, Sweden and Finance for Senior Executives at the Asian Institute of Management (AIM). He attended the Corporate Governance Seminar in January 2017.

Atty. Jairo M. Ladera
Corporate Secretary

Atty. Jairo M. Ladera was appointed as the Bank's Corporate Secretary on May 12, 2021. He has been the acting corporate secretary from February 2020 until appointed as full fledge corporate secretary last May 12, 2021. Atty. Ladera holds a Bachelor of Science degree in Accountancy from Xavier University. He also holds a Bachelor of Laws degree from Xavier University and passed the Bar Examination in 2010.

Atty. Ladera is a partner of Almirante Ladera and Associates, auditor of Integrated Bar of the Philippines Misamis Oriental Chapter, commissioner at IBP Commission on Bar Discipline. He was former Legal Officer of Department of Agriculture and former Professor of Xavier University and Liceo de Cagayan University College of Law.

BOARD-LEVEL COMMITTEES

Members, Functions and Attendance

To aid the effective performance of the Board's function and comply with the principles of good corporate governance, board level committees are established. South Bank's Corporate Governance Manual provides for four committees to support the Board. The Manual clearly defines the composition, respective purposes, duties and responsibilities, conduct of meetings and other relevant information, approved by the Board for each of the board level committees

Audit and Compliance Committee

Members	No. of meetings attended	No. of meetings held[1]	% of attendance
Ferdinand A. Rodriquez Chairman	2	2	100
Anselmo B. Mercado	2	2	100
Mariano M. Lerin	2	2	100
Elpidio M. Paras	2	2	100
Jaime Rafael U. Paguio	2	2	100

[1]Represents no. of the Audit and Compliance Committee meetings from the period May 2024 to April 2025 (election year)

The Audit and Compliance Committee assists the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations. It also performs oversight financial management functions, specifically on risk management and internal control functions, it further evaluates and approves the plans of the internal and external auditors.

BOARD-LEVEL COMMITTEES

Corporate Governance Committee

Members	No. of meetings attended	No. of meetings held[1]	% of attendance
Jaime Rafael U. Paguio Chairman	1	1	100
Ferdinand A. Rodriquez	1	1	100
Anselmo B. Mercado	1	1	100
Mariano M. Lerin	1	1	100
Elpidio M. Paras	1	1	100

[1]Represents no. of the Corporate Governance Committee meetings from the period May 2024 to April 2025 (election year)

The Corporate Governance Committee assists the Board in fulfilling its corporate governance responsibilities to strengthen corporate governance and practices particularly.

Related Party Transactions Committee

Members	No. of meetings attended	No. of meetings held[1]	% of attendance
Anselmo B. Mercado Chairman	2	2	100
Ferdinand A. Rodriquez	2	2	100
Jaime Rafael U. Paguio	2	2	100
Mariano M. Lerin	2	2	100
Elpidio M. Paras	1	2	50

[1]Represents no. of the Related Party Transactions Committee meetings from the period May 2024 to April 2025 (election year)

BOARD-LEVEL COMMITTEES

The Related Party Transactions Committee assists the Board in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations, to protect the interest of depositors, creditors and other stakeholders. It shall also oversee that RPTs are conducted on an arm's length basis and that no stake holder is unduly disadvantaged.

Information Technology Steering Committee

Members	No. of meetings attended	No. of meetings held[1]	% of attendance
Elpidio M. Paras Chairman	N/A	0	N/A
Wilhelmino R. Mendoza	N/A	0	N/A
Alain Marc P. Golez	N/A	0	N/A
Ferdinand A. Rodriquez	N/A	0	N/A
Jaime Rafael U. Paguio	N/A	0	N/A

[1]No meetings of the Information Technology Steering Committee were held from the period May 2024 to April 2025 (election year)

The Information Technology Steering Committee provides oversight and governance over the Bank's IT functions, including approvals of information technology related policies and practices of the Bank and applicable guidelines. It informs the Board of both internal and external IT-related developments and activities, potential challenges and risks, progress vs. strategic objectives. It approves and endorses to the Board IT-related best practices, strategic plans, policies, and procedures.

BOARD OF DIRECTOR'S MEETING ATTENDANCE

From the period May 2024 to April 2025 (election year), the member's attendance at Board meetings are as follows:

Members	No. of meetings Held	No. of meetings attended	% of attendance
Dr. Rafaelita P. Pelaez	10	8	80%
Mr. Wilhelmino R. Mendoza	10	9	90%
Dr. Mariano M. Lerin	10	9	90%
Dr. Alain Marc P. Golez	10	8	80%
Engr. Elpidio M. Paras	10	7	70%
Atty. Ramon M. Velez	10	5	50%
Mr. Jaime Rafael U. Paguio	10	10	100%
Dr. Anselmo B. Mercado	10	9	90%
Dr. Ferdinand A. Rodriguez	10	9	90%

KEY OFFICERS OF THE BANK

KEY OFFICERS - SENIOR MANAGEMENT

Wilhelmino R. Mendoza
President and CEO

Mr. Wilhelmino R. Mendoza has served as the Bank's President and Chief Executive Officer and Director since 2013. (See complete resume in Board of Directors.)

Sylvia C. Tala-o
Vice President
Bank Finance Manager

Ms. Sylvia C. Tala-o has served as the Bank's Finance Manager on May 12, 2021. Ms. Tala-o was previously the Bank's Operations Manager. She was promoted as Assistant Vice President on September 13, 2019 and Vice President on 2024. She joined SBI in 2011. She has been a Compliance Officer, Remedial and Collection Head, Business Manager, Main Office Manager, Credit Unit Head, and Marketing Officer of the Bank. Prior to joining SBI, she has worked with Siam Bank from 2002 to 2011 where she held various officer positions. She holds a Bachelor of Science degree in Accountancy from Mindanao State University-Iligan Institute of Technology.

Ervin S. Balandan
Vice President
Bank Credit Manager

Mr. Ervin S. Balandan was appointed as Bank Credit Manager on June 2020. He joined the Bank in 2017 as Assistant Compliance Officer before being appointed as Credit Officer I in January 2018. Prior to joining the Bank, Mr. Balandan has been the Sales and Purchase Coordinator at Hamy, International in the Middle East from 2013 to 2015 and Operations Manager/Project Coordinator at AGB Development Foundation, Inc. He has also worked in the rural banking industry with RBT Bank, Inc. from 2001-2009. Mr. Balandan holds a degree in AB Economics from Ramon Magsaysay Memorial College and Master in Management from Liceo de Cagayan University.

KEY OFFICERS - SENIOR MANAGEMENT

Harmon D. Galigao
Junior Assistant Vice President
Branch Operations Manager

Mr. Harmon D. Galigao was appointed as the Bank's Operations Manager on March 30, 2021. He became the Bank's Internal Auditor from 2020 after rejoining the Bank in March 2019 until his appointment as Bank Operations Manager in 2021. Mr. Galigao initially joined the Bank in 2014 as Administrative Officer, Credit Investigator and Appraiser, Account Officer and Assistant Internal Auditor until 2017. Prior to joining the Bank, he has been an Accounting Staff in Priometal Mindanao Corporation and Junior Internal Auditor in He and Sons Corporation. Mr. Galigao holds a Bachelor of Science degree in Accountancy from Pilgrim Christian College.

Norman J. Armian
Junior Assistant Vice President
Chief Technology Officer

With a decade of banking experience, Mr. Armian has established a solid track record in banking and financial technology including digital transformation. Notably, he spearheaded the successful migration and implementation of core banking systems and led multiple ATM integration projects, demonstrating a deep understanding of banking infrastructure and operations.

Mr. Armian is at the forefront of Southbank's digitalization initiatives, driving projects that enhance digital banking services, digital payments, e-wallet functionalities, compliance, and overall IT infrastructure. His expertise extends to cybersecurity, data protection, and the implementation of comprehensive IT disaster recovery plans, ensuring robust and secure digital banking solutions.

He holds a Bachelor of Science degree in Information Technology from the University of Science and Technology of Southern Philippines. He is currently pursuing a Master's degree in both Information Technology and Management in Business Administration at Liceo de Cagayan University.

KEY OFFICERS - SENIOR MANAGEMENT

Annaleah B. Lambiguit
Acting Compliance Officer

Ms. Annaleah B. Lambiguit was appointed as the Bank’s Acting Compliance Officer on April 27, 2023. Prior to this appointment, Ms. Lambiguit served as the Branch Operations Officer at Velez Branch and subsequently General Bookkeeper at the Cogon Branch. She holds a Bachelor's Degree in Business Administration with a Major in Entrepreneurial Marketing from Mindanao State University. In addition to her academic qualifications, Ms. Lambiguit has attended numerous seminars and training programs focused on banking regulations, which equipped her with the knowledge and skills essential for the effective management of the Bank’s compliance functions.

Geraldine S. Raypon
Acting Internal Auditor

Ms. Geraldine S. Raypon was appointed as Acting Internal Auditor on January 18, 2021. Prior to assuming this role, she held the position of Branch Operations Officer from 2016 to 2021. Her tenure at SBI began in 2012, starting as a teller and subsequently as new accounts clerk, bookkeeper, cashier. Ms. Raypon obtained her Bachelor's degree in Commerce with a specialization in Management Accounting from Liceo de Cagayan University.

KEY OFFICERS - SENIOR MANAGEMENT

Gerna Kristel T. Pineda
Manager
Administrative Services Unit Head

Ms. Gerna Kristel T. Pineda has served as the Bank's Administrative Services Unit Head since 2016. Ms. Pineda started as Loans Bookkeeper in 2010; Loans Processor in 2011; Cashier/New Accounts Clerk in 2012 and Internal Auditor in 2014.Ms. Pineda has attended various seminars and trainings. She represents the bank in the People Management Association of the Philippines (PMAP).She has attended a seminar on Digitizing and Simplifying HR and Payroll Performance conducted by PMAP in 2018. Ms. Pineda holds a Bachelor of Science degree in Business Administration and Masters in Business Administration from Ateneo de Cagayan - Xavier University.

Robemar S. Castillon
Manager
Information Technology Head

Mr. Robemar S. Castillon has served as Head of the Bank's IT Unit since June, 2017. He has been with the Bank since 2012 as IT Specialist. He attended various seminars in regulations governing information and information technology. In 2017, he attended the Credit Information Corporation Trainings and Seminar conducted by CIC and Data Privacy Act Seminar conducted by National Privacy Commission. He has also attended CyberSecurity Awareness Training & Seminar, Cloud Computing and Fujitsu Business Solutions: Technology update conducted by private institutions. Mr. Castillon holds a Bachelor of Science degree in Information Technology from Mindanao University of Science & Technology.

KEY OFFICERS - SENIOR MANAGEMENT

Christy Jane B. Cabaling
Acting Accountant

Ms. Christy Jane B. Cabaling was appointed as the Bank's Acting Accountant in September 2024. She began her tenure at SBI in 2019, initially serving as an SL Bookkeeper for payables. In 2022, she also took on the role of SL Bookkeeper for bank reconciliation. Ms. Cabaling holds a Bachelor of Science in Accounting Technology from PHINMA – Cagayan de Oro College.

Ellen S. Flores
Assistant Manager
Credit Officer

Ms. Ellen S. Flores is one of the Bank's Credit Officers. She has been appointed as one of the Credit Committee members in the Credit unit of the Bank since March 2014 and has been a bookkeeper for one year before becoming the Credit Unit Head in 2014. Prior to joining the Bank, Ms. Flores has worked as bookkeeper and accountant at Siam Bank, Inc. (A Rural Bank) from 2008 to 2011 and as bookkeeper at Rural Bank of Talisayan (RBT) Bank from 2011 to 2012. She has also attended various trainings and seminars. Ms. Flores holds a Bachelor of Science degree Major in Banking and Finance from Bukidnon State University.

KEY OFFICERS - BRANCH HEADS

Arnel V. Emar
Branch Manager
RNP and Butuan Branch

Philnar C. Beta
Branch Manager
Valencia Branch

Joerindel E. Osorio
Branch Manager
Libona Branch

Milvein O. Luza
Branch Manager
Kitaotao Branch

Kent V. Jamisola
In-Charge of Office
Pagadian Branch

PERFORMANCE ASSESSMENT PROGRAM

The Bank, thru the Corporate Governance Committee, oversees the periodic evaluation of contribution and performance of its Directors, the Board, board-level committees and senior management. This covers the assessment of the ongoing suitability of each member in accordance to the qualification and disqualification criteria as provided in MORB, taking into account his or her performance as member of the Board and board-level committees. A yearly self-assessment, using an approved scorecard, is conducted focusing on their performance based on the established performance standards of the Bank that are consistent with the Bank's strategic objectives. These scorecards are given to each Director. Each of them is required to complete the scorecard and return the same. The ratings are tabulated and consolidated. The result is reported to the Board.

The Bank's performance evaluation policy for senior management is a structured process aimed at promoting accountability, continuous improvement, and alignment with organizational objectives. Formal performance evaluations are conducted annually on a calendar-year basis, providing a platform to assess job performance, recognize strengths, address areas needing improvement, and support professional development.

The evaluation is anchored on seven Major Key Result Areas (MKRAs), each assigned a specific weight based on its relevance to the role. Evaluation areas typically include attendance, personal and physical attributes, dedication and loyalty, leadership and assertiveness, and productivity — which is further broken down into work management, output, policy compliance, and exceptional achievement.

Senior management, performance evaluations are conducted by the President of the Bank. Once completed, the results are endorsed to the Corporate Governance Committee for review and are subsequently submitted for approval to the Board of Directors. This ensures that the assessment of senior leadership is both thorough and aligned with corporate governance standards.

This process also supports decisions related to merit-based compensation, which may be granted at the sole discretion of the Bank in recognition of truly exceptional performance.

ORIENTATION AND EDUCATION PROGRAM

Under the Bank's Corporate Governance Manual, all new Directors must undergo proper orientation upon joining the Board. This ensures that new members are appropriately apprised of their duties and responsibilities before beginning their Directorships.

In addition to the orientation, first time Directors shall, before assuming as such, be required to attend a seminar on corporate governance which shall be conducted by a duly recognized private or government institution. The Directors are required to submit a certification of compliance of this requirement to BSP. They also undergo continuing education that covers update on matters relevant to the Bank.

Senior management officers also undergo orientation prior to beginning their officership and continuing education thru external and internal training program the Bank has set in order to apprise them and to ensure that they continually possess the qualifications for the position.

RETIREMENT POLICY

The Board did not set a retirement age for its Directors. While a Director may sit in the Board for a term of one year and may be re-elected, a Director who ascertains that he/she is no longer fit to perform his/her functions shall refuse nomination, if not yet elected, or may opt to retire, if already elected.

As for the Management level, upon reaching the age of sixty (60) years or more, but not beyond sixty-five (65) years which is the compulsory retirement age who has served at least five (5) years in the company may retire and shall be entitled to retirement pay depending on the Bank's existing insurance policy.

SUCCESSION POLICY

Succession planning is established as part of the Bank's business continuity program to ensure that the Bank's leadership has adequate information and strategy to effectively manage the Bank in the event of unplanned and unexpected changes in the organization. The plan outlines a leadership development and emergency succession plan for the Bank and its commitment to sustaining a healthy functioning organization. It is periodically reviewed and updated and trainings are conducted accordingly.

In the Board, any vacancies may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, provided, that any vacancy occurring by reason of removal by stockholders, by expiration of term or increase in the number of directors shall be filled by the stockholders in a regular or special meeting called for the purpose.

At the management level, SouthBank upholds a strong commitment to organizational sustainability through a well-defined Succession Policy and Planning process. This strategic initiative is aimed at strengthening leadership continuity, ensuring organizational capability, and safeguarding business operations across all critical functions. The Bank's Succession Plan outlines a proactive approach to identifying key leadership positions and high-potential talents within the organization. It includes structured programs and processes to assess readiness, develop future leaders, and implement targeted interventions to build a robust leadership pipeline. SouthBank recognizes that its people are its most valuable asset. As such, it continuously invests in the development of its human capital by providing opportunities, systems, and platforms that support individual growth, professional advancement, and performance excellence. Through its succession planning and talent development initiatives, SouthBank reaffirms its dedication to business continuity, governance stability, and long-term value creation for all stakeholders.

REMUNERATION

Currently, the Bank has no policy on remuneration. However, the Bank's current practices are aligned with labor laws and regulations and competitive with industry standards geared toward retaining and motivating human resource.

The Bank's By-Laws provides that Directors shall not receive any remuneration as Directors, except for reasonable per diems.

Only the President and CEO is entitled to remuneration benefit by virtue of being officer of the Bank. All Directors are entitled to a specific per diem for attendance to board meetings and on board level committee meetings.

The remuneration of the senior management is commensurate to the individual's qualification and experience, nature of job, position and level of responsibilities with reference to approved salary scale. The Bank grants increases based on the Bank's and the individual's performance thru annual appraisal.

The five most highly compensated management officers are the President and CEO, Bank Finance Manager, Bank Credit Manager, Digital Transformation Officer, Valencia Branch Manager.

POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS

The Bank has established policies and procedures on Related Party Transactions (RPT) which are embodied in the DOSRI and Related Party Transactions Policy of the Bank. These include definition of related parties, coverage of RPT policy, guidelines in ensuring arm's-length terms, managing conflict of interest, adoption of materiality thresholds, and internal limits for individual and aggregate exposures. The RPT Committee reviews and endorses to the Board for final approval all material RPTs.

The Related Party Transactions policy applies to South Bank's DOSRI and affiliates, as applicable and intended to ensure that every Related Party Transaction is conducted in a manner that will protect the Bank from conflict of interest which may arise between the Bank and its Related Parties; and proper review, approval, ratification and disclosure of transactions between the Bank and any of its Related Party/ies as required in compliance with legal and regulatory requirements.

The policy provides for the responsibility of the RPT Committee where it requires that any member of the RPT Committee who has a potential interest in any Related Party Transaction shall abstain from the discussion and endorsement of the Related Party Transaction and any member of the Board who has an interest in the transaction must abstain from the deliberation and approval of any Related Party Transactions.

ZEALEP Group

Southbank Inc. operates as a strategic subsidiary under the Zealep Group of Companies, engaged in finance, real estate, investments, and digital solutions. As part of Zealep's broader financial services portfolio, Southbank Inc. serves as the group's primary banking and financial intermediary, offering deposit-taking, lending, and other financial services to both retail and corporate clients.

Zealep Inc., acting as the holding and investment company, provides centralized oversight, strategic direction, and shared services to all its operating units, including Southbank. Through its board and executive leadership, Zealep ensures that Southbank aligns with group-wide goals on profitability, risk management, innovation, and regulatory compliance.

In this structure, Southbank Inc. maintains operational independence with its own management team and board of directors but benefits from group-level support functions such as legal and compliance advisory, technology infrastructure, capital planning, and group-level strategic investments. This allows Southbank to focus on its core banking mandate while leveraging the scale, synergies, and financial strength of the Zealep Group.

This relationship promotes both autonomy and integration — empowering Southbank to grow within its sector while contributing to the Zealep Group's overall vision of being a leading, diversified enterprise committed to sustainable growth and financial inclusion.

Material Related Party Transactions
For the Year 2024

Nature of Transaction / Type of Transaction	Terms	Amount/ Contract Price	Outstanding Balance	Rationale for Entering into the Transaction
Management Fees on Human Resource Development	Continuing Contract	P 25,000.00 Monthly Service Fee	Not applicable.	To outsource services on hiring and recruitment and employee orientation.
Office Rental of RNP Pelaez Branch	3 years	49,912.50/ Month	Not applicable.	Branch office rental
Office Rental of Velez Branch	1 year	56,370.00/ Month	Not applicable.	Branch office rental
Office Rental of Head Office	1 year	15,080.00/ Month	Not applicable.	Head Office storage rental
Office Rental – Head Office Annex	1 year	13,200.00 Month	Not applicable.	Head Office Annex office rental
Office Rental of Kitaotao Branch	5 years	34,772.37/ Month	Not applicable.	Branch office rental
Loan Receivables – Various Affiliates	1 year and 3 years	23,500,000.00	23,500,000.00	Commercial Loans
	1 year	15,000,000.00	15,000,000.00	LAD (Loan Against Deposit)
Related Party	3 years	250,000.00	247,368.62	Loans and Receivables

SELF-ASSESSMENT FUNCTION

Compliance

The compliance function of the Bank facilitates the effective management of compliance risks or risks of legal or regulatory sanctions, material financial loss, or loss to reputation that a bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities. The Compliance Function is headed by the Chief Compliance Officer (CCO). The Compliance Function is a separate and independent unit with no business function. It reports to the Board of Directors through the Audit and Compliance Committee.

