STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURNS

The management of Cooperative Bank of Cotabato is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2023. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value-added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, management affirms that the attached audited financial statements for the year ended December 31, 2023, and the accompanying Annual Income Tax Return are in accordance with the books and records of Cooperative Bank of Cotabato, complete and correct in all material respects.

Management likewise affirms that:

a) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
b) Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules have been reported as reconciling items and maintained in the Bank's books and records in accordance with the requirements of Revenue Regulation No. 8-2007 and other relevant issuances;
c) The Cooperative Bank of Cotabato has filed all applicable returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Maharlika Highway, Lanao, Kidapawan City, North Cotabato

GIL D. PASTOLERO
Chairman, Board of Directors

ROLLY R. DELA CRUZ
President

EDELLE G. HERNANDEZ
Vice President for Finance

QUILAB & GARSUTA
Certified Public Accountants

Contact Information
MF, RDRDC Building, Pioneer Avenue, General Santos City, 9500, fgarsuta@yahoo.com
(063) 83552-4043, 091-75966762
quilabgarsuta.com

Current Accreditations
BOA, BIR, SEC, BSP, IC
CDA, NEA, MISEREOR, KNH

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY INCOME TAX RETURNS

The Board of Directors
Cooperative Bank of Cotabato
Maharlika Highway, Lanao, Kidapawan City,
North Cotabato

We have audited the financial statements of Cooperative Bank of Cotabato. as of and for the year ended December 31, 2023, on which we have rendered the attached report, dated March 26, 2024.

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

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QUILAB & GARSUTA, CPAs
By:

RICO P. QUILAB
Partner
CPA Cert. No. 46034
TIN No. 129-040-841
PRC/BOA Cert. No. 7787, 2023-2026
BIR No. 16-007506-001-2022, 2022-2024
46034-SEC Group B, 2020-2024
46034-BSP Group B, 2020-2024
46034-IC Group A, 2020-2024
PTR No. 5864057 A
January 3, 2024
Cagayan de Oro City

March 26, 2024
Cagayan de Oro City, Philippines

QUILAB & GARSUTA
Certified Public Accountants

Contact Information
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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Cooperative Bank of Cotabato
Maharlika Highway, Lanao, Kidapawan City, North Cotabato

Report on the Financial Statements

Opinion
We have audited the financial statements of Cooperative Bank of Cotabato (Bank), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements comprising of a summary of material accounting policy information and explanatory information, collectively referred to as 'financial statements'.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Cooperative Bank of Cotabato as of December 31, 2023 and 2022, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from

fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Supplementary Information Required by Supervising Agencies of the Bank

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The following supplementary information are presented as compliance to the requirements by the corresponding supervising Government agencies in the prudential reporting of the Bank and are not required parts of the basic financial statements.

Supervising Government	*Nature of Information*	*Presented in*
CDA	Supplementary Information Required By The CDA	Note 15
BIR Revenue Regulation 15-2010	Supplementary Information on Taxes, Licenses, and Fees	Note 27
BSP Circular No.1074	Supplementary Information Required By The BSP	Appendix I

Such information is the responsibility of management. The foregoing information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

QUILAB & GARSUTA, CPAs
By:

RICO P. QUILAB
Partner
CPA Cert. No. 46034
TIN No. 129-040-841
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BIR No. 16-007506-001-2022, 2022-2024
46034-SEC Group B, 2020-2024
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46034-IC Group A, 2020-2024
PTR No. 5864057 A
January 3, 2024
Cagayan de Oro City