Internal Audit

The Bank has in place an independent internal audit function who functionally reports to the Audit and Compliance Committee. The Internal Audit is mandated to evaluate the effectiveness as well as recommend appropriate courses of action to senior management and the Board to improve the Bank's risk management, compliance, internal controls and corporate governance process. This encompasses the examination and evaluation of the adequacy and effectiveness of the internal control systems; review of the application and effectiveness of risk management procedures & risk assessment methodologies; review of the management & financial information systems, including the electronic information; Assessment of the accuracy & reliability of the accounting system & of the resulting financial reports; review of the systems & procedures of safeguarding; review of the system assessing capital in relation to the estimate of organizational risk; transaction testing and assessment of specific internal control procedure; and review of the compliance system & the implementation established policies and procedures.

All activities are carried out according to the rules and guidelines as set out in its Manual and Charter and in such a manner that it is consistent with the Standards for the International Standards for the Professional Practice of Internal Auditing and Philippine Standards on Auditing with the professional standards of conduct as per the Code of Professional Ethics for CPAs.

DIVIDEND POLICY

The Bank's Corporate Governance Manual provides that the shareholders of the Bank shall have the right to receive dividends subject to the discretion of the Board. The Bank shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock except when justified by definite corporate expansion projects or programs approved by the Board; or when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies was not able to declare dividend since the Bank's acquisition.

CORPORATE SOCIAL RESPONSIBILITY

In 2024, the Bank did not implement any Corporate Social Responsibility (CSR) initiatives due to internal resource realignments and strategic focus on operational strengthening. While CSR activities were momentarily deferred, the Bank remains steadfast in its commitment to making a meaningful impact on the communities we serve.

Looking ahead, the Bank is exploring opportunities to reinvigorate its CSR agenda, anchored on financial literacy, environmental sustainability, and community development. Plans are underway to design targeted programs that align with both the Bank's mission and the needs of underserved sectors within our areas of operation.

The Bank recognizes that long-term success is deeply intertwined with social responsibility, and we are committed to embedding CSR into our strategic priorities in the coming years.

CONSUMER PROTECTION PRACTICES

Consumer Protection Strategy

The Board of Directors is responsible for ensuring adequate governance toward the protection of financial consumers in accordance with the relevant laws, rules, and regulatory requirements. They promote a culture of ethical behavior to the highest standard of fairness when dealing with consumers. They also ensure adequate and timely reporting of information and action taken on material consumer-related concerns and developments affecting the Bank. These are manifested through establishing and implementing the Bank's Board-approved Financial Consumer Protection Policy which provides clear guidance regarding the level of consumer protection risk acceptable to the Bank to maintain a sound Customer Protection Risk Management System that is integrated into the over-all framework for the entire product and service life-cycle. The Bank’s Code of Conduct adopted from its holding company, Zealep, reflects the Bank’s commitment to ensuring that its customers are always treated fairly and professionally. Consumer protection practices are embedded in the banking operations, and are considered in the development and implementation of products and services. The Bank follows an operational channel in handling customer complaints. To ensure its effective implementation, it has designated its Branch Heads to serve as the Customer Assistance Officers (CAOs). The CAOs then report to the Administrative Services Unit and/or the Bank Operations Manager for the latter to present and discuss the report on complaints to the Board, which will provide action based on the recommendations of the President/CEO.

Consumer Protection Risk Management System

SouthBank is committed to delivering excellent customer service and upholding the highest standards of consumer protection. As part of this commitment, the Bank has established Complaints Management System (CMS) that ensures client concerns, complaints, suggestions, and requests are addressed in a timely, consistent, and effective manner.

End-to-end Complaint Handling Process

1. Lodging of Complaints, Comments, and Suggestions

- *Branch-Level Lodging:*
  - All feedback (verbal, written, email, text, phone, suggestion box) is logged in the Summary of Complaints, Comments, and Suggestions Report.
  - Lodging is handled by the assigned branch personnel, reviewed by the Branch Operations Officer (BOO), and noted by the Branch Manager (BM).
  - If feedback is directed to the BOO or BM, it is forwarded to the assigned personnel for lodging.

- *Head Office Lodging:*
  - Feedback received via email, hotline, website, or social media is redirected to a lodging link.
  - Feedback from BSP Consumer Affairs is lodged by the Bank Operations Manager.
  - Feedback received by any HO personnel is forwarded to the Bank Operations Manager.

- *Acknowledgement:*
  - All complaints are documented using the Complaint/Request Acknowledgement Form.

2. Receiving

- *Designated Receivers:*
  - Designated personnel receive all client feedback for further investigation and resolution.

- *Copy Furnished:*
  - All received items are copy furnished to the Bank Operations Manager.

- *Documentation:*
  - Receivers utilize the Complaint/Request Acknowledgement Form.

3. Investigation

- *Initial Interview:*
  - BM and BOO/Supervisor interview the concerned customer for clarity and understanding.

- *Evaluation Meeting:*
  - The Bank Operations Manager meets with branch management to evaluate and formulate resolutions.

4. Resolution

- *Implementation:*
  - Resolutions are relayed to the branch through BM/BOO/Supervisor for implementation and client communication.

- *Customer Feedback:*
  - BM/BOO/Supervisor secures client feedback using a Feedback Form.
  - Feedback results are recorded in the Complaint/Request Acknowledgement Form.

5. Reporting

- *Branch-Level Reporting:*
  - Branch Cashier submits a monthly Summary Report to the Operations Assistant (every 5 working days after end of month).

- *Consolidation and Submission:*
  - Operations Assistant consolidates reports for ASU.
  - ASU Head submits consolidated report to the Bank Operations Manager or President & CEO for review.

- *BSP Submission:*
  - The Bangko-Sentral Supervised Institutions' Consolidated Complaints Report (BCCR) is submitted quarterly to BSP by the Administrative Services Unit.

SUSTAINABILITY

SUSTAINABILITY VISION

SouthBank Inc. identifies that balancing non-financial factors such as environmental and social issues with financial priorities is essential to being a good corporate citizen. It is fundamental to risk management and the protection of our stakeholders and is dedicated to uphold social and environmental responsibility in all its business activities.

SUSTAINABILITY BUSINESS OBJECTIVES

1. Embrace sustainable practices that are key pillars of responsible lending which have an impact on the communities and the environment.
2. Influence social responsibility within the bank and with its clients, stakeholders and employees.
3. Identify, assess and integrate climate-related physical risks.
4. Effective and efficient implementation of the processes and procedures and mitigating the associated risks.
5. Manages and complies with the regulatory requirements pertaining to the bank's sustainable financing activities.

SUSTAINABLE FINANCE FRAMEWORK

The Sustainable Finance Framework articulates SouthBank's strategy to deploy sustainable financing Instruments to fund loans and projects that have clear environmental and/or social benefits. The Bank practices financial products which integrates environment, social and governance criteria into business decisions that supports economic growth and provides lasting benefit for both clients and society while reducing pressures on the environment.

SUSTAINABILITY STRATEGY

Bank's Achievement

Minimize the adverse environmental impact of our internal operation through the use of the following resources:

- Recycling
  - shredding
  - use of scratch papers
  - waste segregation)
- Energy saving
  - LED lights are being used throughout the bank premises
  - Operating time to on air-conditioning units and lights is being observed
  - Unplugging of IT equipment when not in use
  - Use of inverter air-conditioning units
- Fuel Saving
  - Conduct of virtual meetings and seminars
  - Planning of official business travel
  - Paperless - storage of communication of information in electronic form, rather than on paper
- Paperless – storage of communication of information in electronic form, rather than on paper
  - Use of official email, viber and messenger for communication among the bank employees and its branches
- Promote projects that contribute to economic development through our lending activities under the following loan products.
  - Tulong Pangkabuhayan
  - Tulong Pabahay
  - Salary loans to Dep Ed/PNP personnel
  - Microfinance (Salary, Livelihood)
  - Pension loans
- Bank has established employee's good health and well-being programs such;
  - Medical Insurance
  - Retirement benefits
  - Fringe Benefit loans
  - Development trainings for growth
  - Emergency financial assistance in case of medical and death incidents
  - Recreational and wellness activities
  - Annual salary increases and allowances
  - Rewards and recognition
  - Health and Safety
- Sustainable Agricultural business financing program – creating credit assistance program for agribusiness projects engaged in the production, harvesting, processing and marketing of crops, poultry, livestock and fishery.
- Establish access to finance products and services to the poor and vulnerable populations. Offers basic deposit accounts, financing microfinance clients and financing of smaller business in which SouthBank operates.

PROGRESS ON SUSTAINABLE FINANCE AND E&S RISK INTEGRATION

SouthBank recognizes the growing importance of integrating Environmental and Social (E&S) risk considerations into its overall risk management and lending practices, in line with the Bangko Sentral ng Pilipinas (BSP) regulations on Sustainable Finance.

As of reporting period, the Bank is in the process of enhancing its Sustainable Finance Framework (SFF) and developing a formal Environmental and Social Risk Management System (ESRMS) to better identify, assess, and manage E&S risks across relevant industries and sectors. These initiatives are aligned with the Bank's commitment to sustainability and responsible banking.

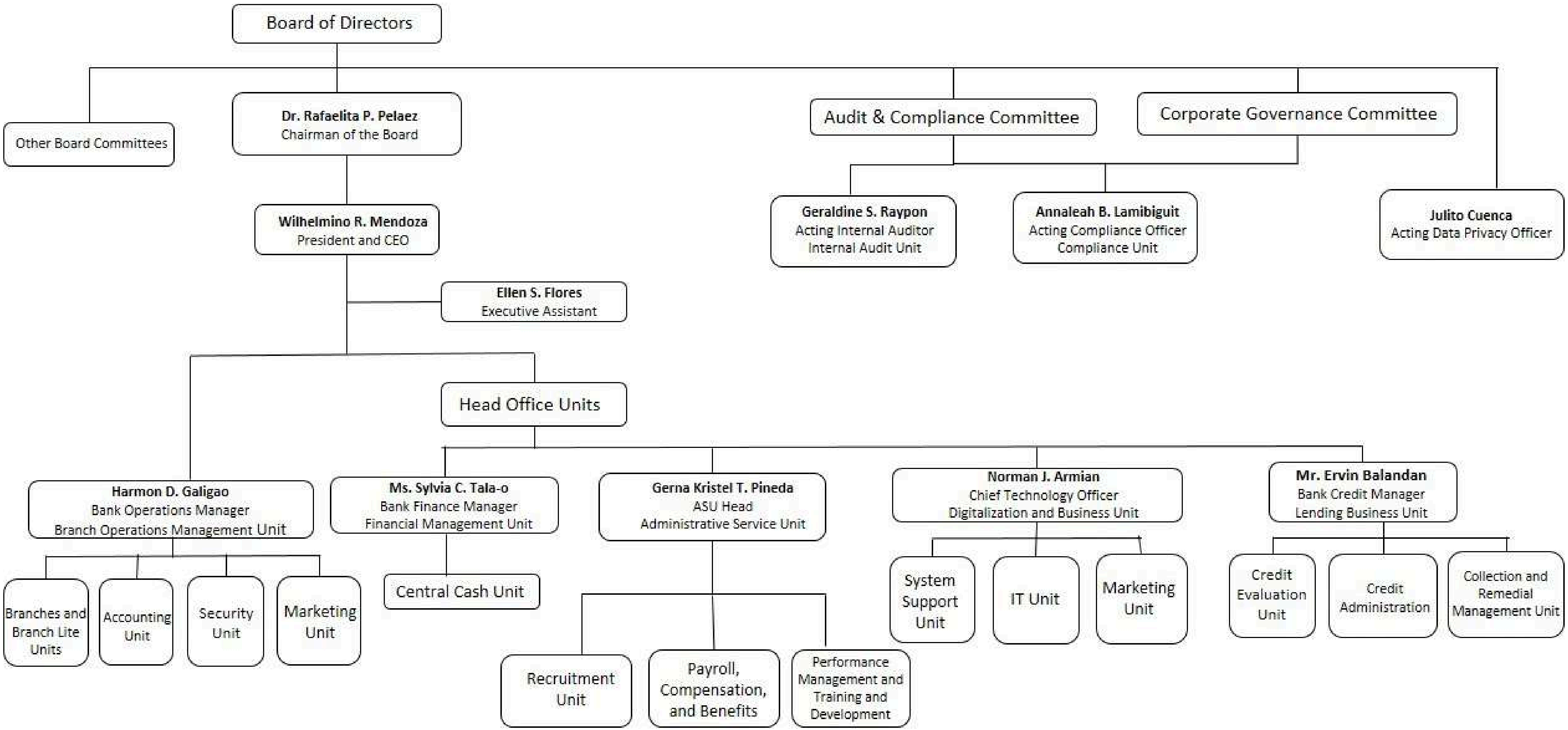
While full disclosures on E&S risk exposures, existing and emerging E&S risks, and their potential impact on the Bank's operations and portfolio are not yet available, the Bank is taking active steps toward the adoption of appropriate policies, risk assessment tools, and reporting mechanisms.

SouthBank is targeting the phased implementation of its SFF and ESRMS, including the identification of E&S-sensitive sectors, integration of E&S risk assessments in credit and investment decisions, and the establishment of performance indicators and monitoring protocols. Once finalized, these frameworks will support more robust disclosures and enhance the Bank's contribution to sustainable development and climate resilience.

The Bank remains committed to meeting regulatory expectations and will provide updates on its progress in future disclosures

CORPORATE INFORMATION

ORGANIZATIONAL STRUCTURE



MAJOR STOCKHOLDER

As of December 31, 2024, the following are known to South Bank (A Rural Bank), Inc. to be directly or indirectly the record and beneficial owners of more than 20% of South Bank (A Rural Bank), Inc.'s voting shares:

Title of Class	Name	Nationality	Percentage
Common	Rafaelita P. Pelaez	Filipino	60%

PRODUCTS AND SERVICES

Deposit Products

Regular Savings Deposit
Kiddie Savers
Basic Deposit
Time Deposit Plus
Demand Deposit
Time Deposit

Loans and Credit

Agricultural Loans
Teacher's Loan
- Tulong Pangkabuhayan Loan
- Tulong Pabahay Loan
- Balance Transfer Loan
- Salary Loan

Consumer Loans
- PNP/BJMP/BFP
- Pension Loan
- Salary Loan (Affiliated Companies)
- Easy Loan

Business Loans
- Small Business Loan
- Microfinance Livelihood

Other Loans
- Baranggay Loan
- Public Health Practitioner
- Micro Private Salary Loan

Other Services

Bills Payment
- Parasat
- BUSECO
- CEPALCO
- LDCU

SBI Access Card (powered by GCash)
True Money
Safety Deposit Box Facility

TEACHERS' LOANS

The Bank has served 1,362 public school teachers this year to a total of Php 497 Million, an increase of Php 38 Million from last year.

Freed from the tight grip of ravenous loan sharks for long, more and more of these underpaid heroes enjoy fairly low interest salary loans and prompt service of the Bank.

The continuous popularity of our salary loan program among the teachers makes it the Bank's top revenue driver of the year.

PENSION LOANS

A total of 135 pensioners enjoy the Bank's no-frills pension loan. The Bank released Php 14.8 Million to help fund the pensioners' personal consumption, medical needs and small businesses such as sari-sari stores, backyard livestock raising and the like.

MICROFINANCE LOANS

The year ended a total of 1,155 accounts amounting to close to Php 10.4 Million microfinance loans.

From small sari-sari stores, small farming ventures, fish and meat stalls to "ukay-ukay" retailers, this micro lending program promises to be one of the Bank's top income earners even as it helps support the growth of small entrepreneurs.

HEAD OFFICE AND BRANCHES

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AUDITED FINANCIAL STATEMENT

REPORT OF INDEPENDENT AUDITORS

The Shareholders and the Board of Directors
South Bank (A Rural Bank) Incorporated
Ground Floor Rodelsa Hall, RN.Pelaez Boulevard
Kauswagan, Cagayan de Oro City

Opinion

We have audited the accompanying financial statements of South Bank (A Rural Bank) Incorporated, which comprise the statements of financial position as of December 31, 2024 and 2023, and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

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

Basis for Opinion

We conducted our audits in accordance with the 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 together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our 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 these financial statements in accordance with PFRS and for such internal control as the 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, the 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 have no realistic alternative but to do so.

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

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 the 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 the 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 the 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, which 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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Report on Other Legal and Regulatory Requirements

The Bureau of Internal Revenue in its Revenue Regulations 15-2010 and 34-2020 requires the Bank to include information on taxes, duties and license fees paid or accrued and other supplemental information during the taxable year in the Notes to Financial Statements. The supplementary information, as discussed in Note 22, is not a required part of the basic financial statements prepared in accordance with the financial reporting standards in the Philippines; nor, a required disclosure or content of the financial statements under the Securities Regulation Code (SRC) Rule 68. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole and such supplementary information is the responsibility of the management.

Report on Other Requirement

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules of the Bank as of and for the years ended December 31, 2024, and 2023 are in compliance with the requirements of the SRC Rule 68. These are presented for purposes of additional analysis and are not required part of the basic financial statements. The information in such supplementary schedules is the responsibility of the Management and have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SRD & Co., CPAs
TIN 231-991-011
BOA Accreditation No. 0810
Effective February 27, 2023 to June 2, 2025

For the Firm:

Dexter Joseph B. Cuevas
Partner
CPA Cert. No. 0123128
TIN 255-828-431-000
PTR No. 2804138
Issued on January 25, 2025 at Cebu City
BSP Accredited under Category B
Approved on March 19, 2021 (covering financial statements ending 2021 to 2025)
BOA Accreditation No. 0810
Effective February 27, 2023 to June 2, 2025
BIR Accreditation No. 13-168412-003-2023
Effective April 17, 2023 to April 17, 2026

March 31, 2025

SOUTH BANK (A RURAL BANK) INCORPORATED
STATEMENTS OF FINANCIAL POSITION
December 31, 2024 and 2023

	Notes	2024	2023
ASSETS			
Cash and Other Cash Items	4	₱ **23,778,285**	₱ 17,728,437
Due from Bangko Sentral Ng Pilipinas (BSP)	5	**5,158,861**	8,548,539
Due from Other Banks	6	**132,567,972**	103,800,678
Loans and Other Receivables – net	7	**560,995,208**	559,811,056
Financial Asset at Amortized Cost	8	**269,947**	2,415,884
Investment Properties – net	9	**1,845,698**	1,845,698
Bank Premises, Furniture, Fixtures and Equipment – net	10	**21,410,076**	13,534,984
Other Intangible Assets	11	**12,951,114**	8,228,031
Deferred Tax Assets	20	**17,171,736**	15,420,992
Other Assets – net	12	**15,358,255**	6,079,524
Total Assets		₱ **791,507,152**	₱ 737,413,823
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposit Liabilities	13	₱ **394,183,494**	₱ 416,174,491
Bills Payable	14	**223,519,643**	170,690,737
Accrued Interest and Other Expenses	15	**9,972,459**	7,665,033
Lease Liabilities	23	**10,866,222**	4,705,287
Income Tax Payable	20	**741,174**	2,744,003
Deferred Tax Liabilities	20	**2,616,850**	1,121,711
Other Liabilities	16	**17,858,062**	7,553,256
		659,757,904	610,654,518
Capital Stock			
Preference Shares – ₱ 100 par value			
Authorized – 40,000 shares			
Ordinary Shares – ₱ 100 par value			
Authorized and issued – 460,000 shares	17	**46,000,000**	46,000,000
Share Premium	17	**7,030**	7,030
		46,007,030	46,007,030
Stock Dividends Distributable	17	**14,000,000**	14,000,000
Retained Earnings	17	**76,028,544**	71,038,601
Cumulative Remeasurement loss	21	**(4,286,326)**	(4,286,326)
		131,749,248	126,759,305
Total Liabilities and Shareholders' Equity		₱ **791,507,152**	₱ 737,413,823

See accompanying Notes to Financial Statements.