March 26, 2024
Cagayan de Oro City, Philippines

STATEMENTS OF FINANCIAL POSITION
Cooperative Bank of Cotabato

December 31,	2023	2022
ASSETS		
Cash and Cash Equivalents *(Note 5)*	₱600,016,648	₱751,441,133
Loans and Receivables – Net *(Note 6)*	2,579,452,471	2,246,599,499
Bank Premises, Furniture, Fixtures and Equipment – Net *(Note 7)*	185,858,163	144,898,474
Right-of-Use Assets *(Note 8)*	5,258,135	4,914,187
Investment Properties – Net *(Note 9)*	2,760,796	4,159,254
Other Assets *(Note 10)*	67,378,122	56,255,295
	₱3,440,724,335	₱3,208,267,842
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Deposit liabilities *(Note 11)*	₱1,978,557,254	₱1,708,044,059
Bills payable *(Note 12)*	640,949,546	612,729,040
Other liabilities *(Note 13)*	115,157,480	152,467,600
Lease liabilities *(Note 8)*	5,527,493	4,999,453
Total Liabilities	2,740,191,773	2,478,240,152
Members' Equity		
Share capital *(Note 15)*	82,033,000	77,155,159
Statutory reserves *(Note 16)*	94,125,913	154,774,000
Revaluation reserves *(Note 14)*	–	(8,881,722)
Reserve for retirement of preferred shares *(Note 15)*	3,441,000	3,441,000
Undivided surplus *(Note 16)*	520,932,649	503,539,253
Total Members' Equity	700,532,562	730,027,690
	₱3,440,724,335	₱3,208,267,842

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Cooperative Bank of Cotabato

Years Ended December 31,	2023	2022
INTEREST INCOME		
Loans and receivables *(Note 6)*	₱374,455,228	₱358,370,769
Bank deposits *(Note 5)*	1,242,386	881,643
Total	375,697,614	359,252,412
INTEREST EXPENSE		
Deposit liabilities *(Note 11)*	59,298,644	53,596,548
Bills payable *(Note 12)*	22,109,371	11,170,391
Lease liabilities *(Note 8)*	276,340	91,360
Total	81,684,355	64,858,299
NET INTEREST INCOME	294,013,259	294,394,113
LESS PROVISION FOR EXPECTED CREDIT LOSSES (ECL) *(Note 6)*	122,513,112	70,020,700
INTEREST INCOME AFTER PROVISON FOR ECL	171,500,147	224,373,413
SERVICE FEES AND OTHER INCOME *(Note 17)*	189,670,076	139,542,324
NET SURPLUS BEFORE OPERATING EXPENSES	361,170,223	363,915,737
OPERATING EXPENSES *(Note 18)*	(342,441,136)	(325,466,662)
NET SURPLUS BEFORE INCOME TAX EXPENSE	18,729,087	38,449,075
INCOME TAX EXPENSE *(Note 19)*		
Current	(4,275,415)	(5,215,223)
Deferred	8,558,450	3,824,318
Net	4,283,035	(1,390,905)
NET SURPLUS FOR THE YEAR	23,012,122	37,058,170
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will not be reclassified subsequently to profit or loss:		
Remeasurements of post-employment defined benefit obligation *(Note 14)*	–	2,602,588
Deferred Tax Income (Expense) *(Note 19)*	–	(650,647)
Other Comprehensive Income (Loss) - net of tax	–	1,951,941
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	₱23,012,122	₱39,010,111

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

Cooperative Bank of Cotabato

December 31,	2023	2022
SHARE CAPITAL *(Note 15)*		
Ordinary (Common) Shares – ₱1,000 par value		
Opening balances	₱73,714,159	₱69,664,159
Additional shares issued during the year	4,877,841	4,050,000
Closing balances	78,592,000	73,714,159
Preferred Shares	3,441,000	3,441,000
Total Share Capital	82,033,000	77,155,159
STATUTORY RESERVES *(Note 16)*		
Opening balances	154,774,000	149,278,518
Allocation from net surplus during the year	4,682,272	9,612,268
Charges during the year	(65,330,359)	(4,116,786)
Closing Balances	94,125,913	154,774,000
RESERVE FOR RETIREMENT OF PREFERRED SHARES *(Note 15)*	3,441,000	3,441,000
REVALUATION RESERVES *(Note 14)*		
Opening balances	(8,881,722)	(10,833,663)
Other comprehensive income (loss) for the year	–	1,951,941
Transfer from Optional Fund *(Note 16)*	8,881,722	–
Closing balances	–	(8,881,722)
UNDIVIDED SURPLUS		
Opening balances	503,539,253	495,560,214
Allocation from net surplus during the year *(Note 16)*	17,393,396	25,523,448
Cash dividends declared *(Note 15)*	–	(16,528,883)
Patronage refund	–	(46,235)
Charges during the year *(Note 16)*	–	(969,291)
Closing balances	520,932,649	503,539,253
	₱700,532,562	₱730,027,690

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

Cooperative Bank of Cotabato

Years Ended December 31,	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus for the year before income tax expense	₱18,729,087	₱38,449,075
Add (deduct) adjustments for:		
Depreciation and amortization *(Notes 7 and 9)*	18,050,888	16,843,516
Depreciation on right-of-use assets *(Note 8)*	2,903,101	1,921,390
Provision for expected credit losses *(Note 6)*	122,513,112	70,020,700
Provision for retirement benefit obligation *(Note 14)*	3,973,941	3,824,760
Operating surplus before changes in working capital	166,170,129	131,059,441
Add (deduct) changes in working capital, excluding cash and cash equivalents:		
Increase in loans and receivables *(Note 6)*	(439,332,259)	(480,628,931)
Increase in other assets *(Note 10)*	(11,122,827)	(5,245,716)
Increase in deposit liabilities *(Note 11)*	270,513,195	256,389,469
Increase (decrease) in other liabilities *(Note 13)*	(27,564,493)	8,313,528
Net cash used for operations	(41,336,255)	(90,112,209)
Income taxes paid *(Note 19)*	(4,669,637)	(2,737,911)
Net Cash Used for Operating Activities	(46,005,892)	(92,850,120)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to bank premises, furniture, fixtures and equipment *(Note 7)*	(59,309,704)	(38,872,632)
Increase in investment in financial asset at FVOCI *(Note 10)*	–	(1,000,000)
Disposal of bank premises, furniture, fixtures and equipment *(Note 7)*	3,258,304	10,166,455
Disposal of Investment property *(Note 9)*	1,416,410	–
Net Cash Used for Investing Activities	(54,634,990)	(29,706,177)
CASH FLOWS FOR FINANCING ACTIVITIES		
Repayment of bills payable *(Note 12)*	(709,410,723)	(207,733,294)
Proceeds from bills payable availed of during the year *(Note 12)*	737,631,230	520,752,624
Cash dividends paid *(Note 13)*	(13,429,992)	(5,940,259)
Disbursements from statutory funds *(Note 16)*	(56,448,637)	(4,116,786)
Additional issuance of shares *(Note 15)*	4,877,841	4,050,000
Payment of interest and patronage refund	–	(18,028)
Contribution to plan assets *(Note 14)*	(339,015)	(10,189,144)
Retirement benefits paid *(Note 14)*	(10,668,958)	–
Repayment of lease liabilities *(Note 8)*	(2,995,349)	(1,978,000)
Net (Used for) Cash Provided from Financing Activities	(50,783,603)	294,827,113
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(151,424,485)	172,270,816
OPENING CASH AND CASH EQUIVALENTS	751,441,133	579,170,317
CLOSING CASH AND CASH EQUIVALENTS *(Note 5)*	₱600,016,648	₱751,441,133

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
Cooperative Bank of Cotabato
As of and for the Years Ended December 31, 2023 and 2022

Note 1
General Information

Organization
The Cooperative Bank of Cotabato (Cooperative Bank) was organized and registered with the Cooperative Development Authority (CDA) on April 18, 1979, under Registration No. F-127CB-02-DVO in accordance with the provision of Republic Act (R.A.) No. 6938, otherwise known as the Cooperative Code of the Philippines. The Bank was re-registered with the CDA under Registration No. 9520-12005732 on January 7, 2010 to carry on the business of a rural bank in accordance with the provisions of R.A. No. 7353 (Rural Banks Act of 1992) and R.A. No. 9520 (Philippine Cooperative Code of 2008).

The Bank was granted Certificate of Authority by the Bangko Sentral Ng Pilipinas (BSP) under the provisions of Republic Act No. 720, as amended. The Bank officially started operations by April 18, 1979.

As of December 31, 2023, the Bank has a total of 124 shareholders (active and inactive) on record.

Addresses of Head Office and Branches
The registered office address of the Bank is at Maharlika Highway, Lanao, Kidapawan City, North Cotabato. The Bank operates within the Provinces of North Cotabato, Sultan Kudarat, South Cotabato, Davao Del Sur, and Bukidnon. It has existing branches and microbanking office in the following areas:

Branches
- Kidapawan, at Jose Abad Santos St., Kidapawan City, North Cotabato
- Midsayap, at Sto. Niño St., Poblacion 1, Midsayap, North Cotabato
- M'lang, at George Gauran Sr. St., M'lang, North Cotabato
- Pigcawayan, at Corner Roxas & Sinsuat Sts., Poblacion 2, Pigcawayan North Cotabato
- Antipas, at Public Terminal, Poblacion, Antipas, North Cotabato
- Kabacan, at Roxas St., Poblacion (Public Market), Kabacan, North Cotabato
- Isulan, at National Highway, Kalawag III, Isulan, Sultan Kudarat
- Koronadal, at Jose Abad Santos St., Brgy Zone 3, Poblacion, Koronadal City, South Cotabato
- Bansalan, at Viacrusis St., Poblacion 2, Bansalan, Davao Del Sur
- Polomolok, at Corner Cannery Road and Meleguas Road, Poblacion, Polomolok, South Cotabato
- Lebak, at Poblacion 1, Lebak, Sultan Kudarat
- Don Carlos, at Cor Rizal-Diego Silang Sts., P-6, Poblacion Sur, Don Carlos, Bukidnon
- Sulop, at Purok 5, Poblacion, Sulop, Davao Del Sur
- Tacurong, at Magsaysay Avenue, Tacurong, Sultan Kudarat
- Surallah, at R.N. Estanislao Bldg., Camia St., Surallah, South Cotabato
- Santa Cruz, at National Highway, Zone 3, Sta Cruz, Davao Del Sur.

MicroBanking Office
- Makilala, at 893 Crossing, Poblacion, Makilala, North Cotabato

Tax Exemption

The Bank serves both members and non-members. Since the Bank's accumulated reserves and undivided net savings exceeds the ₱10 million threshold for tax exemption, the Bank's transactions with non-members are subject to the following taxes:

1) Business transactions with members shall be exempt from all national internal revenue taxes;

2) Business transactions with non-members shall be taxed in full rate as follows:

    (a) Income tax on the amount allocated for interest on share capital of non-members;
    (b) Value-Added Tax (VAT) under Section 109 pars. (r), (s), (t) and (u) of the Tax Code of 1997; except those falling under pars. (L), (M) and (N), as amended by R.A. 9337;
    (c) Percentage Tax on all sales of goods and/or services to non-members, except sales made to producers, marketing or service cooperatives;
    (d) All other internal revenue taxes unless otherwise provided by the law.
    (e) Limited or full deductibility of donations to duly accredited charitable, research and educational institutions, and reinvestment to socio-economic projects within the area of operation of the cooperative; and
    (f) Exemption from all taxes on transactions with insurance companies and banks, including but not limited to 20% final tax on interest deposits and 7.5% final income tax on interest income derived from a depository bank under the expanded foreign currency deposit system.

Notwithstanding the foregoing, all income of the Bank not related to the main/principal business/es under its Articles of Cooperation shall be subject to all the appropriate taxes under the NIRC, as amended.

Note 2
Statement of Compliance with Philippine Financial Reporting Standards (PFRSs)

Statement of Compliance

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

PFRSs include statements named PFRSs and Philippine Accounting Standards (PAS/IAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) of the Philippine Board of Accountancy (BOA) from the pronouncements issued by the International Accounting Standards Board and approved by BOA and adopted by the Securities and Exchange Commission (SEC).

Prudential Reporting Requirements of BSP and CDA and PFRSs

Because the Bank is a supervised financial institution (BSFI) by the Bangko Sentral ng Pilipinas (BSP), it also abides by the prudential regulations of BSP particularly those that are set forth in the Manual of Regulations for Banks (MORB), and all applicable BSP Circulars and accounting requirements. These regulations and requirements are substantially compliant with PFRSs.

In its Circular No. 494 dated September 20, 2005, BSP emphasized that, as a general rule, BSFIs shall comply in all respect with the provisions of PFRSs in preparing both their audited financial statements and the financial statements for prudential reporting. In its Circular No. 915 dated 05 July 2016 BSP clarified that deviations between local and international accounting standards only apply to the preparation of prudential reports to the BSP. The accounting treatment for prudential reporting aims to ensure that the financial statements provide a suitable basis for measuring risks and ratios of BSFIs.

The preparation of the Bank's financial statements took into considerations deviations from PFRSs that are allowed by BSP for prudential reporting purposes but are incorporated in these financial reporting as explained in the following paragraphs. The Bank prepares only a single set of audited financial statements for general use and for submission to BSP.

- *Consolidation of Financial Statements*
  Under PAS/IAS 27, all bank/quasi-bank subsidiaries, regardless of type, are consolidated on a line-by-line basis. For prudential reporting purposes, however, financial allied subsidiaries, except insurance companies, are consolidated with the financial statements of the parent bank on a line-by-line basis. Non-financial allied subsidiaries and insurance subsidiaries, on the other hand, are accounted for using the equity method. This requirement has no impact on the Bank as it has no subsidiaries.