SOUTH BANK (A RURAL BANK) INCORPORATED

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2024 and 2023

	Notes	2024	2023
Interest income and other fees			
Loans and other receivables	7	**₱ 104,781,812**	₱ 93,727,064
Deposits with banks and investments	6, 8	**1,605,145**	1,161,477
		106,386,957	94,888,541
Interest expense on deposit liabilities	13	**(9,610,000)**	(9,835,620)
Interest expense on bills payable	14	**(12,811,519)**	(9,376,339)
Interest expense on lease liabilities	23	**(630,921)**	(238,632)
Net interest income		**83,334,517**	75,437,950
Provisions for expected credit losses	7	**(13,101,509)**	(5,945,856)
Net interest income after provision for expected credit and impairment losses		**70,233,008**	69,492,094
Other operating income	19	**34,900,153**	33,460,033
Administrative expenses	19	**(98,069,320)**	(81,000,590)
Profit before income tax		**7,063,841**	21,951,537
Income tax expense	20	**(2,073,898)**	(4,074,105)
Profit		**4,989,943**	17,877,432
Other comprehensive income (loss)			
Remeasurement gain (loss) on retirement plan	21	**-**	(6,378,684)
Tax relating to remeasurement loss (gain) on retirement plan	21	**-**	1,594,671
		-	(4,784,013)
Total comprehensive income		**₱ 4,989,943**	₱ 13,093,419
Earnings per share	24	**₱ 10.85**	₱ 38.86

See accompanying Notes to Financial Statements.

SOUTH BANK (A RURAL BANK) INCORPORATED
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2024 and 2023

	Capital Stock	Share Premium	Retained Earnings	Stock Dividends Distributable	Cumulative Remeasurement Gains (Losses)	Total
January 1, 2023	₱ 46,000,000	₱ 7,030	₱ 53,161,169	₱ 14,000,000	₱ 497,687	₱ 113,665,886
Remeasurement loss (Note 21)					(4,784,013)	(4,784,013)
Profit for the year			17,877,432			17,877,432
December 31, 2023	46,000,000	7,030	71,038,601	14,000,000	(4,286,326)	126,759,305
Profit for the year			4,989,943			4,989,943
December 31, 2024	**₱ 46,000,000**	**₱ 7,030**	**₱ 76,028,544**	**₱ 14,000,000**	**(₱ 4,286,326)**	**₱ 131,749,248**

See accompanying Notes to Financial Statements.

SOUTH BANK (A RURAL BANK) INCORPORATED

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2024 and 2023

	Notes	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		₱ **7,063,841**	₱ 21,951,537
Adjustments for:			
Interest expense	13,14, 23	**23,052,440**	19,450,591
Provision for expected credit losses	7	**13,101,509**	5,945,856
Depreciation and amortization	19	**8,909,441**	7,781,707
Provision for retirement benefits	19, 21	**1,089,884**	390,434
Gain on sale of bank premises, furniture, fixtures, and equipment	10, 19	**(7,500)**	(394,809)
Gain on sale of real and other properties acquired	19	**(71,877)**	(1,529,830)
Gain on termination of lease		**(79,060)**	-
Interest income on deposits with banks and investment	6, 8	**(1,605,145)**	(1,161,477)
Operating income before working capital changes		**51,453,533**	52,434,009
Changes in operating asset and liabilities:			
Increase in loans and receivables		**(14,283,205)**	(69,238,777)
Increase in other assets		**(9,245,601)**	(1,594,294)
Increase (decrease) in deposit liabilities		**(21,990,997)**	66,418,438
Increase (decrease) in accrued interest and other expenses		**1,081,403**	(2,032,033)
Decrease in other liabilities		**(999,326)**	(4,345,331)
Cash generated from operations		**6,015,807**	41,642,012
Net proceeds from sale of real and other properties acquired	9,10	**-**	1,538,750
Contributions to retirement fund	21	**(1,500,000)**	(600,000)
Income taxes paid	20	**(4,332,332)**	(6,125,418)
Net cash provided by operating activities		**183,475**	36,455,344
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sale of bank premises, furniture, fixtures, and equipment	10	**7,500**	656,150
Redemption of financial assets at amortized cost	8	**2,152,911**	64,162
Additions to intangible asset	11	**(6,333,321)**	(2,769,496)
Interest received on deposits in other banks		**1,562,585**	1,049,764
Net additions to bank premises, furniture, fixtures and equipment	10	**(5,402,702)**	(1,693,925)
Net cash used in investing activities		**(8,013,027)**	(2,693,345)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment of bills payable	14	**198,091,258**	123,875,837
Payments of bills payable	14	**(145,262,352)**	(99,287,388)
Interest paid		**(21,195,496)**	(18,333,722)
Payments of principal in lease liabilities		**(4,162,519)**	(3,713,550)
Cash receipts from stockholders	17	**11,786,125**	1,188,875
Net cash provided by financing activities		**39,257,016**	3,730,052
NET INCREASE IN CASH AND CASH EQUIVALENTS		**31,427,464**	37,492,051
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**17,728,437**	7,405,915
Due from Bangko Sentral Ng Pilipinas		**8,548,539**	8,015,646
Due from other banks		**103,800,678**	77,164,042
		130,077,654	92,585,603

Forward

SOUTH BANK (A RURAL BANK) INCORPORATED
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2024 and 2023

	Notes	2024	2023
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	4	**₱ 23,778,285**	₱ 17,728,437
Due from Bangko Sentral Ng Pilipinas	5	**5,158,861**	8,548,539
Due from other banks	6	**132,567,972**	103,800,678
		₱ 161,505,118	₱ 130,077,654
NON-CASH TRANSACTIONS			
Recognition of right-of-use asset and lease liability		**₱ 9,771,593**	₱ 3,828,136

See accompanying Notes to Financial Statements.

SOUTH BANK (A RURAL BANK) INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1. General

South Bank (A Rural Bank) Incorporated is organized under the laws and regulations governing the establishments and operations of rural banks in the Philippines under Republic Act (R.A.) No. 720, as amended by R.A. No. 7353 (Rural Bank Act of 1992). Its primary purpose is to carry out and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries and enterprises, to have and exercise all authority and powers, to do and perform acts, and to transact all businesses which may be legally had or done by rural banks organized under the aforementioned Act and to do all other things incident thereto and necessary and proper in connection with the said purpose which such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP).

The certificate of incorporation of the Bank issued by the Securities and Exchange Commission (SEC) on November 23, 1993 and shall expire on November 23, 2043.

Under Section 11 of Republic Act (R.A.) No. 11232, an Act providing for the Revised Corporation Code of the Philippines, a corporation shall have perpetual existence unless its articles of incorporation provides otherwise. Corporations with certificate of incorporation issued prior to the effectivity of the Code and which continue to exist shall also have perpetual existence, unless the corporation upon a vote of its stockholders, representing a majority of its outstanding capital stock, notifies the SEC that it elects to retain its specific corporate term pursuant to its Article of Incorporation. The Bank has not signified its intention to retain its corporate term in its article of incorporation.

The registered address of the Bank's head office is at Ground Floor Rodelsa Hall, R.N. Pelaez Boulevard, Kauswagan, Cagayan de Oro City. As of December 31, 2023, the Bank has five (5) branches located in Kitaotao, Libona, and Valencia in Bukidnon, in Butuan in Caraga Region, and in Pagadian in Zamboanga del Sur.

The branch in Pagadian started commercial operations on June 8, 2022, with its license to operate of the closed branch in Cogon. All accounts of Cogon branch were merged with the Velez branch on April 1, 2022.

On September 25, 2023, the BSP approved the application to convert the Velez branch to Branch lite unit with limited transactions. The deposit and loan accounts were transferred from Velez branch to RNP branch on December 4, 2023.

2. Summary of Significant Accounting Policies

<u>Basis of Financial Statement Preparation</u>
The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards.

The accompanying financial statements have been presented in Philippine peso and have been prepared using the historical cost basis. Historical cost is the fair value of the consideration given in exchange for assets and change in fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

The classification of the expected recovery or settlement period of each line item of asset and liabilities is as follows:

	Not more than 12 months after the end of the reporting period	More than 12 months after the end of the reporting period	2024 Total
ASSETS			
Cash and other cash items	₱ 23,778,285	₱ -	₱ **23,778,285**
Due from BSP	5,158,861	-	**5,158,861**
Due from other banks	132,567,972	-	**132,567,972**
Loans and receivables – net	51,244,835	509,750,373	**560,995,208**
Financial assets at amortized cost	-	269,947	**269,947**
Investment properties	-	1,845,698	**1,845,698**
Bank premises, furniture, fixtures and equipment – net	-	21,410,076	**21,410,076**
Other intangible assets	-	12,951,114	**12,951,114**
Deferred tax assets	-	17,171,736	**17,171,736**
Other assets – net	13,862,482	1,495,773	**15,358,255**
Total	₱ 226,612,435	₱ 556,894,717	₱ **791,507,152**

	Not more than 12 months after the end of the reporting period	More than 12 months after the end of the reporting period	2024 Total
LIABILITIES			
Deposit liabilities	₱ 373,648,794	₱ 20,534,700	₱ **394,183,494**
Bills payable	62,576,599	160,943,044	**223,519,643**
Accrued interest and other expenses	9,972,459	-	**9,972,459**
Lease liabilities	1,955,247	8,910,975	**10,866,222**
Income tax payable	741,174	-	**741,174**
Deferred tax liabilities	-	2,616,850	**2,616,850**
Other liabilities	3,375,223	14,482,839	**17,858,062**
Total	₱ 452,269,496	₱ 207,488,408	₱ **659,757,904**

	Not more than 12 months after the end of the reporting period	More than 12 months after the end of the reporting period	2023 Total
ASSETS			
Cash and other cash items	₱ 17,728,437	₱ -	₱ 17,728,437
Due from BSP	8,548,539	-	8,548,539
Due from other banks	103,800,678	-	103,800,678
Loans and receivables – net	60,992,962	498,818,094	559,811,056
Financial assets at amortized cost	2,091,946	323,938	2,415,884
Investment properties	-	1,845,698	1,845,698
Bank premises, furniture, fixtures and equipment – net	-	13,534,984	13,534,984
Other intangible assets	-	8,228,031	8,228,031
Deferred tax assets	-	15,420,992	15,420,992
Other assets – net	4,877,018	1,202,506	6,079,524
Total	₱ 198,039,580	₱ 539,374,243	₱ 737,413,823

	Not more than 12 months after the end of the reporting period	More than 12 months after the end of the reporting period	2023 Total
LIABILITIES			
Deposit liabilities	₱ 334,711,250	₱ 81,463,241	₱ 416,174,491
Bills payable	40,963,668	129,727,069	170,690,737
Accrued interest and other expenses	7,665,033	-	7,665,033
Lease liabilities	2,552,322	2,152,965	4,705,287
Income tax payable	2,744,003	-	2,744,003
Deferred tax liabilities	-	1,121,711	1,121,711
Other liabilities	3,378,421	4,174,835	7,553,256
Total	₱ 392,014,697	₱ 218,639,821	₱ 610,654,518

Statement of Compliance

The accompanying financial statements of the Bank have been prepared in conformity with the Financial Reporting Standards in the Philippines (FRSP) for banks, which are substantially the same with the Philippine Financial Reporting Standards (PFRS).

PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by the PFRS for each type of resources, liabilities, income and expenses. The measurement bases are more fully described in the material accounting policies as follows:

Management's Assumptions, Estimates and Judgments

The preparation of the financial statements in conformity with PFRS requires Management to make assumptions, estimates and judgments that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Adoption of New and Revised Accounting Standards, Amendments to Standards and Interpretations

The accounting policies adopted are consistent with those of prior periods' adoptions except for the adoption of the following amendments effective January 1, 2024. The Bank has not early adopted any standard, interpretation or amendments that has been issued but is not yet effective.

- PAS 1, Amendments – Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants, which clarifies paragraphs 69 to 76 of PAS 1, Presentation of Financial Statements, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  a. What is meant by a right to defer settlement;
  b. That a right to defer settlement must exist at the end of the reporting period;
  c. That classification is unaffected by the likelihood that an entity will exercise its deferral right;
  d. That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification; and
  e. Disclosures

  If an entity's right to defer settlement of a liability is subject to the entity complying with the required covenants only at a date subsequent to the reporting period ("future covenants"), the entity has a right to defer settlement of the liability even if it does not comply with those covenants at the end of the reporting period. Furthermore, the requirements in paragraph 72B apply only to liabilities arising from loan arrangements.

  The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies to covenants which the entity is required to comply with on or before the reporting date regardless of whether the lender tests for compliance at that date or at a later date.

  Further, paragraphs 76A and 76B were added to clarify what is meant by "settlement" of a liability and to emphasize the importance of linking the settlement of the liability with the outflow of resources of the entity.

- PFRS 16, Amendments – Lease Liability in a Sale and Leaseback, which specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

- PAS 7 and PFRS 7, Amendments – Disclosures: Supplier Finance Arrangements, which specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

Future Changes in Accounting Policies

The Bank will adopt the improvements to PAS and PFRS that are relevant to the Bank as follows:

Effective beginning on or after January 1, 2025

- PAS 21, *Amendments – Lack of Exchangeability*, which specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking.

  A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.

  If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique.

  The amendments will be effective for annual reporting periods beginning on or after 1 January 2025. Early adoption is permitted, but will need to be disclosed.

The Management is yet to assess the impact that the foregoing amendments are likely to have on the financial statements of the Bank.

The Bank deferred the adoption of PFRS *Practice Statement on Management Commentary,* which provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements that have been prepared in accordance with PFRS.

The Bank could not yet determine the impact of the practice statement on its financial statements. The Bank, however, does not expect material impact on its financial statements when it adopts the aforementioned practice statement.

The material accounting policies applied in the preparation of the financial statements are set out as follows:

Materiality

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Foreign Currency Transactions

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the end of the reporting period. Foreign exchange gains and losses arising from subsequent settlement or restatement of monetary assets and liabilities are included in the statement of comprehensive income.

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Cash and Cash Equivalents
Cash and cash equivalents include cash and other cash items, and amounts due from BSP and other banks with maturities of three (3) months or less from dates of placements. Cash is unrestricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less and that are subject to an insignificant risk of change in value. Cash and cash equivalents are valued at face value.

Financial Assets and Financial Liabilities
Financial assets include cash and other cash items, due from BSP and other banks, loans and other receivables, financial asset at amortized cost, pension asset, and other assets. Financial liabilities include deposit liabilities, bills payable, accrued interest and other expenses, lease liabilities, dividends payable, accrued retirement obligation, and other liabilities.

Date of recognition
The Bank recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace, the financial asset is recognized on the trade date or settlement date.

Initial measurement
Financial assets and financial liabilities are recognized initially at fair value, which is the fair value of the consideration given (asset) or received (liability). Except for investments at fair value through profit and loss (FVTPL), the initial measurement of instruments includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs that are directly attributable to the acquisition of investments at FVTPL are recognized immediately in profit or loss.

Transaction costs include fees and commission paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties.
Subsequent measurement
The Bank classifies its financial assets in the following categories: investments at FVTPL, investments at FVTOCI, and investments at amortized cost.

The classification of financial assets depends on the following:

- the business model of the entity whose objective is achieved by collecting contractual cash flows or selling financial assets or both; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. In case of early termination of the contract, a financial asset passes the SPPI criterion regardless of the event or circumstance where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate.

Financial liabilities are classified at FVTPL and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless designated at FVTPL.

All equity investments in the scope of PFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognized in profit or loss, except for those equity investments for which the Bank has elected to present value changes in other comprehensive income. There is no cost exception for unquoted equities. But despite the fair value requirement for all equity investments, PFRS 9 observes that in limited circumstances, cost may provide an appropriate estimate of fair value.

This would be the case if insufficient more recent information is available to measure fair value or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range. Indicators that cost might not be representative of fair value include:

- significant change in the performance of the investee compared with budget, plans or milestones;
- changes in expectations that investee's technical product milestones will be achieved;
- a significant change in the market for the investee's products, global economy, economic environment in which the entity operates;
- performance of competitors, matters such as fraud, commercial disputes, litigation, changes in management or strategy; or
- evidence of external transactions in the investee's equity.

The Bank determines the classification at initial recognition when it becomes a party to the contractual provisions of the instrument.

Portfolio Exception
If the Bank manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risks, the Bank is permitted to apply an exception to this PFRS for measuring fair value.

That exception permits the Bank to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. liability) for particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.

Accordingly, the Bank shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

Fair Value Hierarchy
Financial assets and financial liabilities are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three (3) levels as follows:

- *Level 1* : quoted prices (unadjusted) in active markets for identical assets or liabilities;

- *Level 2*: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3*: inputs for the asset or liability that are not based on observable market data.

As of December 31, 2024 and 2023, the Bank has no financial instruments valued based on Levels 1, 2 and 3.

Effective interest method
It is a method of calculating the amortized cost of a debt instrument and of allocating interest income 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, where appropriate, a shorter period, to the amortized cost at initial recognition. When calculating the effective interest rate, the Bank estimates the expected cash flows by considering all the contractual terms of the financial instrument excluding the expected 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. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably.

However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the Bank shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL and FVTOCI.

Due from BSP and other banks
Due from BSP represents the amounts that are placed as reserved deposits with the BSP in lieu of government securities holding to be bought directly from BSP.

Due from other banks represents the balances of deposit accounts maintained with other resident banks excluding loans and advances.

Due from BSP and other banks are carried at face value, which approximates fair value, less any impairment in value.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as financial assets at FVTOCI or financial assets at FVTPL. These arise when the Bank provides money, goods or services directly to the debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, interbank loans receivables, sales contract receivables and all receivables from customer and other banks.

Fees received from borrowers as origination or transaction costs are accounted for as income when earned.

Loans and receivables are subsequently carried at amortized cost using effective interest method, reduced by unearned interest and discounts, and allowance for expected credit losses.

Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through amortization process, except for reclassified financial assets under PFRS 9 and PFRS 7. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PFRS 9 and PFRS 7 shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate. Purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP are included in this category. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the straight-line method.

Impairment loss is the estimated amount of loss in the Bank's loan portfolio, based on the evaluation of the estimated future cash flows discounted at the loan's original effective interest rate or the last re-pricing rate for loans issued at variable rates. Impairment is established through an allowance account which is charged to expense. Loans and receivables are written off against the allowance for impairment when the Management believes that the collectability of the principal is unlikely, subject to BSP regulations.

Under existing BSP regulations, non-accruing loans, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after these accounts become past due and included as items in litigation. Interest income on these accounts is recognized only to the extent of cash collections received. Loans are not reclassified as accruing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Section 304 of Manual of Regulations for Banks defines accounts considered as past due. As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual 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;

- the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed a material credit weakness; and

- that the Bank shall regularly review the reasonableness of its cure period policy.

Further, for microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten (10) days.

Allowance for expected credit losses on loans and receivables are set in accordance with BSP's existing guidelines on loan provisioning. (Refer also to Allowance for Expected Credit Losses policy).

Financial assets at FVTPL
Financial assets at FVTPL include financial assets held for trading purposes, financial assets designated upon initial recognition as at FVTPL, and derivative instruments.
A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not a financial guarantee contract or a designated and effective as a hedging instrument.

Financial assets classified in this category are designated by Management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

After initial recognition, investments at FVTPL are measured at fair value except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

Changes in the fair value and interest components are taken directly to the statement of comprehensive income for the year.

Financial assets (except derivatives, equity investments and debt investment measured at FVTPL by irrevocable election) may be subsequently reclassified out of FVTPL, when the financial asset is reclassified from FVTPL to amortized cost, the fair value at the reclassification date becomes the new carrying amount.

The difference between the new carrying amount of the financial asset at amortized cost and the face value of the financial asset shall be amortized through profit or loss over the remaining life of the financial asset using the effective interest method. An effective interest rate must be determined based on the new carrying amount or fair value at the reclassification date.

When reclassifying the financial asset from FVTPL to FVTOCI, the financial asset continues to be measured at fair value. The fair value at the reclassification date becomes the new carrying amount. An effective interest rate must be determined based on the new carrying amount or fair value at the reclassification date.

The Bank does not have any financial asset or financial liability at FVTPL as of December 31, 2024 and 2023.

Financial Assets at Amortized Cost
Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank has a positive intention and ability to hold to maturity. Investments, which include equity instruments intended to be held for an unidentified period, are not included in this classification.

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

- The business model is to hold the financial asset in order to collect contractual cash flows on the specified date; and

- The contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, investments at amortized cost are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium through periodic amortization charges or credits to income. When the decline in fair value below the amortized cost is other than temporary, i.e., the full collection of principal and interest is not expected on the investments, the amortized cost basis of the particular financial asset shall be adequately provided with allowance for expected credit losses. Gains and losses arising from the changes in fair value are included in the statement of comprehensive income.

When the Bank shall reclassify a financial asset from amortized cost to fair value through profit or loss, the fair value is determined at the reclassification date. The difference between the previous carrying amount and fair value is recognized in profit or loss.

The Bank's loans and receivables, and unquoted debt securities classified as loans are included in this category.

<u>Unquoted debt securities classified as loans</u>
These are debt securities issued by the government generally consisting of bonds, treasury bills/notes and certificates of indebtedness issued by the Philippine Government, its political subdivisions and instrumentalities and/or corporations owned and/or controlled by the government, with fixed or determinable payments that are not quoted in an active market.

These bonds and other debt instruments may form part of the Bank's reserve against deposit substitutes.

After initial recognition, these are measured at their amortized cost using the effective interest method. A gain or loss arising from the change in the fair value is recognized in the statement of comprehensive income when the security is derecognized or impaired, and through the amortization process.

The Bank has unquoted debt securities classified as loans, which are accounted for as financial assets at amortized cost, amounting to ₱ 269,947 and ₱ 2,415,884 as of December 31, 2024 and 2023, respectively (Note 8).

Financial Assets at FVTOCI

These are non-derivative financial assets that are designated in this category or are not classified in any other categories. Subsequent to initial recognition, financial assets at FVTOCI are carried at fair value. However, if insufficient more recent information of equity instruments irrevocably elected at FVTOCI is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range then cost may be the appropriate estimate of fair value.

Changes in the fair value of such assets are reported in other comprehensive income and accumulated in equity section of the statement of financial position until the investment is derecognized or the investment is determined to be impaired.

These financial assets are measured at FVTOCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and by selling the financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

When the Bank reclassifies financial assets at FVTOCI to amortized cost, the fair value at reclassification date becomes the amortized cost carrying amount. The cumulative gain or loss previously recognized in other comprehensive income is eliminated and adjusted against the fair value at the reclassification date. The original effective rate is not adjusted.

Further, if the Bank reclassifies the financial assets at FVTOCI to FVTPL, the financial assets continue to be measured at fair value. The fair value at reclassification date becomes the new carrying amount. The cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss at reclassification date.

On derecognition or impairment, the cumulative gain or loss previously accumulated in the equity section is reclassified to the statement of comprehensive income except for equity instruments irrevocably elected at FVTOCI, which shall not be subsequently transferred to the statement of comprehensive income. However, the Bank may transfer the cumulative gain or loss within equity.

Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss, only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

Interest earned on holding the investments at FVTOCI is recognized in the statement of comprehensive income using the effective interest method.

The Bank does not have any investments at FVTOCI as of December 31, 2024 and 2023.

Sales contract receivables
Sales contract receivables (SCR) are recorded based on the present value of the installment receivables discounted at the imputed rate of interest. Discount is accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets are recognized in profit or loss at the date of sale in accordance with the provisions of PFRS 5, *Revenue from Customers*, provided, furthermore, that SCR shall be subject to impairment provision of PFRS 9, *Financial Instruments.*

The Bank has sales contract receivable amounting to ₱ 140,000 as of December 31, 2023 and none in 2024 (Note 7).

Financial assets carried at cost
These are investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and the derivatives that are linked to must be settled by delivery of such unquoted equity instruments. These investments are measured at cost.

If there is an objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment shall not be reversed.

The Bank does not have an investment in ordinary shares as of December 31, 2024 and 2023.

Financial liabilities at FVTPL
Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Bank elects to designate a financial liability under this category. These are remeasured at fair value, with gains or losses recognized in profit or loss.

The Bank has no designated financial liability at FVTPL as of December 31, 2024 and 2023.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL upon the inception of the liability. These include liabilities arising from operations or borrowings. Other financial liabilities are subsequently measured at amortized cost using effective interest method.

The Bank's deposit liabilities, bills payable, accrued interest and other expenses, lease liabilities, and other liabilities are included in this category.

Financial guarantee contracts
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as FVTPL, are subsequently measured at a higher of:

- The amount of the obligation under the contract, as determined in accordance with PAS 37; and

- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

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

The Bank's deposit liabilities amounted to ₱ 394,183,494 and ₱ 416,174,491 as of December 31, 2024 and 2023, respectively (Note 13).

Bills payable and other borrowed funds
Issued financial instruments or their components, which are not designated at FVTPL, are classified as liabilities under "Bills payable" or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Bills payable are initially recognized at fair value equivalent to the issue proceeds (fair value of the consideration received), net of direct issue costs.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole amount separately determined as fair value of the liability component on the date of issue.

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated as FVTPL are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

The Bank has bills payable outstanding amounting to ₱ 223,519,643 and ₱ 170,690,737 as of December 31, 2024 and 2023, respectively (Note 14).

Accrued interest and other expenses, and other liabilities
Accrued interest and other expenses, and other liabilities are obligations to pay for the goods and services provided to the Bank. These are recognized initially at their nominal value and are subsequently measured in amounts which they are paid.

The Bank has accrued interest and other expenses of ₱ 9,972,459 and ₱ 7,665,033 (Note 15) and other liabilities of ₱ 17,858,062 and ₱ 7,553,256 as of December 31, 2024 and 2023, respectively (Note 16).

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

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Bank retains control), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognized on the basis of the relative fair values of those parts on the date of the transfer.

The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss.

A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Derecognition of financial liabilities

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

Impairment of financial assets

Financial assets, other than those at FVTPL and FVTOCI, are assessed based on significant increases in the likelihood or risk of a default occurring since initial recognition (irrespective of whether a financial instrument has been re-priced to reflect an increase in credit risk) instead of evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

The Bank shall recognize a loss allowance for expected credit losses on a financial asset that is measured equal to the 12-month expected credit losses or the full lifetime expected credit losses if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with PFRS 15.

Credit losses are the present value of all cash shortfalls. Expected credit losses are an estimate of credit losses over the life of the financial instrument.

When measuring expected credit losses, the Bank considers the following:

- The probability-weighted outcome, wherein the estimate should reflect the possibility that a credit occurs and the possibility that no credit loss occurs.
- The time value of money, wherein the expected credit losses should be discounted.
- Reasonable and supportable information that is available without undue cost or effort.

The Bank uses various sources of data both internal or entity-specific and external in measuring expected credit losses.

For FVTOCI equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience of collecting payments, an increase in the number of past due loans and receivables, as well as observable changes in national or local economic conditions that correlate with default on loans and receivables.

If there is any objective evidence that an impairment loss has been incurred, the amount of the loss is measured as follows:

Financial assets carried at amortized cost
The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in profit or loss.

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, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial assets carried at cost
The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Financial Assets at FVTOCI
The cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period the FVTOCI financial asset is derecognized.

In respect of FVTOCI equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss rather only reclassification of equity is permitted. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under equity.

In respect of FVTOCI debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. 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.

Hedge Accounting

Derivatives may be designated as a hedging instrument provided that the following conditions are met:

- At the inception of the hedge, there must be a formal designation and documentation of hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. The documentation shall include identification of the hedging instrument, the hedge item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.

- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

- The effectiveness of the hedge can be reliably measured.

- The hedge is asserted on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss or other comprehensive income, if the hedging instrument hedges an equity instrument for which the Bank has elected to present changes in fair value in other comprehensive income immediately. The hedging gain or loss on the hedged item shall be adjusted to the carrying amount of the hedged item (if applicable) and be recognized in profit or loss. If the hedged item is a financial asset (or a component thereof) that is measured at fair value through other comprehensive income, the hedging gain or loss on the hedged item shall be recognized in the profit or loss.

However, if the hedged item is an equity instrument for which the Bank has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. When hedged item is an unrecognized firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognized as an asset or a liability with a corresponding gain or loss recognized in profit or loss.

When a hedged item in a fair value hedge is a firm commitment (or a component thereof) to acquire an asset or assume a liability, the initial carrying amount of the asset or the liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the hedged item that was recognized in the statement of financial position.

Any adjustment arising from the change in fair value shall be amortized to profit or loss if the hedged item is a financial instrument (or a component thereof) measured at amortized cost. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for hedging gains and losses.

The amortization is based on a recalculated effective interest rate at the date that amortization begins. In the case of a financial asset (or a component thereof), that is a hedged item and that is measured at fair value through other comprehensive income, amortization applies in the same manner but to the amount that represents the cumulative gain or loss previously recognized instead of by adjusting the carrying amount.

Cash flow hedge
Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability and could affect profit or loss.

The hedge is accounted for as follows:

a. the separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following:

   - the cumulative gain or loss on the hedging instrument from the inception of the hedge; and
   - the cumulative change in fair value (present value) of the hedged item (i.e. the present value of the cumulative change in the hedged expected future cash flows) from the inception of the hedge.

b. the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (i.e. the portion that is offset by the change in the cash flow hedge reserve calculated) shall be recognized in other comprehensive income.

c. any remaining gain or loss on the hedging instrument (or any gain or loss required to balance the change in the cash flow hedge reserve calculated) is hedge ineffectiveness that shall be recognized in profit or loss.

d. the amount that has been accumulated in the cash flow hedge reserve shall be accounted for as follows:

   - if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Bank shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment and hence it does not affect other comprehensive income.
   - for cash flow hedges other than those covered by (1), that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.
   - however, if that amount is a loss and the Bank expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

When the Bank discontinues hedge accounting for a cash flow hedge it shall account for the amount that has been accumulated in the cash flow hedge reserve as follows:

- if the hedged future cash flows are still expected to occur, that amount shall remain in the cash flow hedge reserve until the future cash flows occur or apply.
- if the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment hedged future cash flow that is no longer highly probable to occur may still be expected to occur.

Hedge of a net investment in foreign operations
Hedge is accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument relating to the ineffective portion of the hedge that has been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

The Bank has no hedging instruments or hedged items in neither domestic nor foreign operations in both years.

Derivatives
Derivatives are initially recognized at fair value on the date in which the derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives are carried as an asset when the fair value is positive and as a liability when the fair value is negative.

The Bank has no derivative transactions, such as foreign exchange forward contracts, interest rate swaps, and cross-currency swaps as of December 31, 2024 and 2023.

Embedded Derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid or combined instrument is not recognized at FVTPL.

The Bank has no transactions with embedded derivatives as of December 31, 2024 and 2023.

Allowance for Expected Credit Losses
The Bank adopts the expected credit loss (ECL) model in measuring credit impairment, in accordance with the provisions of PFRS 9 and Appendix 15 of the MORB. In this respect, the Bank recognizes credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. It considers past events, current conditions, and forecasts of future economic conditions in assessing impairment.

The ECL model on credit exposures covered by PFRS 9 includes the following:

- Loans and receivables that are measured at amortized cost;
- Vestments in debt instruments that are measured at amortized cost or at FVTOCI; and
- Credit commitments and financial guarantee contracts that are not measured at FVTPL.

Credit exposures are classified into three (3) stages using the following time horizons in measuring ECL:

Stage 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 a significant increase in credit risk since initial recognition	Lifetime
Stage 3	Credit exposures with objective evidence of impairment, thus, considered as "non-performing"	Lifetime

Allowance for expected credit losses is maintained at a level considered adequate to provide for potential losses on receivables and other resources. The allowance is increased by provisions charged to expense and reduced by net write-offs and reversals.

The level of allowance is based on the Management's evaluation of potential losses after consideration of the prevailing and anticipated economic conditions, the evaluation of potential losses based on existing guidelines of the BSP and the Management's judgment as to identifiable losses on specific accounts based on past collection experience, collateral position and account documentation.

The BSP requires banks to observe certain criteria and guidelines based largely on the classification of loans in establishing the allowance for expected credit losses. Loans and receivables are written-off against the allowance for expected credit losses when Management is satisfied that such accounts are worthless.

Loans and other credit accommodations with unpaid principal and/or interest shall be classified and provided with allowance for expected credit losses (AECL) based on the number of days of missed payments as shown on the next page:

For individually assessed unsecured loans and other credit exposures:

Number of days unpaid/ with missed payment	Classification	Stage	AECL
31- 90 days	Substandard (Underperforming)	2	10%
91 – 120 days	Substandard (Non-performing)	3	25%
121 - 180 days	Doubtful	3	50%
181 days and over	Loss	3	100%

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For individually assessed secured loans and other credit exposures:

Number of days unpaid/ with missed payment	Classification	Stage	AECL
31- 180 days	Substandard (Under and non-performing)	2	10%
181 - 365 days	Substandard (Non-performing)	3	25%
Over a year - 5 years	Doubtful	3	50%
Over 5 years	Loss	3	100%

When there is imminent possibility of foreclosure and expectation of loss for loans aged 31 to 180 days, the minimum allowance shall be increased to 25%.

For collectively assessed unsecured loans and other credit accommodations:

Number of days unpaid/ with missed payment	Classification	Stage	AECL
1- 30 days	Especially mentioned	2	2%
31 - 60 days	Substandard	2 or 3	25%
61 - 90 days	Doubtful	3	50%
Over 90 days	Loss	3	100%

For collectively assessed secured loans and other credit accommodations:

Number of days unpaid/ with missed payment	Classification	AECL (Secured by Real Estate)	Stage	AECL (Other securities)
31 - 90 days	Substandard (Underperforming)	10%	2	10%
91 - 120 days	Substandard (Non-performing)	15%	3	25%
120 - 360 days	Doubtful	25%	3	50%
361 days - 5 years	Loss	50%	3	100%
Over 5 years	Loss	100%	3	100%

Individually and collectively assessed secured loans and advances where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values shall be treated as if these are unsecured.

Loans with no missed payments are provided with one (1%) allowance for expected credit losses. These loans are in stage 1 of credit impairment.

For accounts receivable other than loans and receivables that have been outstanding for more than 360 days are provided with 100% allowance for expected credit losses.

Specific allowance for probable losses on microfinance loans is set up immediately in accordance with the Performance at Risk (PAR) number of days of missed payment as follows:

No. of days of missed payment	Classification	AECL
PAR 1 – 30	Especially mentioned	2%
31 – 60 and/or loans restructured once	Substandard	25%
61 – 90	Doubtful	50%
91 or more and/or loans restructured twice	Loss	100%

Provided, that a general provision for losses for microfinance loans equivalent to one (1) percent of the outstanding balance of microfinance loans not subject to the foregoing provisioning less microfinance loans which are considered non-risk under existing laws/rules/regulations, if any, shall be set up.

Investment Properties

Investment properties pertain to parcels land and buildings held to earn rentals and/or for capital appreciation (including property under construction for such purposes). These are initially measured at cost, including transaction costs, and subsequently carried at cost less accumulated depreciation and any impairment in value. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Investment properties also include real and other properties acquired (ROPA) or those parcels of land and buildings acquired by the Bank through from defaulting borrowers.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising from the derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount/fair value of the asset) is included in profit or loss in the period in which the property is derecognized.

Real and Other Properties Acquired (ROPA)

ROPA in settlement of loans through foreclosure or dation in payment is recognized upon:

- Entry of judgment in case of judicial foreclosure;
- Execution of the Sheriff's Certificate of Sale in case of extrajudicial foreclosure; and
- Notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

These are recorded initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for probable losses computed based on PFRS 9 provisioning requirements) plus recorded accrued interest less allowance for probable losses plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property).
Provided, that when the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up. Provided, further, that if the carrying amount of ROPA exceeds ₱ 5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

The carrying amount of ROPA is allocated to land, building, other non-financial assets and financial assets (e.g. receivable from third party or equity interest in an entity) based on their fair values, which the allocated carrying amounts become their initial costs.

Subsequently, ROPA is accounted for as follows:

a. Land and buildings shall be accounted for using the cost model under PAS 40, *Investment Property;*
b. Other non-financial assets shall be accounted for using the cost model under PAS 16, *Property, Plant and Equipment*;
c. Land, buildings and other non-financial assets shall be subjected to the impairment provisions of PAS 36, *Impairment of Assets*;
d. Financial assets shall be initially booked and classified according to intention (i.e., FVTPL, FVTOCI, at Amortized Cost, Unquoted Debt Securities Classified as Loans or Loans and Receivable) and accounted for in accordance with the provisions of PFRS 9, *Financial Instruments: Recognition and Measurement*; and
e. ROPAs that comply with the provisions of PFRS 5, *Non-Current Assets Held for Sale*, shall be reclassified and accounted for as such.

BSP requires that claims arising from deficiency judgments rendered in connection with the foreclosure of mortgaged properties shall be lodged under the real account "Deficiency Judgment Receivable" while probable claims against the borrower arising from the foreclosure of mortgaged properties shall be lodged under the contingent account "Deficiency Claims Receivable".

Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. An in-house appraisal of all ROPAs is made at least every other year: provided, that immediate re-appraisal is conducted on ROPAs which materially decline in value.

Appraisal of properties is conducted by independent firm of appraisers and internal appraisers of the Bank to determine if the Bank's investment properties are impaired.

Derecognition on ROPA shall be done through cash or in installment. The buyer's identity shall be properly established and their financial capacity shall be assessed to determine the ability to comply with the payment terms particularly for installment sales. The buyers shall be also subjected to credit investigation and the sale should be duly approved by the Board of Directors.

The Bank has recognized ROPA accounted for as investment properties amounting to ₱ 1,845,698 as of December 31, 2024 and 2023 (Note 9), and accounted for as bank premises, furniture, fixtures and equipment amounting to ₱ 36,597 and ₱ 52,282 as of December 31, 2024 and 2023, respectively (Note 10).

Intangible Assets

Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally-generated intangible assets are expensed as incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale;

- Intention to complete the intangible asset and use or sell it;
- Ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- Ability to measure reliably the expenditure attributable to the intangible asset during its development;

The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and amortization method are reviewed at every financial year-end. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized.

The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether an indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is made prospectively.

The Bank has intangible asset amounting to ₱ 12,951,114 and ₱ 8,228,031 as of December 31, 2024 and 2023, respectively (Note 11).

Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are initially measured at cost and subsequently carried at cost less accumulated depreciation and any accumulated impairment losses. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss resulting from disposal is included in the statement of comprehensive income. Each item of bank premises, furniture, fixtures and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The initial cost of bank premises, furniture, fixtures and equipment consists of its purchase price including import duties, non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Directly attributable cost can include the following:

- Costs of employee benefits (as defined in PAS 19, *Employee Benefits (Revised)*) arising directly from the construction or acquisition of the item of bank premises, furniture, fixture and equipment;
- Cost of site preparation;
- Initial delivery and handling;
- Installation and assembly;
- Cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition; and
- Professional fees.

The costs below are not costs of an item of bank premises, furniture, fixture and equipment rather recognized as an expense when they are incurred:

- Cost of opening a new facility;
- Cost of introducing a new product or service (including costs of advertising and promotional activities);
- Cost of conducting business in a new location or with a new class of customer (including costs of staff training); and
- Administration and other general overhead costs.

Expenditures incurred after the bank premises, furniture, fixtures and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of bank premises, furniture, fixtures and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of bank premises, furniture, fixtures and equipment.

Right-of-use asset are depreciated over the lease term stated in the contract. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as presented below:

Leasehold and improvements	10 years
Information technology equipment	3 years
Office equipment	3 years
Furniture and fixtures	3-5 years
Transportation equipment	5 years
Right-of-use asset	1-6 years

The useful lives, depreciation method and residual values, if any, are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

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.