- *Provisioning Requirement*
  In preparing general purpose audited financial statements, BSFIs adopt the provisions of PFRSs in booking provisions for credit losses. For prudential reporting purposes, however, BSFIs are required to adopt the expected credit loss model in measuring credit impairment in accordance with the provisions of PFRS 9. BSFIs are also required to set up a general loan loss provision (GLLP) equivalent to 1 percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. BSFIs are not required to provide a 1 percent (1%) GLLP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments. Allowance for credit losses for Stages 1, 2 and 3 accounts are recognized in the profit or loss statement. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1 percent GLLP required, the deficiency shall be recognized by appropriating the Retained Earnings (RE) account.

  The Bank generally follows the foregoing provisioning requirements for loans and discounts and adopted the provisions of PFRSs for the provisioning requirements of other financial instruments.

- *Deemed Cost of ROPA in Settlement of Loans*
  In computing the deemed cost of real and other properties acquired (ROPA), BSFIs are required to value the property at initial recognition based on the carrying amount of the asset given up in the exchange, i.e., carrying amount of the loan, instead of the fair value of the real and other property acquired. The Bank values its ROPA in accordance with this requirement; however, it has subjected the ROPA to impairment testing and disclosed their fair market values at the reporting date.

- *Accrual of Interest Income on Non-Performing Loans*
  Interest income is allowed to be recognized on non-performing exposures for the purposes of preparing the general-purpose financial statements. For prudential reporting purposes, however, BSFIs are not allowed to recognize interest income on non-performing exposures, except when payment is received. The Bank follows this requirement in preparing these financial statements as dictated by prudence and conservatism.

The Bank is also supervised by the CDA. It has generally complied with the requirements of the Cooperative Code of the Philippines particularly in the aspects of its members' equity. In the distribution of net surplus at the end of the year, however, the Bank follows the rules and regulations of Section 124 of the MORB which prohibits banks to declare dividends unless it has complied with all the requirements imposed by BSP.

New and Amended IFRS Accounting Standards that are Effective for the Current Year
In the current year, the Bank has applied a number of amendments to PFRS Accounting Standards issued by the International Accounting Standards Board (IASB) and adopted by the FSRSC (as Philippine Financial Reporting Standards) that are mandatorily effective for an accounting period that begins on or after January 1, 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to PAS/IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The Bank has adopted the amendments to PAS/IAS 1 for the first time in the current year. The FSRSC adopted these amendments on April 14, 2021 and made them effective starting January 1, 2023. The amendments change the requirements in PAS/IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information.' Accounting policy information is material if, when considered together with other information included in the Bank's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

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

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

The Bank has adopted the amendments to PAS/IAS 12 for the first time in the current year. The FSRSC adopted these amendments on June 9, 2021 and made them effective starting January 1, 2023. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit. Following the amendments to PAS/IAS 12, the Bank is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in PAS/IAS 12.

The Bank did not have single transaction involving deferred tax asset and deferred tax liability during the year.

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

The Bank has adopted the amendments to PAS/IAS 12 for the first time in the current year. The FSRSC adopted these amendments on June 19, 2023 and made it retroactive to January 1, 2023. The IASB amends the scope of PAS/IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules. The amendments introduce a temporary exception to the accounting requirements for deferred taxes in PAS/IAS 12, so that an entity would neither recognize nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. Presently, the Pillar Two model rules have not yet been adopted by Philippine tax authorities.

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

The Bank has adopted the amendments to PAS/IAS 8 for the first time in the current year. The FSRSC adopted these amendments on April 14, 2021 and made them effective beginning January 1, 2023. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty.' The definition of a change in accounting estimates was deleted.

New and Revised IFRS Accounting Standards in Issue But Not Yet Effective

At the date of authorization of these financial statements, the Bank has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective and is some cases had not yet been adopted by the FSRSC.