If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an entity expects to consume an asset's future economic benefits, the Bank shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The Bank shall account for the change as a change in an accounting estimate.

Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the residual value or useful life of an asset has changed since the most recent annual reporting date.

If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The Bank shall account for the change in residual value, depreciation method or useful life as a change in an accounting estimate.

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

An item of bank premises, furniture, fixtures and equipment 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 disposal or retirement of an item of bank premises, furniture, fixtures and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Construction in Progress

Costs incurred during the period that are directly attributable to the ongoing construction of building are capitalized as construction in progress which shall be reported as part of property and equipment. The asset shall not be depreciated until it is classified as owner-occupied property.

Property under construction or development for future use as an investment property is classified and accounted for under investment property.

Non-current Assets Held for Sale

Non-current assets held for sale include ROPAs in which the carrying amounts will be recovered principally through a sale transaction rather than through continuing use. These assets are available for immediate sale in their present condition and completion of the sale is expected within one (1) year from the date of classification. Non-current assets held for sale are measured at the lower of its carrying amount or fair value less cost to sell. These assets are not depreciated but subject to impairment in value.

Borrowing Costs

Borrowing costs are recognized on the basis of the effective interest method and are included in finance costs.

These are directly expensed in profit or loss in the period in which these are incurred except those that are directly attributable to the construction of buildings or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale), which are being capitalized during the period of construction or production. Capitalization ceases when the construction or production are substantially complete.

When all of the activities necessary to prepare an asset for its intended use or sale are substantially complete, specific borrowings originally intended to develop such qualifying asset are treated as part of general borrowings.

For income tax purposes, borrowing costs are treated as deductible expenses during the period such were incurred.

Investment income earned on the temporary investments of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Impairment of Non-Financial Assets

The carrying values of investment properties, bank premises, furniture, fixtures and equipment are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of impairment, if any.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognized in profit or loss.

The recoverable amount is the greater of the asset's fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties less cost of disposal.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized. All reversals of impairment are recognized in profit or loss.

Related Parties

Related parties include entities and individuals that directly or indirectly, through one or more intermediaries, control or are controlled by or under common control with the Bank, including holding companies, subsidiaries and fellow subsidiaries. Persons or close members of the families of these persons are also related parties if these persons have significant influence over the Bank or they are members of the key management personnel, including directors and officers of the Bank. Post-employment defined benefit plan for the benefit of employees of either the Bank or an entity related to the Bank is also considered as a related party. The Bank takes into consideration the substance of the relationship of the related party over its legal form.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate of the amount required to settle the obligation. The provision shall be reversed if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be reliably measured. The amount recognized for the reimbursement shall not exceed the amount of the provision.

Contingencies

Contingent liabilities are not recognized in the financial statements as liabilities. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements as assets but disclosed when an inflow of economic benefits is probable. When the inflow of economic benefits is certain, an asset is recognized.

Events After the End of the Reporting Period

Post year-end events that provide additional information about the Bank's position at the end of the reporting period (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Capital Funds

Share capital is classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

The Bank's share capital includes ordinary shares. Shareholders have the right to vote and receive dividends whenever declared. Any cash dividends due on delinquent shares shall be first applied to the unpaid balance on the subscription, plus other incidental costs and expenses.

Stock dividends distributable represent the unissued stock dividends declared by the Bank payable to the Bank's holder of common shares.

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Bank's option, and any dividends thereon are discretionary. These are determined using the nominal values of shares that have been issued. Dividends thereon are recognized as distributions within equity upon approval by the Bank's Board of Directors. Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary.

Retained earnings includes all current and prior period results of operations as reported in profit or loss section of the statement of comprehensive income. Prior period adjustments to surplus would include adjustments relating to changes in accounting policies and errors in which retrospective restatement of financial statements is practicable.

Cumulative remeasurement gain on retirement plan comprises of experience adjustments (the effect of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. This is recognized in the statement of financial position immediately, with a charge to other comprehensive income in the period in which it occurs.

Revenue Recognition

The Bank accounts for its contracts with borrowers using the five (5) step model under PFRS 15, as shown below:

(1) *Identify the contract(s) with a customer.* A contract is an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met;
(2) *Identify the performance obligations in the contract.* A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer;
(3) *Determine the transaction price*. The transaction price is the amount of consideration to which an entity expected to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties;
(4) *Allocate the transaction price to the performance obligations in the contract*. For a contract that has more than one performance obligation, an entity should allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each performance obligation; and
(5) *Recognize revenue when (or as) the entity satisfies a performance obligation*.

Revenue is measured at fair value of the consideration received or receivable. Specific recognition criteria are applied to each of the following significant categories of revenue:

Sale of ROPA/Profit from assets sold or exchanged

Revenue from sale of properties is recognized when:

- the Bank has transferred to the buyer the significant risks and rewards of ownership of the properties;
- the Bank retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties sold;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Bank; and
- the costs incurred or to be incurred in respect of the transaction can be reliably measured.

Interest

Interest income from bank deposits is recognized when earned. Interest income from investments is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be reliably measured.

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Penalties
Penalties are recognized only upon collection or accrued when there is reasonable assurance of collection.

Service charges and fees
Fees earned from providing services are recognized when the service is completed. Service charges and fees that are directly related to acquisition and origination of loans are included in the cost of receivable and are amortized over the term of the loan taking into account the effective interest method.

Other income
Other income refers to fees earned from penalties on past due loans, bank commissions, insurance, rent, interest income on sales contract receivable, and excess notarial fees which are earned at point in time.

Leases – the Bank as Lessee
At the commencement date, the Bank recognize a right-of-use asset and a lease liability for all of its leases, except for short-term leases and leases for which the underlying asset is of low value.

The cost of right-of-use asset comprises:

a. The amount of the initial measurement of the lease liability;
b. Any lease payments made at or before the commencement date, less any lease incentives received;
c. Any initial direct cost incurred by the Bank; and
d. An estimate of costs to be incurred by the Bank in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those cost 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.

Subsequently, the right-of-use asset is accounted for using the cost model applying the requirements of PAS 16, *Property, Plant and Equipment*, wherein the cost is reduced for any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability.

If the underlying asset is accounted for as investment property measured at fair value, the Bank shall also apply the fair value model to the right-of-use asset. If the underlying asset relate to a class of property, plant and equipment to which the Bank applies the revaluation model, the Bank may elect to apply the revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.

Lease liability is the present value of the lease payments that are not paid at the commencement date but are payable over the lease term, which is discounted using the interest rate implicit in the lease, if readily determinable, or the Bank's incremental borrowing rate.

Subsequently, the carrying amount of the lease liability is:

a. Increased to reflect interest on the lease liability;
b. Reduced to reflect the lease payments made; and
c. Remeasured to reflect any reassessment of lease modifications or to reflect revised in-substance fixed lease payments.

Short-term leases are leases that, at the commencement date, has a lease term of 12 months or less except for leases that contains a purchase option. Lease payments on short-term leases and leases for which the underlying asset is of low value, which are elected by class, are accounted as expense in the statement of comprehensive income on either a straight line basis over the lease term or another systematic basis which is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

Earnings Per Share

Earnings per share is computed by dividing the net income for the year attributable to members by the weighted average number of ordinary shares outstanding during the year, after adjustments for any subsequent share dividends declared to shareholders and dividends payable to preference shareholders.

Employee Benefits

Short-term Employee Benefits

This includes salaries, wages, paid vacation and sick leaves, bonuses, government dues and non-monetary benefits such as medical and dental, which are recognized as an expense in the period in which the service has been rendered by the employees.

Long-term Employee Benefits

This includes employee benefits other than termination benefits such as long-term compensated absences, long-service benefits and long-term disability benefits which are recognized as an expense at the date they are incurred.

Termination Benefits

Termination benefits are recognized when, and only when, the Bank is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. These benefits are discounted when they fall due after more than 12 months.

Retirement Costs

Retirement benefits are actuarially determined using the projected unit credit cost method which reflects the services rendered by employees up to valuation date and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions.

Advertising and Promotional Activities
Advertising and promotional activities in introducing the services of the Bank are recognized as an expense in profit or loss when incurred.

Cost and Expense
Costs and expenses are recognized in profit or loss upon utilization of goods and services at the date they are incurred.

Income Tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided, using the liability method, on all temporary differences at the end of the reporting period between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

Deferred income 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, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

3. Summary of Significant Accounting Judgments and Estimates

In preparing the financial statements of the Bank, the Management has made its best judgments and estimates relating to certain amounts, giving due consideration to materiality. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

The Bank believes that the following represent a summary of these significant judgments and estimates and related impact and associated risks in its financial statements:

Determination of functional currency
Based on the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine peso.

The Philippine peso is the currency of the primary economic environment in which the Bank operates. It is the currency that mainly influences the Bank's revenue and expenses.

Financial assets at amortized cost
The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis. If Management believes that there is no reference to market value, the said financial asset will be classified as "financial assets at amortized cost".

As of December 31, 2024, and 2023, the Bank's financial assets at amortized cost amounted to ₱ 269,947 and ₱ 2,415,884, respectively (Note 8).

Estimating allowance for expected credit losses on loans and other receivables
The Bank reviews its problem loans and other receivables at each reporting date to assess whether an allowance for credit impairment should be recorded in the statement of comprehensive income. In particular, judgment by Management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and other receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired.

These internal ratings take into consideration of factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The Bank, however, is required by the BSP to set up an allowance for expected credit losses on loan accounts based on its existing loan loss provisioning. As of December 31, 2024, and 2023, the allowance for expected credit losses on loans and other receivables amounted to ₱ 46,512,721 and ₱ 51,798,397, respectively (Note 7).

Further, The Board of Directors, in its meeting on July 2, 2024 and December 13, 2024, has unanimously approved to write-off its loans and receivables amounting to ₱ 11,582,539 and ₱ 6,802,190, respectively (Note 7).

Estimating allowance for expected credit losses on accrued interest and accounts receivables
Provisions are made for accounts identified to be doubtful of collection. The level of this allowance is evaluated by Management on the basis of factors that affect the collectibility of the accounts.

The Bank's allowance for expected credit losses on accrued interest and accounts receivables aggregated to ₱ 46,327 and ₱ 43,871 as of December 31, 2024 and 2023, respectively (Note 12).

Recognition of deferred income taxes
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Deferred tax liabilities are recognized for income not yet taxable at the time of its recognition.

As of December 31, 2024, and 2023, the Bank has deferred tax assets amounting to ₱ 17,171,736 and ₱ 15,420,992, respectively. Deferred tax liabilities amounted to ₱ 2,616,850 and ₱ 1,121,711 as of December 31, 2024 and 2023, respectively (Note 20).

Estimating useful lives of investment properties, bank premises, furniture, fixtures and equipment, and intangible assets
Useful lives of investment properties, bank premises, furniture, fixtures, and equipment, and intangible assets are estimated based on the periods over which the assets are expected to be available for use. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets.

The estimated useful lives of investment properties, bank premises, furniture, fixtures, and equipment and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and legal or other limits on the use of the assets.

It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of investment properties and bank premises, furniture, fixtures and equipment would increase the recorded operation expenses and decrease the carrying value of investment properties and bank premises, furniture, fixtures and equipment and intangible assets and vice versa.

There is no change in the estimated useful lives of investment properties and bank premises, furniture, fixtures and equipment in both years.

The net book value of investment properties amounted to ₱ 1,845,698 as of December 31, 2024 and 2023 (Note 9).
The net book value of bank premises, furniture, fixtures and equipment amounted to ₱ 21,410,076 and ₱ 13,534,984 as of December 31, 2024 and 2023, respectively (Note 10).
The net book value of intangible assets amounted to ₱ 12,951,114 and ₱ 8,228,031 as of December 31, 2024 and 2023, respectively (Note 11).

Present value of retirement obligation
The cost of defined benefit pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the end of reporting period.

The Bank has accrued retirement obligation of ₱ 2,503,967 and ₱ 2,914,083 as of December 31, 2024 and 2023, respectively (Notes 16 and 21).

Impairment of investment properties, bank premises, furniture, fixtures and equipment and intangible assets
The Bank assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

a. Significant underperformance relative to expected historical or projected future operating results;
b. Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
c. Significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Provisions and contingencies
The Bank provides for present obligations (legal and constructive) when it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations.

An estimate of the provision is based on known information at the reporting date, net of any estimated amount that may be reimbursed by the Bank. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects the risks specific to the liability. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information.

The Bank has not recognized any provision in both years.

4. Cash and Other Cash Items

	2024	2023
Cash in vault	₱ **8,261,560**	₱ 6,479,627
Checks and other cash items	**15,516,725**	11,248,810
	₱ **23,778,285**	₱ 17,728,437

Cash in vault refers to the total amount of cash in the Bank's vault in the form of notes and coins under the custody of cashier or cash custodian or treasurer, including notes in the possession of tellers.

Checks and other cash items refer to the Bank's checks drawn on other banks received after the clearing cut-off time until the close of regular banking hours and cash placed in the Bank's G-cash wallet and SB pay.

5. Due from Bangko Sentral Ng Pilipinas

This consists of a savings deposit with the Bangko Sentral Ng Pilipinas (BSP), which forms part of the statutory reserve requirement of the Bank and serve as clearing account for interbank claims. Due from BSP amounted to ₱ 5,158,861 and ₱ 8,548,539 as of December 31, 2024 and 2023, respectively (Note 13).

Deposits maintained by banks with the BSP in compliance with the reserve requirement no longer earn interest since the effectivity of BSP Circular Nos. 830 and 832, Series of 2014.

6. Due from Other Banks

	2024	2023
Savings deposits	₱ **81,172,030**	₱ 41,245,807
Demand deposits	**18,427,160**	17,655,382
Time deposits	**32,968,782**	44,899,489
	₱ **132,567,972**	₱ 103,800,678

Savings deposits earn interest at 0.5% to 6% in 2024 and 2023, and time deposits earn 0.125% to 5.6% in 2024 and 0.5% to 5.5% in 2023.

Interest income earned from due from other banks amounted to ₱ 1,598,171 in 2024 and ₱ 1,151,304 in 2023 (Note 22).

Interest accrued on time deposit placements as at December 31, 2024 and 2023 amounted to ₱ 184,602 and ₱ 149,016, respectively (Note 12).

7. Loans and Other Receivables – net

	2024	2023
Loans and receivables	₱ **523,031,125**	₱ 525,572,257
Other agricultural credit loans	**115,853,450**	114,541,059
Sales contract receivables (Note 9)	**-**	140,000
	638,884,575	640,253,316
Unearned interest and discounts	**(31,376,646)**	(28,643,863)
Allowance for expected credit losses		
Loans and receivables	**(46,512,721)**	(51,798,397)
	₱ **560,995,208**	₱ 559,811,056

The movements of the allowance for expected credit losses on loans and receivables, and sales contract receivables are as shown on the next page:

	2024		
	Loans and Receivables	**Sales Contract Receivables**	**Total**
Balance, January 1	**₱ 51,798,397**	**₱ -**	**₱ 51,798,397**
Add: Provisions during the year	**13,101,509**	**-**	**13,101,509**
Write-off	**(18,384,729)**	**-**	**(18,384,729)**
Reclassification (Note 12)	**(2,456)**	**-**	**(2,456)**
	₱ 46,512,721	**₱ -**	**₱ 46,512,721**

	2023		
	Loans and Receivables	**Sales Contract Receivables**	**Total**
Balance, January 1	₱ 45,808,702	₱ 33,025	₱ 45,841,727
Add: Provisions (reversal) during the year	5,978,881	(33,025)	5,945,856
Reclassification (Note 12)	10,814	-	10,814
	₱ 51,798,397	₱ -	₱ 51,798,397

The allowance for expected credit losses have been determined with due consideration to the BSP's existing guidelines on loan provisioning.

The Board of Directors, in its meeting on July 2, 2024 and December 13, 2024, has unanimously approved to write-off its loans and receivables amounting to ₱ 11,582,539 and ₱ 6,802,190, respectively.

The Management believes that there is no indication that additional provisions for expected credit losses or recoveries in excess of the recognized allowance for expected credit losses or recoveries as of December 31, 2024 and 2023 are necessary.

Percentage of total loans and receivables to total assets is 71% and 76% as of December 31, 2024 and 2023, respectively.

The loans earned annual interest rates which ranged from 3% to 42% in both years. Interest earned on loans and other receivables amounted to ₱ 104,781,812 and ₱ 93,727,064 in 2024 and 2023, respectively, as summarized below:

	2024	**2023**
Salary	**₱ 27,066,882**	₱ 35,640,847
Agricultural and agrarian	**20,090,680**	16,942,811
Commercial	**20,443,806**	11,203,762
Microfinance	**4,299,073**	4,426,184
Other purpose loans	**32,881,371**	25,513,460
	₱ 104,781,812	₱ 93,727,064

Accrued interest on loans and other receivables amounted to ₱ 11,087,641 and ₱ 1,623,178 as of December 31, 2024 and 2023, respectively (Note 12).

Loans and other receivables carry nominal interest rates as shown below:

	2024	2023
Maturing in:		
1 year	**3% - 42%**	3% - 42%
2 to 5 years	**3% - 24%**	3% - 24%

Non-performing loans and other receivables include past due and items in litigation aggregating to ₱ 52,841,102 and ₱ 58,079,012 as of December 31, 2024 and 2023, respectively, as follows (Note 28):

	2024	2023
Past due	**₱ 34,756,909**	₱ 39,697,435
Items in litigation	**18,084,193**	18,381,577
	₱ 52,841,102	₱ 58,079,012

The following table shows the breakdown of loans and other receivables as to term:

	2024	%	2023	%
Short-term (one (1) year or less)	**₱ 58,359,740**	**9**	₱ 61,132,961	10
Medium-term (over one (1) year to five (5) years)	**580,524,835**	**91**	579,120,355	90
	₱ 638,884,575	**100**	₱ 640,253,316	100

The Bank holds collaterals against the loans and other receivables from customers in the forms of real estate, chattel mortgages and others. It holds and annotates original documents such as certificates of registration for chattel mortgages and certificates of title for real properties. It requires insurance policy on collaterals in favor of the Bank. The breakdown of the Bank's secured and unsecured loans and receivables, and sales contract receivables are as follows:

	2024	%	2023	%
Secured				
Real estate mortgage	**₱ 7,555,341**	**1**	₱ 9,281,660	1
Chattel mortgage	**8,768,793**	**1**	10,789,786	2
Others	**38,500,000**	**6**	43,537,500	7
	54,824,134	**8**	63,608,947	10
Unsecured	**584,060,441**	**92**	576,644,370	90
	₱ 638,884,575	**100**	₱ 640,253,316	100

Unsecured loans are guaranteed by co-makers, who in the event of default will assume the loan balance.

The breakdown of loans and receivables, and other agricultural credit loans as to status per product line is as follows:

	2024			
	Performing	Non-performing	Total	%
Salary	₱ 122,472,451	₱ 20,624,012	**₱ 143,096,463**	**22**
Commercial	164,614,786	9,626,068	**174,240,854**	**27**
Microfinance	4,348,241	3,644,889	**7,993,130**	**1**

Forward

	2024			
	Performing	**Non-performing**	**Total**	**%**
Agricultural and agrarian	₱ 108,832,344	₱ 7,021,106	₱ **115,853,450**	**18**
Other purpose loans	185,775,652	11,925,026	**197,700,678**	**32**
	₱ 586,043,474	₱ 52,841,101	₱ **638,884,575**	**100**

	2023			
	Performing	**Non-performing**	**Total**	**%**
Salary	₱ 143,051,884	₱ 28,701,156	₱ 171,753,040	27
Commercial	114,703,178	12,863,931	127,567,109	20
Microfinance	13,048,072	2,171,556	15,219,628	2
Agricultural and agrarian	111,305,037	3,236,022	114,541,059	18
Other purpose loans	199,926,134	11,106,346	211,032,480	33
	₱ 582,034,305	₱ 58,079,011	₱ 640,113,316	100

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. Information on the concentration of loans as to industry/economic activity are as follows:

	2024	**%**	**2023**	**%**
Loans to individual primarily for personal use	₱ **174,496,357**	**27**	₱ 203,433,937	32
Wholesale and retail trade; repair of motor vehicles and motorcycles	**149,997,178**	**24**	83,183,354	13
Agriculture, forestry and fishing	**116,152,809**	**18**	115,346,910	18
Education	**87,641,653**	**14**	114,632,647	18
Real estate activities	**47,854,922**	**7**	49,379,097	8
Financial intermediation	**23,212,312**	**4**	30,201,645	5
Private household with employed persons	**14,755,246**	**2**	19,934,484	3
Accommodation	**10,000,000**	**2**	10,000,000	2
Transportation and storage	**5,749,867**	**1**	8,267,442	1
Administrative and support service activities	**363,467**	**-**	483,749	-
Professional	**189,330**	**-**	-	-
Human health and social work activities	**29,285**	**-**	32,291	-
Other service activities	**8,442,149**	**1**	5,217,760	1
	₱ **638,884,575**	**100**	₱ 640,113,316	100

Based on the foregoing information, the Bank has the highest concentration of credit in loans to individual primarily for personal use as of December 31, 2024 and 2023.

The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. To mitigate risk concentration, the Bank constantly checks for breaches in regulatory and internal limits.

Estimates of fair value of collaterals are based on the appraised value of collaterals at the time of borrowing as determined by the in-house appraisers of the Bank. The fair value of collaterals held against loans and receivables as shown on the next page:

		2024	%		2023	%
Real estate mortgage	₱	**37,085,026**	**42**	₱	9,281,661	14
Chattel mortgage		**11,159,799**	**13**		10,789,786	16
Others		**39,400,000**	**45**		45,537,500	70
	₱	**87,644,825**	**100**	₱	65,608,947	100

Loans and receivables with total carrying amount of ₱ 7,000,000 as of December 31, 2024 and 2023 were collateralized to secure bills payable (Note 14).

In accordance with Section X345 of the MORB, the total outstanding loans, other credit accommodations and guarantees to directors, officers, stockholders and related interests (DOSRI) shall not exceed 15% of the total loan portfolio of the Bank or 100% of its net worth, whichever is lower. However, in no case shall the total unsecured loans, other credit accommodations and guarantees to the said DOSRI exceed 30% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower.

Loans and other credit transactions with certain DOSRI amounting to ₱ 38,500,000 and ₱ 43,500,000 as of December 31, 2024 and 2023, respectively, represented 6.03% in 2024 and 6.80% in 2023, of the total outstanding loan portfolio, and 29% and 34%, respectively, of the Bank's net worth (Note 18).

All DOSRI loans as of December 31, 2024 and 2023 were fully secured by deeds of assignment on deposits and chattel mortgages.

8. Financial Assets at Amortized Cost

		2024		2023
Balance, January 1	₱	**2,415,884**	₱	2,469,873
Amortization of discount		**6,974**		10,173
Redemption		**(2,152,911)**		(64,162)
Balance, December 31	₱	**269,947**	₱	2,415,884

Agrarian reform bonds are bonds issued by the Land Bank of the Philippines exclusively for lending to the agriculture and agrarian reform sector. These bonds are 10-year Agrarian Reform Coupon Bonds (ARCBs) with terms and maturities from January 22, 2009 to June 28, 2029. These bonds carry interest rates based on a 91-day treasury bill rate prevailing in the market.

These bonds were acquired by the Bank in compliance with the 25% mandatory agriculture and agrarian reform credit allocation required in Section X341.3 and X341.4 of the MORB.

Interest income earned from financial assets at amortized cost amounted to ₱ 6,974 in 2024 and ₱ 10,173 in 2023 (Note 22).

The contractual maturity dates as of December 31, 2024 and 2023 of the financials assets at amortized cost are shown on below:

		2024		2023
Due within 1 year / on demand	₱	**-**	₱	2,091,946
Due beyond 1 year		**269,947**		323,938
	₱	**269,947**	₱	2,415,884

Bonds aggregating to ₱ 2,152,911 and ₱ 64,162 as of December 31, 2024 and 2023, respectively, have already matured and redeemed by the Bank. These bonds are redeemable on demand and are earning interest at LBPs regular deposit rates.

9. Investment Properties

These are real and other properties acquired (ROPA) consisting of land held for capital appreciation which amounted to ₱ 1,845,698 as of December 31, 2024 and 2023, net of accumulated impairment losses.

Movements of investment properties are shown below:

	2024	2023
Cost		
January 1	**₱ 4,068,030**	₱ 4,796,245
Disposals	-	(728,215)
December 31	**4,068,030**	4,068,030
Accumulated impairment losses	**(2,222,332)**	(2,222,332)
Net book value	**₱ 1,845,698**	₱ 1,845,698

The market values of the investment properties as at December 31, 2024 and 2023 amounted to ₱ 2,300,200 determined by independent appraisers and in-house appraisers on the basis of recent market prices of similar properties in the same area as the investment properties while taking into account the economic conditions prevailing at the time the valuations were made.

In accordance with Section 382 of the MORB, if the carrying amount of ROPA exceeds ₱ 5 million, the appraisal of the foreclosed purchased asset shall be conducted by an independent appraiser acceptable to the BSP. As at December 31, 2024 and 2023, the Bank has no ROPA with carrying amount in excess of ₱ 5 million.

In 2023, parcels of land with carrying amount of ₱ 728,215, were sold in cash for net proceeds of ₱ 1,192,000. Accordingly, realized gain on cash sales amounted to ₱ 463,785 in 2023 (Note 19).

The realized gains from investment properties (Note 19) sold on installment as shown below:

	2024	2023
From 2022 disposals (Note 16)	**₱ 71,877**	₱ 71,877
From 2020 disposals (Note 16)	**-**	647,418
	₱ 71,877	₱ 719,295

Sales contract receivables from installment sales of the Bank's foreclosed properties amounted to ₱ 140,000 as of December 31, 2023 which are fully paid in 2024 (see Note 7).

Further, deferred gain amounted to ₱ 71,877 as of December 31, 2023 which were realized in 2024 (Note 16). Interest income earned from sales contract receivables amounted to ₱ 13,650 and ₱ 99,412 in 2024 and 2023, respectively (Note 19).

The Bank realized no other income from the investment properties other than the gain on sale of investment properties and interest income on sales contract receivables. Litigation expenses incurred on the assets acquired amounted to ₱ 512,320 in 2024 and ₱ 466,226 in

2023, respectively and are reported in administrative expenses in the statement of comprehensive income (Note 19).

10. Bank Premises, Furniture, Fixtures and Equipment

	Leasehold Improvements	Information Technology Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Right-of-Use Assets (Note 23)	2024 Total
Cost						
January 1	₱ 12,927,056	₱ 7,852,023	₱ 7,189,215	₱ 4,619,299	₱ 9,098,453	**₱ 41,686,046**
Additions	2,554,801	1,211,925	565,390	1,070,586	9,771,593	**15,174,295**
Derecognition	-	(394,354)	(681,480)	-	(4,018,681)	**(5,094,515)**
Disposals	-	-	-	(40,361)	-	**(40,361)**
December 31	15,481,857	8,669,594	7,073,125	5,649,524	14,851,365	**51,725,465**
Accumulated Depreciation						
January 1	9,006,564	5,914,772	5,925,922	2,692,196	4,611,608	**28,151,062**
Depreciation (Note 19)	1,045,429	998,446	593,817	870,473	3,791,038	**7,299,203**
Derecognition	-	(394,354)	(681,480)	-	(4,018,681)	**(5,094,515)**
Disposals	-	-	-	(40,361)	-	**(40,361)**
December 31	10,051,993	6,518,864	5,838,259	3,522,308	4,383,965	**30,315,389**
Net book value	₱ 5,429,864	₱ 2,150,730	₱ 1,234,866	₱ 2,127,216	₱ 10,467,400	**₱ 21,410,076**

	Leasehold Improvements	Information Technology Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Right-of-Use Assets (Note 23)	2023 Total
Cost						
January 1	₱ 12,673,435	₱ 8,378,798	₱ 7,284,045	₱ 5,594,719	₱ 9,416,115	₱ 43,347,112
Additions	253,621	732,874	317,650	389,780	3,828,136	5,522,061
Derecognition	-	(1,259,649)	(316,180)	-	(4,145,798)	(5,721,627)
Disposals	-	-	(96,300)	(1,365,200)	-	(1,461,500)
December 31	12,927,056	7,852,023	7,189,215	4,619,299	9,098,453	41,686,046
Accumulated Depreciation						
January 1	8,231,270	6,235,358	5,770,248	2,833,439	5,269,896	28,340,211
Depreciation (Note 19)	775,294	939,063	568,154	962,616	3,487,510	6,732,637
Derecognition	-	(1,259,649)	(316,180)	-	(4,145,798)	(5,721,627)
Disposals	-	-	(96,300)	(1,103,859)	-	(1,200,159)
December 31	9,006,564	5,914,772	5,925,922	2,692,196	4,611,608	28,151,062
Net book value	₱ 3,920,492	₱ 1,937,251	₱ 1,263,293	₱ 1,927,103	₱ 4,486,845	₱ 13,534,984

In 2024, a fully depreciated transportation equipment with an aggregate cost of ₱ 40,361 was sold in cash for ₱ 74,500, resulting to a recognition of the same amount as gain on sale. Further, in 2023, a transportation equipment costing ₱ 965,200 and with accumulated depreciation of ₱ 703,859 or a net carrying amount of ₱ 261,341 was sold in cash for ₱ 655,000, resulting to a gain on sale of ₱ 393,659 (Note 19).

In 2023, a fully depreciated air-conditioning unit costing ₱ 96,300 was sold in cash for ₱ 1,150. Accordingly, the same amount has been recognized as gain on sale in (Note 19).

Also in 2023, the Bank sold a foreclosed fully depreciated truck costing ₱ 400,000 for ₱ 346,750 that was fully recognized as gain on sale of real and other property acquired (Note 19).

The carrying amount of the foreclosed transportation equipment accounted for as bank premises, furniture, fixtures and equipment amounted to ₱ 36,597 and ₱ 52,282 as of December 31, 2024 and 2023, respectively.

The foregoing properties were not pledged as collaterals to secure any liabilities of the Bank.

Total gross carrying amount of fully depreciated assets still in use amounted to ₱ 10,551,370 and ₱ 8,040,137 as of December 31, 2024 and 2023, respectively.

Management believes that there is no indication of impairment on the Bank's premises, furniture, fixtures and equipment and that their net carrying amounts can be recovered through use in operations.

The Bank has no contractual commitment to purchase any items of the Bank's premises, furniture, fixtures and equipment in both years.

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As at December 31, 2024 and 2023, the Bank's investment in its bank premises, furniture, fixtures and equipment were 16.26% and 10.68% of its unimpaired capital, respectively, and has satisfactorily complied with this BSP requirement.

11. Other Intangible Assets

	2024	2023
Cost		
January 1	**₱ 12,434,746**	₱ 10,036,483
Additions	**6,333,321**	2,769,496
Derecognition	**(643,947)**	(371,233)
December 31	**18,124,120**	12,434,746
Accumulated amortization		
January 1	**4,206,715**	3,528,878
Amortization (Note 19)	**1,610,238**	1,049,070
Derecognition	**(643,947)**	(371,233)
December 31	**5,173,006**	4,206,715
Net book value	**₱ 12,951,114**	₱ 8,228,031

Other intangible assets consist of the Bank's acquired accounting software and other software licenses.

12. Other Assets

	2024	2023
Accrued interest receivables (see Notes 6 and 7)	**₱ 11,272,243**	₱ 1,772,194
Prepaid expenses	**1,025,490**	940,056
Accounts receivable	**885,757**	1,128,366
Stationeries and supplies	**639,574**	683,409
Petty cash fund	**33,000**	28,000
Others	**1,548,518**	1,571,370
	15,404,582	6,123,395
Allowance for expected credit losses on accounts receivables	**(27,615)**	(27,615)
Allowance for expected credit losses on accrued interest receivables	**(18,712)**	(16,256)
	₱ 15,358,255	₱ 6,079,524

Others refer to the following:

	2024	2023
Refundable rental deposit (Note 23)	**₱ 583,141**	₱ 583,141
Miscellaneous deposit	**527,000**	509,000
Miscellaneous investment	**110,365**	110,365
Advances to suppliers	**52,745**	93,489
Other miscellaneous asset	**275,267**	275,375
	₱ 1,548,518	₱ 1,571,370

Movements of allowance for expected credit losses on accounts receivables and accrued interest receivables are as follows:

	Accounts Receivables	Accrued Interest Receivables	2024	2023
Balance, January 1	₱ 27,615	₱ 16,256	**₱ 43,871**	₱ 54,685
Reclassification (see Note 7)	-	2,456	**2,456**	(10,814)
Balance, December 31	₱ 27,615	₱ 18,712	**₱ 46,327**	₱ 43,871

Accounts receivable and accrued interest receivable as of December 31, 2024 and 2023 were all due within one (1) year from the respective financial reporting dates. These include receivable from employees and accrued interest on time deposits, and loans receivables.

Prepayments include prepaid expenses for fire, money security, vehicle insurances and fidelity bonds of the authorized and accountable officers of the Bank and membership fee of Bancnet, Inc.

Management believes that there are no additional provisions for expected credit losses or recoveries in excess of the recognized allowance for expected credit losses or recoveries as of December 31, 2024 and 2023 are necessary.

13. Deposit Liabilities

	2024	2023
Demand deposits	**₱ 20,362,699**	₱ 23,550,776
Savings deposits	**248,224,215**	225,557,771
Time deposits	**125,596,580**	167,065,944
	₱ 394,183,494	₱ 416,174,491

The following table shows the breakdown of time deposits as to maturity:

	2024	2023
Short-term (one (1) year or less)	**₱ 105,061,880**	₱ 85,602,703
Medium-term (over one (1) year to five (5) years)	**20,534,700**	81,463,241
	₱ 125,596,580	₱ 167,065,945

Savings and time deposit liabilities bear fixed annual interest rates that range from 3% to 6% in 2024 and 1% to 6% in 2023. Interest expense on deposit liabilities amounted to ₱ 9,610,000 in 2024 and ₱ 9,835,620 in 2023. Demand deposit liabilities do not incur interest.

On September 5, 2024, the BSP Circular No. 1201, series of 2024 prescribing the applicable statutory reserves requirement against the rural bank's deposit and deposit substitute liabilities in local currency, decreasing the required reserves to 0% from 1% of savings, demand and certificates of time deposits (CTDs) (short-term and long-term non-negotiable tax exempt CTDs), and long-term negotiable CTDs.

The statutory reserve requirements as of December 31 are shown below:

	2024	2023
Due from BSP (see Note 5)	**₱ 5,158,861**	₱ 8,548,539
Savings deposits	**248,224,215**	225,557,771
Time deposits	**125,596,580**	167,065,944
	373,820,795	392,623,715
Reserve rate	**0%**	1%
Required statutory/legal reserve	**-**	3,926,237
Demand deposits	**20,362,699**	23,550,776
Reserve rate	**0%**	1%
Required statutory/legal reserve	**-**	235,508
Total required statutory/legal reserve	**₱ -**	₱ 4,161,745

Reserves are required to be kept in the form of deposits placed in banks' Demand Deposit Accounts (DDA) with the BSP.

14. Bills Payable

	2024	2023
Balance, January 1	**₱ 170,690,737**	₱ 146,102,288
Availment	**198,091,258**	123,875,837
Payment	**(145,262,352)**	(99,287,388)
Balance, December 31	**₱ 223,519,643**	₱ 170,690,737

The following table shows the breakdown of bills payable as to maturity:

	2024	2023
Short-term (one (1) year or less)	**₱ 62,576,599**	₱ 40,963,668
Medium-term (over one (1) year to five (5) years)	**160,943,044**	129,727,069
	₱ 223,519,643	₱ 170,690,737

In 2015, the Bank has applied for a term loan rediscounting facility amounting to ₱ 40 million with the Land Bank of the Philippines with a purpose of augmenting its working capital. Availability and expiry are dated May 20, 2016 and May 31, 2026, respectively.

Interest rates of the loan ranges from 2% to 9.50% per annum in 2024 and 2% to 8.90% per annum in 2023. The line of credit is collateralized by assignment of sub-borrowers' promissory notes and all underlying capital.

Loans and receivables with total carrying amount of ₱ 7,000,000 as of December 31, 2024 and 2023, were collateralized to secure bills payable (see Note 7).

Interest expense on bills payable amounted to ₱ 12,811,519 in 2024 and ₱ 9,376,339 in 2023.

15. Accrued Interest and Other Expenses

	2024	2023
Accrued interest	₱ **5,915,290**	₱ 4,689,267
Accrued taxes (Note 22)	**2,121,901**	1,475,149
Other accrued expenses	**1,935,268**	1,500,617
	₱ **9,972,459**	₱ 7,665,033

Accrued taxes pertain to the gross receipts tax due from banking and non-banking transactions of the Bank.

Other accrued expenses include staff benefits, utility bills, professional fees, PDIC insurance fee, security services and others.

16. Other Liabilities

	2024	2023
Deposit for stock subscriptions (Note 17)	₱ **12,975,000**	₱ 1,188,875
Accrued retirement obligation (Note 21)	**2,503,967**	2,914,083
Accounts payable	**1,507,839**	2,455,054
SSS, HDMF and Philhealth premiums	**593,495**	505,403
Withholding taxes payable (Note 22)	**194,053**	332,901
Dividends payable	**78**	78
Deferred gain (see Note 9)	**-**	71,877
Others	**83,630**	84,985
	₱ **17,858,062**	₱ 7,553,256

Movements of deferred gain for the year ended December 31 are as follows:

	2024	2023
Balance, January 1	₱ **71,877**	₱ 791,172
Less: Realized during the year		
From 2022 disposals (see Note 9)	**(71,877)**	(71,877)
From 2020 disposals (see Note 9)	**-**	(647,418)
Balance, December 31	₱ **-**	₱ 71,877

17. Share Capital and Retained Earnings

	2024	2023
Authorized share capital – 100 par value per share		
Preferred shares – 40,000 shares	**₱ 4,000,000**	₱ 4,000,000
Common shares – 460,000 shares	**46,000,000**	46,000,000
	₱ 50,000,000	₱ 50,000,000
Outstanding common shares – issued and fully paid – 460,000 shares	**₱ 46,000,000**	₱ 46,000,000
Share premium	**7,030**	7,030
	₱ 46,007,030	₱ 46,007,030

Preferred shares are available only for subscription by the government and, in case of sale to private shareholders, shall automatically become convertible to common shares as provided for by RA No. 720, as amended. Preferred shares are non-voting and preferred only as to assets upon liquidation and share in dividend distribution up to a maximum of 2% without preference.

There were no issued preferred shares for the year ended December 31, 2024 and 2023.

In 2018, the Board of Directors approved the increase in its authorized share capital from ₱ 50 million to ₱ 250 million by way of stock dividend declaration. Likewise, the Board approved the declaration of stock dividends aggregating to ₱ 14 million, which was presented as stock dividends distributable as of December 31, 2024 and 2023.

The retained earnings available for declaration as of December 31, 2024 and 2023 are shown below:

	2024	2023
Available retained earnings, January 1	**₱ 57,056,810**	₱ 41,748,461
Net income during the year	**4,989,943**	17,877,432
Add (Less) Capital adjustments:		
Prior period adjustment	**-**	64,140
Effect of deferred income tax (Note 20)	**1,378,239**	(2,633,223)
Retained earnings available for dividend declaration	**₱ 63,424,992**	₱ 57,056,810

The Bank's unappropriated retained earnings exceeded its paid-up capital as of December 31, 2024 and 2023. Management anticipates that this position will be reversed following the finalization of the increase in authorized capital stock and the issuance of the previously declared stock dividends.

On May 29, 2019, the BSP approved the declaration of the stock dividend by the Bank but is still pending for distribution due to the pending application for increase in authorized share capital.

As of April 15, 2024, the Bank's application for increase in authorized share capital was put on hold until the Bank has fully accomplished the documentary requirements required by the BSP relative to the shareholdings of the Pelaez family (see Note 1).

In 2024 and 2023, the Bank received cash subscriptions amounting ₱ 11,786,125 and ₱ 1,188,875, respectively, (see Note 16) as part of the planned increase in authorized share capital.

18. Related Party Transactions

a. Under the General Banking Act and BSP regulations, the aggregate amount of loans to DOSRI should not exceed the total capital funds or 15% of the total loan portfolio of the Bank, whichever is lower, except with prior approval from the Monetary Board.

In addition, the amount of direct credit accommodations to DOSRI, of which 70% must be secured, should not exceed the book value of their respective investments in the Bank.

As at December 31, 2024 and 2023, information about the loans and other credit transactions with certain DOSRI are as shown below:

	2024	2023
Loans and other credit transactions with certain DOSRI (see Note 7)	**₱ 38,500,000**	₱ 43,500,000
Outstanding total loan portfolio (see Note 7)	**₱ 638,884,575**	₱ 640,113,317
Percent of DOSRI loans to total loan portfolio (see Note 7)	**6.03%**	6.80%
Percent of DOSRI loans to net worth (see Note 7)	**29%**	34%
Percent of unsecured DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of past due DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of non-performing DOSRI loans to total DOSRI loans	**0.00%**	0.00%

The significant transactions with related parties and their effect on the Bank's financial statements for the years ended December 31 are shown below:

Related Parties	Relationship	Loans and other receivables: Net Volume	2024	Net Volume	2023	Terms	Condition
GFC	Related interest	(₱ 5,000,000)	**₱ 15,000,000**	₱ -	₱ 20,000,000	1 year; payable monthly	Fully secured
DSMG	Related interest	-	**10,000,000**	-	10,000,000	8 months; payable monthly	Fully secured
LDCU	Related interest	-	**10,000,000**	-	10,000,000	1 year; payable monthly	Fully secured
FLC	Related interest	-	**3,500,000**	-	3,500,000	1 year; payable monthly	Fully secured
	Total	(₱ 5,000,000)	**₱ 38,500,000**	₱ -	₱ 43,500,000		

Related Parties	Relationship	Deposit liabilities: Volume	2024	Volume	2023	Condition
GFC	Related interest	(₱ 15,791,919)	**₱ 6,684,925**	₱ 2,186,448	₱ 22,476,844	Assigned
DSMG	Related interest	(8,477,178)	**3,162,565**	174,837	11,639,743	Assigned
LDCU	Related interest	21,414,174	**32,231,733**	(2,691,413)	10,817,559	Assigned
FLC	Related interest	(47,541,952)	**2,706,109**	46,449,747	50,248,061	Assigned
	Total	(₱ 50,396,875)	**₱ 44,785,332**	₱ 46,119,619	₱ 95,182,207	

Gopel Finance Corporation (GFC), Factors Lending Corporation (FLC), Liceo de Cagayan University (LCU), and Divine Shepherd Memorial Gardens (DSMG) are companies controlled by the same key management personnel of the Bank.

The outstanding accounts with the related interests shall be settled in cash. Impairment assessment is made each financial year through a review of the financial position of a related interest and market in which the related interest operates. Management believes that the aforementioned accounts are recoverable within the Bank's normal operating cycle.

b. Short-term employee benefits to key management personnel, which include salaries, 13th month pay and other short-term benefits, charged to operations amounted to ₱ 17,1485,329 in 2024 and ₱ 14,725,674 in 2023.

c. No post-employment and other long-term benefits, termination benefits and share-based payments have been paid to key management personnel except for directors' and committee members' fees paid amounting to ₱ 334,000 in 2024 and ₱ 552,938 in 2023 (Note 19).

19. Income and Expenses

Other operating income

	2024	2023
Service charges, fees and commissions	**₱ 23,752,999**	₱ 20,281,077
Gain on sale of real and other property acquired (see Notes 9 and 10)	**71,877**	1,529,830
Gain on sale of bank premises, furniture, fixtures and equipment (see Note 10)	**7,500**	394,809
Miscellaneous income	**11,067,777**	11,254,317
	₱ 34,900,153	₱ 33,460,033

Service charges, fees and commissions refer to income from intermediation services such as those relating to deposit and lending services.

Gain on sale of real and other properties acquired represents income from foreclosed properties, whether accounted for investment properties or bank premises, furniture and fixtures, that were subsequently sold. It is determined as the difference between the present value of the net disposal proceeds and the carrying amount of the asset, which is recognized in profit or loss in the period of disposal.

Miscellaneous income refers to the following:

	2024	2023
Penalties on past due loans	**₱ 3,291,132**	₱ 2,113,048
Notarial fees	**1,365,267**	1,702,200
Bank commission	**827,489**	1,009,040
POS charges	**296,194**	137,077
Checkbook	**147,257**	201,996
Interest income from SCR (see Note 9)	**13,650**	99,412
Insurance	**-**	67,799
Others	**5,126,788**	5,923,745
	₱ 11,067,777	₱ 11,254,317

Others include passed-on GRT, inspection and filing fees collected relative to the loans released, rental income from safety deposit boxes, income from POS and other charges.

Administrative expenses

	2024	2023
Salaries and wages	**₱ 33,046,571**	₱ 28,793,524
Employees' benefits	**18,931,892**	15,776,627
Taxes and licenses (Note 22)	**11,683,112**	9,011,373
Depreciation and amortization (see Notes 10 and 11)	**8,909,441**	7,781,707
SSS, PHIC, and HDMF contributions	**3,473,923**	2,921,900
Fuel and lubricants	**3,076,120**	2,766,689
Security, clerical, messengerial and janitorial services	**2,577,420**	2,403,932
Penalties (Note 22)	**2,435,614**	-
Postage, telephone, cables and telegrams	**1,839,790**	1,303,046
Management and other professional fees	**1,758,322**	1,334,533
Insurance	**1,743,113**	1,421,116
Entertainment, amusement and recreational (Note 26)	**1,179,543**	1,073,455
Stationeries and supplies	**1,160,705**	930,648
Repairs and maintenance	**1,116,367**	933,368
Provisions for retirement benefits (Note 21)	**1,089,884**	390,434
Light, power and water	**1,050,362**	1,077,402
Transportation and travel	**594,992**	562,570
Litigation costs (see Note 9)	**512,320**	466,226
Rent (Note 23)	**384,283**	346,629
Directors' and committee members' fees (see Note 18)	**334,000**	552,938
Information technology	**291,637**	585,864
Donations and charitable contributions	**114,868**	91,110
Advertising	**111,830**	164,094
Fees and commissions	**77,009**	117,224
Membership fees and dues	**36,060**	44,932
Miscellaneous	**540,142**	149,249
	₱ 98,069,320	₱ 81,000,590

Miscellaneous include advertising, BSP supervision fees, periodicals and magazines, freight charges, and other expenses.

In accordance with the Revenue Memorandum Circular No. 4 – 2003 of the BIR, the following expenses which are presented as administrative expenses are accounted for as cost of service for income tax purposes:

	2024	2023
PDIC premium payments	**₱ 953,514**	₱ 563,966
BSP supervision fee	**154,051**	95,677
	₱ 1,107,565	₱ 659,643

20. Income Tax

Deferred tax liability relates to right-of-use assets which amounted to ₱ 2,616,850 and ₱ 1,121,711 as of December 31, 2024 and 2023, respectively.

Deferred tax assets as of December 31 relate to the following:

	2024	2023
Allowance for expected credit losses	**₱ 11,639,762**	₱ 12,960,566
Lease liabilities	**2,716,555**	1,176,322
Accrued retirement obligation	**625,992**	728,521
Allowance for impairment loss – ROPA	**555,583**	555,583
Minimum corporate income tax (MCIT)	**1,633,844**	-
	₱ 17,171,736	₱ 15,420,992

Significant components and the reconciliation of income tax expense to profit before income tax at the applicable statutory income tax rate to income tax expense at the Bank's effective income tax rate for the year ended December 31 are shown below:

	2024	2023
Profit before income tax	**₱ 7,063,841**	₱ 21,951,537
At applicable statutory income tax rate of 25%	**1,765,960**	5,487,884
Changes in income tax resulting from:		
Expenditures not allowable for income tax purposes	**5,362,563**	2,588,200
Expenditures allowable for income tax purposes	**(6,011,813)**	(1,078,387)
Interest income already subjected to final tax	**(401,286)**	(290,369)
Income taxable for income tax purposes	**(19,765)**	-
Income tax expense – current	**695,659**	6,707,328
Tax effects of net movement in items giving rise to:		
Deferred tax assets relating to:		
Accrued retirement obligation	**102,529**	(728,521)
Lease liabilities	**(1,540,233)**	(88,304)
Allowance for expected credit losses	**1,320,804**	(1,486,463)
Deferred tax liability relating to:		
Pension asset	**-**	(415,091)
Right-of-use assets	**1,495,139**	85,156
Income tax expense – deferred (see Note 17)	**1,378,239**	(2,633,223)
	₱ 2,073,898	₱ 4,074,105

The reconciliation of the Bank's income tax payable for the year ended December 31, 2024 and 2023 is as follows:

	2024	2023
Balance, January 1	**₱ 2,744,003**	₱ 2,162,093
Provision for income tax – current	**695,659**	6,707,328
Excess MCIT	**1,633,844**	-
Payments during the year	**(4,332,332)**	(6,125,418)
Balance, December 31	**₱ 741,174**	₱ 2,744,003

21. Retirement Benefits

The Bank has an unfunded, non-contributory defined benefit retirement plan, covering all regular employees entitled to benefits based on a specific level of benefit for every year of service as provided under R.A. 7641.

The Bank's latest actuarial valuation was conducted by Jocelyn C. Fadri, a Fellow of Actuarial Society of the Philippines for the year ended December 31, 2023.

Retirement costs charged to operations amounted to ₱ 1,089,884 in 2024 and ₱ 390,434 in 2023 (see Note 19). The Bank reported accrued retirement obligation amounting ₱ 1,936,967 and ₱ 2,914,083 as of December 31, 2024 and in 2023, respectively, which are recorded under other liabilities (see Note 16).

The principal assumptions used for the purpose of the actuarial valuation were as follows:

	2024	2023
Discount rate	**6.08%**	6.08%
Expected rate of salary increase	**3.00%**	3.00%
Expected return on plan assets	**6.06%**	7.18%

Provision for retirement benefits for the years ended December 31 (see Note 19) includes the following:

	2024	2023
Current service cost	**₱ 911,796**	₱ 509,648
Interest cost on benefit obligation	**514,029**	247,326
Interest income on plan asset	**(335,941)**	(366,540)
	₱ 1,089,884	₱ 390,434

Present values of defined benefit obligation were computed as follows:

	2024	2023
Beginning	**₱ 8,454,429**	₱ 3,444,651
Current service cost	**911,796**	509,648
Interest cost on benefit obligation	**514,029**	247,326
Benefits paid from plan assets	**-**	(195,948)
Remeasurement gain	**-**	4,448,752
	₱ 9,880,254	₱ 8,454,429

Fair values of plan assets were computed as follows:

	2024	2023
Beginning	**₱ 5,540,346**	₱ 5,105,015
Contributions	**1,500,000**	600,000
Benefits paid	**-**	(195,948)
Interest income from plan asset	**335,941**	366,540
Remeasurement loss from plan asset	**-**	(335,261)
	₱ 7,376,287	₱ 5,540,346

Actual return on plan assets amounted to a gain of ₱ 335,941 in 2024 and ₱ 31,279 in 2023.

The movement of cumulative remeasurement loss under equity is as follows:

	2024			2023		
	(Loss)	Deferred tax	Amount	Gain (loss)	Deferred tax	Amount
Balance, January 1	**(₱ 5,810,721)**	**1,524,395**	**(₱ 4,286,326)**	₱ 567,963	(₱ 70,276)	₱ 497,687
Remeasurement gain (loss) on FVPA	**-**	**-**	**-**	(6,378,684)	1,594,671	(4,784,013)
Balance, December 31	**(₱ 5,810,721)**	**₱ 1,524,395**	**(₱ 4,286,326)**	(₱ 5,810,721)	₱ 1,524,395	(₱ 4,286,326)

Accrued retirement obligation as of December 31, 2024 and 2023 is as follows:

	2024	2023
Present value of defined benefit obligation (DBO)	**₱ 9,880,254**	₱ 8,454,429
Fair value of plan assets (FVPA)	**(7,376,287)**	(5,540,346)
	₱ 2,503,967	₱ 2,914,083

The movements in accrued retirement obligation for the years ended December 31 recognized in the statement of financial position are as follows:

	2024	2023
Balance, January 1	**₱ 2,914,083**	(₱ 1,660,364)
Provision for retirement benefits (see Notes 19 and 22)	**1,089,884**	390,434
Remeasurement loss on DBO and FVPA	**-**	4,784,013
Contributions	**(1,500,000)**	(600,000)
Balance, December 31	**₱ 2,503,967**	₱ 2,914,083

22. Supplementary Information Required under RR 15-2010 and 34-2020

Based on RR 15-2010

In compliance with the requirements set forth in RR 15-2010, the information on revenue taxes paid and accrued by the Bank during the taxable year are as follows:

Percentage tax

The Bank is a non-VAT registered entity and subjects its income with percentage taxes in accordance with Section 121 of the National Internal Revenue Code. The Bank's percentage tax amounted to ₱ 7,693,352 and ₱ 6,071,423 in 2024 and 2023, respectively.

Accrued percentage tax recorded under accrued taxes amounted to ₱ 2,121,901 and ₱ 1,475,149 as of December 31, 2024 and 2023, respectively (see Note 15).

Taxes and Licenses

This includes other taxes, local and national, paid or accrued for the years ended December 31, and lodged under the taxes and licenses account as shown below (see Note 19):

	2024	2023
Local		
Business permits and other fees	**₱ 701,154**	₱ 498,849
Community tax certificates	**13,639**	18,426

Forward

	2024	2023
National		
Percentage taxes	**₱ 7,693,352**	₱ 6,071,423
Documentary stamps taxes	**2,371,421**	1,974,310
BIR annual registration fees	**500**	3,500
Others		
Others	**903,046**	444,865
	₱ 11,683,112	₱ 9,011,373

Withholding Taxes
The amounts of withholding taxes paid or accrued for the years ended December 31 are shown below:

	Compensation		Expanded		Final		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
January 1	**₱ 20,522**	₱ 30,000	**₱ 39,340**	₱ 40,250	**₱ 273,039**	₱ 70,140	**₱ 332,901**	₱ 140,390
Withheld during the year	**3,541,809**	436,987	**711,243**	400,417	**1,387,619**	331,252	**5,640,671**	1,168,656
Paid during the year	**(3,518,958)**	(446,465)	**(703,793)**	(401,327)	**(1,556,769)**	(128,353)	**(5,779,519)**	(976,145)
December 31	**₱ 43,373**	₱ 20,522	**₱ 46,790**	₱ 39,340	**₱ 103,889**	₱ 273,039	**₱ 194,053**	₱ 332,901

Accrued withholding taxes are recorded under other liabilities (see Note 16).

Income Tax
The Bank is not engaged in multiple activities with tax relief under special laws and international treaty. The Bank's income and expenses are subject to normal income tax rate of 25% except for the following income and expenses:

a. Interest income which are non-taxable for income tax purposes amounting to ₱ 1,605,145 in 2024 and ₱ 1,161,477 in 2023 were subjected to final withholding taxes of 20% (see Notes 6 and 8).

b. Expenses which are non-deductible for income tax purposes are as follows:

	2024	2023
Provisions for expected credit and impairment losses (see Notes 7, 9, and 12)	**₱ 13,101,509**	₱ 5,945,856
Depreciation on right of use asset (see Note 10)	**3,791,038**	3,487,510
Provisions for retirement benefits (see Notes 19 and 21)	**1,089,884**	390,434
Interest arbitrage	**401,286**	290,369
Interest on lease liabilities (Note 23)	**630,921**	238,632
Penalties (see Note 19)	**2,435,614**	-
	₱ 21,450,252	₱ 10,352,801

Penalties pertain to non-compliances to the regulatory requirements of the BSP and compromise penalty during BIR audit examination for 2022.

Tax Assessments and Cases
The Company has no outstanding tax assessments from the Bureau of Internal Revenue and other regulatory bodies.

Based on RR 34-2020

The BIR, in its RR No. 34-2020 issued on December 22, 2020, prescribes the guidelines and procedures for the submission of BIR Form No. 1709 (Information Return on Transactions with Related Party), Transfer Pricing Documentation (TPD) and other supporting documents, amending pertinent provisions of RR No. 19-2020.

The following are required to file and submit the BIR Form No. 1709 (RPT Form), together with the Annual Income Tax Return (AITR):

a. Large taxpayers;
b. Taxpayers enjoying tax incentives, i.e. Board of Investments (BOI)- registered and economic zone enterprises, those enjoying Income Tax Holiday (ITH) or subject to preferential Income Tax rate;
c. Taxpayers reporting net operating losses for the current taxable year and the immediately preceding two (2) consecutive taxable years; and
d. A related party, as defined under Section 3 of RR No. 19-2020, which has transactions with (a), (b) or (c).

Further, it is clarified in Revenue Memorandum Circular No. 54-2021 issued on April 27, 2021 that the conditions shown below must also be present for a taxpayer to be required to accomplish and file BIR Form 1709:

a. The taxpayer is required to file an Annual Income Tax Return; and
b. The taxpayer has transactions with a domestic or foreign related party during the concerned taxable period.

On the other hand, the preparation and submission of TPD shall be mandatory for taxpayers enumerated above who meet the following materiality thresholds:

a. Annual gross sales/revenue for the subject taxable period exceeding One Hundred Fifty Million Pesos (₱ 150,000,000) and the total amount of related party transactions with foreign and domestic related parties exceeds Ninety Million Pesos (₱ 90,000,000).

   In computing the above threshold, the following items shall be included:

   i. Amounts received and/or receivable from related parties or paid and/or payable to related parties during the taxable year but excluding compensation paid to key management personnel, dividends and branch profit remittances; and
   ii. Outstanding balances of loans and non-trade amounts due from/to all related parties.

   Related party transactions covered by an Advance Pricing Agreement (APA) need not be disclosed in the RPT Form but shall nonetheless be included in the computation of the amount of related party transactions following the prescribed formula; or

b. Related party transactions meeting the following materiality threshold:

   i. If involving sale of tangible goods in the aggregate amount exceeding Sixty Million Pesos (₱ 60,000,000) within the taxable year;

ii. If involving service transaction, payment of interest, utilization of intangible goods or other related party transaction in the aggregate amount exceeding Fifteen Million Pesos (₱ 15,000,000) within the taxable year; or

c. If TPD was required to be prepared during the immediately preceding taxable period for exceeding either (a) or (b) above.

The Bank does not exceed the above-enumerated materiality thresholds to be required to file a TPD.

23. Lease Arrangements

As a Lessee

The Bank entered into lease agreements for its offices from various lessors at monthly rentals subject to escalation rates ranging from 5% to 10% provided for in its contracts of lease. These operating lease agreements have a term ranging from one (1) to twenty (20) years and are renewable under certain terms and conditions. Refundable rental deposits amounted to ₱ 583,141 as of December 31, 2024 and 2023 (see Note 12).

The Bank recognized right-of-use assets (ROUA) and lease liabilities (LL) on these leases in accordance with PFRS 16.
The carrying amount of ROUA amounted to ₱ 10,467,400 and ₱ 4,486,845 as of December 31, 2024 and 2023, respectively (see Note 10).

In 2024 and 2023, the Bank entered into a renewed lease arrangement with a total present value of lease payments amounting to ₱ 9,771,593 and ₱ 3,828,136, respectively. Further, in 2024 and 2023, the Bank derecognized the right-of-use asset on the expired lease contracts aggregating to ₱ 4,018,681 and ₱ 4,145,798, respectively (see Note 10).

Depreciation expense for ROUA charged to operations amounted to ₱ 3,791,038 in 2024 and ₱ 3,487,510 in 2023 (see Note 10), while the interest expense on lease liabilities charged to operations amounted to ₱ 630,921 in 2024 and ₱ 238,632 in 2023 (see Note 22).

The Bank leases various transportation equipment used by its collection officers for a period of less than one (1) year. The rent expense charged to operation for these short-term leases and amounted to ₱ 384,283 in 2024 and ₱ 346,629 in 2023 (see Note 19).

The Bank's outstanding lease liabilities amounted to ₱ 10,866,222 and ₱ 4,705,287 as of December 31, 2024 and 2023, respectively.

The following table shows the breakdown of the minimum lease payments as to term:

	2024	2023
Due within 1 year	**₱ 1,955,247**	₱ 2,552,322
Due beyond 1 year	**8,910,975**	2,152,965
	₱ 10,866,222	₱ 4,705,287

24. Earnings Per Share and Basic Ratios

Earnings per share is computed by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, after adjustments for any subsequent share dividends declared.

	2024	2023
Profit for the year attributable to ordinary equity	**₱ 4,989,943**	₱ 17,877,432
Weighted average number of common shares outstanding	**460,000**	460,000
Earnings per share	**₱ 10.85**	₱ 38.86

There were no dilutive potential ordinary shares for years ended December 31, 2024 and 2023. Therefore, the Bank's basic and diluted earnings per share were equal for the years ended December 31, 2024 and 2023. There were also no movements in shares outstanding in both years.

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

	2024	2023
Return on average equity	**3.86%**	14.88%
Return on average assets	**0.65%**	2.61%
Net interest margin	**12.01%**	11.36%

Minimum Liquidity Ratio
On February 8, 2018, the BSP issued Circular No. 996, Amendments to the Liquidity Coverage Ratio Framework for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks. The Circular provides guidance on and prescribes the prudential requirements for covered institutions to maintain eligible stock of liquid assets proportionate to the level of total qualifying liabilities (i.e. on and off-balance sheet liabilities). Eligible and liquid assets shall include cash and other liquid assets that are immediately liquefiable and free from encumbrances.

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019. MLR was temporarily out to 16% up to 2022 due to the pandemic.

The Bank's MLR as of December 31, 2024 and 2023 are shown below:

	2024	2023
Eligible stock of liquid assets	**₱ 160,671,318**	₱ 130,077,654
Total qualifying liabilities	**578,637,920**	527,050,145
MLR	**28%**	25%

Leverage Ratio
Under existing regulations, banks are required to maintain a leverage ratio of not less than 5% and shall be complied with at all times.

The leverage ratio intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy.

The Bank's leverage ratio as reported to the BSP are as follows:

	2024	2023
Total capital	**₱ 131,749,248**	₱ 126,759,305
Total assets	**791,507,152**	737,413,823
	16.65%	17.19%

25. Risk-Based Capital Ratio

The BSP requires rural banks to maintain the following risk based capital ratios:

- Capital adequacy ratio (CAR), expressed as a percentage of total qualifying capital to risk-weighted assets, shall not be less than ten percent (10%)
- Tier 1 capital ratio, expressed as a percentage a percentage of Tier 1 capital to risk-weighted assets, shall not be less than seven and a half percent (7.5%)
- Common equity tier 1 (CET1) ratio, expressed as a percentage of common equity tier 1 capital to risk-weighted assets, shall not be less than six percent (6.0)

As of December 31, 2024, and 2023, the Bank's risk-based capital adequacy ratio is 14.21% and 14.81%, respectively.

	2024	2023
Tier 1 (core) capital		
Common shares	**₱ 46,000,000**	₱ 46,000,000
Additional paid-in capital	**7,030**	7,030
Stock dividends distributable	**14,000,000**	14,000,000
Surplus	**71,038,601**	53,161,169
Undivided profits	**4,989,943**	17,877,432
Cumulative remeasurement gain (loss)	**(4,286,326)**	(4,286,326)
	131,749,248	126,759,305
Less: Deferred tax assets, net of deferred tax liabilities	**14,554,886**	14,299,281
Tier 1 CAR	**117,194,362**	112,460,024
Tier 2 CAR	**5,345,471**	5,336,851
Total qualifying capital	**122,539,833**	117,796,875
Risk weighted assets	**710,185,517**	661,921,215
Operational risk-weighted assets	**151,979,976**	133,248,327
Total risk-weighted assets	**₱ 862,165,493**	₱ 795,169,542
CAR ratio	**14.21%**	14.81%
Tier 1 capital ratio	**13.59%**	14.14%
Common equity tier 1 (CET1) ratio	**13.59%**	14.14%

26. Entertainment, Amusement and Recreational Expenses

Revenue Regulations (RR) No. 10-2002 defines expenses to be classified as entertainment, amusement and recreational (EAR) expenses and sets a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for seller of goods or properties or 1% of net revenue for seller of services.

For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses. EAR expense amounted to ₱ 1,712,770 in 2024 and ₱ 1,073,455 in 2023 (see Note 19) which are fully deductible.

27. Capital Management

The main objective of the Bank in managing capital is to comply with the regulatory capital requirements of the Bangko Sentral ng Pilipinas (BSP). The Bank wants to ensure its ability to continue as a going concern and to maintain adequate capital to support its operations and maximize shareholders' interest.

The Bank monitors capital on the basis of the risk based capital ratio. The Bank determines the levels of risk-weighted assets and sets the amount of qualifying capital required to support these assets.

To maintain or adjust capital, the Bank may raise capital through the issuance of additional shares or decrease capital through dividend declaration. The Bank's capital consists mainly of share capital, share premium, stock dividends distributable, retained earnings free and reserves and cumulative remeasurement loss.

Capital requirement

Under existing regulations, banks are required to maintain daily, a risk – based capital ratio of not less than 10%.

The ratio, expressed as a percentage of qualifying capital to risk weighted assets, is determined by the risk assets of banks, on balance sheet and off balance sheet, measured and risk weighted according to defined criteria. Risk assets are defined as total assets less cash on hand, due from BSP, loans covered by holdout or assignment of deposits, loans or acceptances under letters of credit to the extent covered by marginal deposits and other non-risk items as determined by the Monetary Board. Qualifying capital available to banks is the sum of Tier 1 (core) capital, which is primarily the shareholders' equity with certain adjustments defined by regulation, and Tier 2 (supplementary) capital, which consists of long term subordinated debt.

The Bank has complied with the capital adequacy requirement throughout 2024 and 2023 since it has a capital adequacy ratio of 14.21% and 14.81% as of December 31, 2024 and 2023, respectively (see Note 25).

28. Financial Risk Management Objectives and Policies

The Bank's principal financial instruments consist of cash and other cash items, due from BSP and other banks, loans and other receivables, financial assets at amortized cost, other assets, deposits and other liabilities, bills payable, accrued interest and other expenses, lease liabilities and other liabilities.

The Board of Directors has the ultimate responsibility for understanding the nature and level of overall risk taken by the Bank. In order to carry out its responsibilities, it establishes and develops strategies and policies with respect to the financial risk it identifies and it provides adequate supervision of day-to-day operations.

The directors and senior officers regularly attend board meetings to review and discuss the Bank's financial condition and evaluate the performance vis-à-vis projections.

Credit Risk
Credit risk is the risk that arises from counterparty's failure to meet the terms of any contract with the Bank or otherwise perform as agreed.

The Bank has credit policies and procedures which are adequate and are reviewed periodically. The Bank maintains a strict implementation on its credit policies and identifies concentration of credit risks so as not to expose the Bank to adverse credit conditions. It also formulates strategies and adopts effective credit administration, review and monitoring through periodic evaluation of loan accounts.

As of December 31, 2024 and 2023, past due and items in litigation loans and receivables with an aggregate amount of ₱ 52,841,102 and ₱ 58,079,012, respectively, are the significant exposures to credit risk without taking account of any collateral held or other credit enhancements (see Note 7).

The table shows the credit quality of the Bank's financial assets as of December 31, 2024 and 2023:

	As of December 31, 2024		
	Neither past due nor impaired	**Past due and impaired**	**Total**
Cash and other cash items	**₱ 23,778,285**	**₱ -**	**₱ 23,778,285**
Due from BSP	**5,158,861**	**-**	**5,158,861**
Due from other banks	**132,567,972**	**-**	**132,567,972**
Loans and receivables	**554,666,827**	**52,841,102**	**607,507,929**
Financial assets at amortized cost	**269,947**	**-**	**269,947**
Other assets	**11,898,490**	**46,327**	**11,944,817**
	₱ 728,340,382	**₱ 52,887,429**	**₱ 781,227,811**

	As of December 31, 2023		
	Neither past due nor impaired	**Past due and impaired**	**Total**
Cash and other cash items	₱ 17,728,437	₱ -	₱ 17,728,437
Due from BSP	8,548,539	-	8,548,539
Due from other banks	103,800,678	-	103,800,678
Loans and receivables	553,530,441	58,079,012	611,609,453
Financial assets at amortized cost	2,415,884	-	2,415,884
Other assets	2,439,732	43,871	2,483,603
	₱ 688,463,711	₱ 58,122,883	₱ 746,586,594

Past due and impaired financial assets that are covered by an allowance for expected credit losses amounted to ₱ 46,559,048 and ₱ 51,842,268 as of December 31, 2024 and 2023, respectively (see Notes 7 and 12).

Liquidity Risk
Liquidity risk is the current and prospective risk to earnings or capital arising the Bank's inability to meet its obligations as they become due.

Past due and items in litigation loans and receivables amounting to ₱ 52,841,101 and ₱ 58,079,012 as of December 31, 2024, and 2023, respectively, have affected the Bank's liquidity (see Note 7).

The Bank's reserves as required by the BSP have been complied with and primary reserves are adequate to address substantial cash drawdown. The Bank has credit lines with different banks and it has huge liquid assets.

The Bank is exposed to daily calls on its available cash resources from savings deposits, maturing time deposits and loan drawdowns. The Bank maintains sufficient cash to cover withdrawals at unexpected levels of demand.

Operations Risk
Operational risk is the current and prospective risk to earnings or capital arising from fraud, error and the inability to deliver products or services, maintain a competitive position and manage information.

The Bank effectively implements the adequate policies and procedures governing operations. The Bank plans to outsource technical services on computer maintenance for its operations. The Bank is also adopting effective storage and back-up procedures for computer data.

Further, the Bank adopts good hiring policy with emphasis on minimum qualification and character and establishes a comprehensive scheme comparable with the industry taking into account a reward system for good performance. It also regularly reviews strict implementation and compliance of employee policies and sponsors employee development programs.

Market Risk
Market risk is the risk of loss to future earnings or capital arising from changes in the value of traded portfolios of financial instruments. The value of a financial instrument may change as a result of changes in interest rates, foreign exchange rates, equity prices and other market changes.

The Bank has set up parameters on investments based on a study of current economic and financial trend. The Bank also adopted a benchmark on the tolerance level on losses that should trigger an action by management on a particular investment and it has a constant oversight and monitoring of its own investments.

<u>Interest Rate Risk</u>
The Bank's exposure to the risk of changes in market interest rates relates primarily to due from other banks and financial assets at amortized cost. Interest margin may increase or reduce as a result of such changes in market interest rates. The Bank monitors movements in market interest rates and reviews on monthly basis, interest rates of due from other banks and financial assets at amortized cost.

The Bank has fixed its interest on loans and receivables, deposit liabilities, and bills payable until maturity. It has not extended loans nor obtained loans with floating interest rates.

The tables below illustrate the sensitivity of the Bank's profit with respect to changes in the interest rates of its due from other banks, including time deposits and short-term investments, and financial assets at amortized cost due to reasonably possible change in interest rates, with all other variables held constant:

	2024		
	Reasonably possible change in rate	**Effect on profit before tax**	**Effect on equity**
Due from other banks	**+/- 1.69%**	**₱ 2,240,399**	**₱ 2,240,399**
Financial assets at amortized cost	**+/- 1%**	**2,699**	**2,699**
		₱ 2,243,098	**₱ 2,243,098**

	2023		
	Reasonably possible change in rate	**Effect on profit before tax**	**Effect on equity**
Due from other banks	+/- 1.69%	₱ 1,754,231	₱ 1,754,231
Financial assets at amortized cost	+/- 1%	24,159	24,159
		₱ 1,778,390	₱ 1,778,390

Foreign Currency Risk

The Bank has no exposure to foreign exchange rate risk since it has not entered into foreign exchange trading and most of its transactions are denominated in Philippine peso.

Compliance Risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards.

The Bank has an Audit Committee which ensures that the compliance program and internal control systems are properly being implemented.

In compliance with Republic Act No. 9160, *Anti-Money Laundering Act of 2001*, the Bank implements its anti-money laundering (AML) program by implementing the following basic principles:

a. Know your Customers

   The Bank shall obtain satisfactory evidence of the customer's identity and have effective procedures for verifying the bonafides of new customers.

b. Compliance with Laws

   The Bank shall ensure that business is conducted in conformity with high ethical standards, that laws and regulations are adhered to, and that service is not provided where there is good reason to believe that transactions are associated with money laundering activities.

c. Cooperation with Law Enforcement Agencies

Within the legal constraints in relation to customer's confidentiality, the Bank shall cooperate fully with law enforcing agencies. Disclosure of information by the Bank for the purpose of the Act regarding suspicious transactions shall be made to the Anti-Money Laundering Council of the Bangko Sentral ng Pilipinas.

d. Policies, Procedures and Training

The Bank shall adopt policies consistent with principles set out in its Anti-Money Laundering Manual, and ensure that its staff, wherever located, are informed of these policies and adequately trained in matters covered by the Manual. The Bank shall implement specific procedures for customer identification, maintaining of transaction documents and reporting of covered and suspicious transactions.

Environmental and Socio-economic Risks
These risks may arise from the physical and transition risks arising from climate change that may pose financial stability concerns considering their significant and protracted implications on the Bank's operations, and the Bank's and their stakeholders' financial interests.

The Bank is committed to sustainable development by adopting sustainability principles on identified environmental and socio-economic risk areas and adopt strategies to achieve sustainability.

The Bank gradually integrates a sustainable financial framework in its day-to-day process and regularly monitors its compliance. Accordingly, the Bank deploys sustainable financing instruments to fund loans and projects that have clear environmental and/or social benefits. The Bank practices financial products which integrate environment, social and governance criteria into business decisions that supports economic growth and provides lasting benefit for both clients and society while reducing pressures on the environment.

29. Financial Instruments

Classification
Reconciliations of financial assets and financial liabilities based on their classifications to amounts presented in the statement of financial position are presented below:

	As of December 31, 2024		
	Amortized Cost	**Non-Financial Assets**	**Total**
ASSETS			
Cash and other cash items	₱ 23,778,285	₱ -	₱ **23,778,285**
Due from BSP	5,158,861	-	**5,158,861**
Due from other banks	132,567,972	-	**132,567,972**
Loans and receivables – net	560,995,208	-	**560,995,208**
Financial assets at amortized cost	269,947	-	**269,947**
Investment properties	-	1,845,698	**1,845,698**

Forward

	As of December 31, 2024		
	Amortized Cost	Non-Financial Assets	Total
Bank premises, furniture, fixtures and equipment – net	₱ -	₱ 21,410,076	₱ **21,410,076**
Other intangible assets	-	12,951,114	**12,951,114**
Deferred tax assets	-	17,171,736	**17,171,736**
Other assets – net	11,944,817	3,413,438	**15,358,255**
Total	₱ 734,715,090	₱ 56,792,062	₱ **791,507,152**

	As of December 31, 2024		
	Other Financial Liabilities	Non-Financial Liabilities	Total
LIABILITIES			
Deposit liabilities	₱ 394,183,494	₱ -	₱ **394,183,494**
Bills payable	223,519,643	-	**223,519,643**
Accrued interest and other expenses	7,850,558	2,121,901	**9,972,459**
Lease liabilities	10,866,222	-	**10,866,222**
Income tax payable	-	741,174	**741,174**
Deferred tax liabilities	-	2,616,850	**2,616,850**
Other liabilities	4,011,884	13,846,178	**17,858,062**
Total	₱ 640,431,801	₱ 19,326,103	₱ **659,757,904**

	As of December 31, 2023		
	Amortized Cost	Non-Financial Assets	Total
ASSETS			
Cash and other cash items	₱ 17,728,437	₱ -	₱ 17,728,437
Due from BSP	8,548,539	-	8,548,539
Due from other banks	103,800,678	-	103,800,678
Loans and receivables – net	559,811,056	-	559,811,056
Financial assets at amortized cost	2,415,884	-	2,415,884
Investment properties	-	1,845,698	1,845,698
Bank premises, furniture, fixtures and equipment – net	-	13,534,984	13,534,984
Other intangible assets	-	8,228,031	8,228,031
Deferred tax assets	-	15,420,992	15,420,992
Other assets – net	2,483,603	3,595,921	6,079,524
Total	₱ 694,788,197	₱ 42,625,626	₱ 737,413,823

	As of December 31, 2023		
	Other Financial Liabilities	Non-Financial Liabilities	Total
LIABILITIES			
Deposit liabilities	₱ 416,174,491	₱ -	₱ 416,174,491
Bills payable	170,690,737	-	170,690,737
Accrued interest and other expenses	6,189,884	1,475,149	7,665,033
Lease liabilities	4,705,287	-	4,705,287
Income tax payable	-	2,744,003	2,744,003
Deferred tax liabilities	-	1,121,711	1,121,711
Other liabilities	5,369,215	2,184,041	7,553,256
Total	₱ 603,129,614	₱ 7,524,904	₱ 610,654,518

Fair values of financial instrument
Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

Valuation techniques and assumptions applied for purposes of measuring fair value
The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are as follows:

a. Cash and other cash items, due from BSP and other banks, and other assets

   Fair values approximate carrying amounts given the short-term maturities of these instruments.

b. Loans and receivables, and financial assets at amortized cost

   The estimated fair value of loans and receivables, and unquoted debt securities classified as loans represent the present value determined using the effective interest method.

c. Bills payable

   The estimated fair value of bills payable represents the discounted amount of estimated future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

d. Deposits and borrowings

   The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

   The estimated fair value of the long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flow using interest for new debts with similar remaining maturity.

e. Accrued interest and other expenses, lease liability, and other liabilities

   The estimated fair value of the accrued interest and other expenses, lease liability, dividends payable, and other liabilities represents the present value determined using the effective interest method.

30. Event After The Reporting Period

Financial Statements Authorized for Issue
The financial statements as of and for the year ended December 31, 2024 were approved and authorized for issuance by the Board of Directors on March 31, 2025.

SOUTH BANK (A RURAL BANK) INCORPORATED
FINANCIAL INDICATORS
DECEMBER 31, 2024 AND 2023

	Formula	2024	2023
Quick ratios	(Cash and other cash items + Due from BSP + Due from other banks + Loans and other receivables + Financial asset at amortized cost) / Current liabilities	**1.54**	**1.47**
Current/Liquidity ratios	Current assets / Current liabilities	**1.57**	**1.48**
Debt-to-equity ratios	Total debt / Total equity	**5.01**	**4.82**
Debt-to-asset ratios	Total debt / Total assets	**0.83**	**0.83**
Equity-to-asset ratios	Total equity / Total assets	**0.17**	**0.17**
Return on assets	Net loss / Average total assets	**0.01**	**0.03**
Return on equity	Net loss / Average total equity	**0.04**	**0.15**
Times interest earned	Earnings before interest and taxes / Interest expense	**1.32**	**2.14**

SOUTH BANK (A RURAL BANK) INCORPORATED
OTHER FINANCIAL INFORMATION
DECEMBER 31, 2024 AND 2023

	2024	2023
Investment properties-to-asset ratios	-	-
Receivables-to-asset ratios	0.71	0.76
DOSRI receivables-to-net worth ratio	0.29	0.34

SOUTH BANK (A RURAL BANK) INCORPORATED
SUPPLEMENTARY SCHEDULE OF EXTERNAL AUDITOR FEE-RELATED INFORMATION
DECEMBER 31, 2024 AND 2023

	2024	2023
Total Audit Fees	250,000.00	250,000.00
Non-audit services fees:		
Other assurance services	-	-
Tax services	-	-
All other services	-	-
Total Non-Audit Fees	-	-
Total Audit and Non-audit Fees	**250,000.00**	**250,000.00**

Audit and Non-audit fees of other related entities

	2024	2023
Audit fees	220,000.00	220,000.00
Non-audit services fees:		
Other assurance services	-	-
Tax services	-	-
All other services	-	-
Total Audit and Non-audit fees of other related entities	**220,000.00**	**220,000.00**