- PFRS 17 *Insurance Contracts* (including the June 2020 and December 2021 amendments to IFRS 17)

- Amendments to PFRS 10 and PAS/IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

- Amendments to PAS/IAS 1 *Non-current Liabilities with Covenants*

- *Amendments to PAS/IAS 7* and PFRS 7 *Supplier Finance Arrangements*

- Amendments to PFRS 16 *Lease Liability in a Sale and Leaseback*

The management of the Bank does not expect that the adoption of the foregoing Standards will have a material impact on the financial statements of the Bank in future periods.

PFRS 17 Insurance Contracts
IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the IASB issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

In December 2021, the IASB issued Initial Application of IFRS 17 and IFRS 9—*Comparative Information (Amendment to IFRS 17)* to address implementation challenges that were identified after IFRS 17 was published. The amendment addresses challenges in the presentation of comparative information. IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The FSRSC adopted the amendments to IFRS 17 on December 15, 2021 (and identified the standard as PFRS 17) and amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

The Bank is aware that the new standard applies to any insurance contract regardless of who issued it. The Bank, however, has determined that it has no contracts or arrangements containing insurance risks. The Bank has not issued any financial guarantees; it has no credit card contracts, nor it engages in derivatives. It has also not engaged in issuing deposit accounts bundled with insurance. The Board of Directors has determined that PFRS 17, when effective by January 1, 2025, will have no significant impact on the Bank's operations.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets

between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The FSRSC has deferred the review of the foregoing amendments.

The Board of Directors of the Bank however anticipates that the application of these amendments may not have an impact on the Bank's financial statements in the present or in future periods.

Amendments to PAS/IAS 1 Presentation of Financial Statements—Non-current Liabilities with Covenants
The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g., a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

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

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

The FSRSC adopted the amendments on November 18, 2022 and becomes effective starting January 1, 2024. The Board of Directors of the Bank, however, anticipates that the application of these amendments may not have an impact on the Bank's financial statements in future periods.

Amendments to PAS/IAS 7 Statement of Cash Flows and PFRS 7
Financial Instruments: Disclosures—Supplier Finance Arrangements
The amendments add a disclosure objective to PAS/IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, PFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk. The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information.

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

- The terms and conditions of the arrangements

- The carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements

- The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers

- Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement

- Liquidity risk information

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, were adopted by the FSRSC on June 19, 2023, and are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

Amendment to IFRS 16 Leases—Lease Liability in a Sale and Leaseback
The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine ‘lease payments’ or ‘revised lease payments’ such that the seller-lessee does not recognize a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies the amendments for an earlier period, it is required to disclose that fact. A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied IFRS 16.

The amendments were adopted by the FSRSC on October 14, 2022 and are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. The Board of Directors of the Bank anticipate that the application of these amendments may not have an impact on the Bank's financial statements.

Note 3
Summary of Material Accounting Policy Information

The material accounting policies that have been used in the preparation of these financial statements are summarized below. The Bank’s management expects these policies to influence the decisions of users of the financial statements. Accounting policies related to immaterial transactions or events were no longer disclosed.

Going Concern
The Board of Directors has, at the time of approving the financial statements, a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing financial statements.

Basis of Preparation
The financial statements have been prepared using a historical cost basis, except for financial instruments that are measured at fair values at the end of the year, as explained in the following accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for leasing transactions that are within the scope of PFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in PAS/IAS 2 or value in use in PAS/IAS 36.

The financial statements are presented in Philippine peso, which is the Bank's functional and presentation currency, and all values are recorded to the nearest peso except when otherwise indicated.

The preparation of the financial statements made use of estimates, assumptions and judgments by management based on management's best knowledge of current and historical facts as at reporting date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial position date, as well as affecting the reported income and expenses for the year. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Presentation of Financial Statements
The Bank's statements of financial position are presented broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) are disclosed in Note 23. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Bank.

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Financial Instruments
Financial assets and financial liabilities are recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value, except for trade and other receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Although the Bank does not have all of the following financial instruments in its financial statements, the policies governing the accounting of these financial instruments are discussed in detail to allow for the proper understanding of the policies governing such financial instruments.

Financial Assets
All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of Financial Assets
Debt instruments that meet the following conditions are measured subsequently at amortized cost: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (b) 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.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI): (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (b) 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. By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset: (a) the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met [see (iii) below]; and (b) the Bank may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch [see (iv) below].

(i) *Amortized Cost and Effective Interest Method*
The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Bank recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to a gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

The Bank's financial assets at amortized costs include cash and cash equivalents and loans and discounts and investments in treasury bonds.

- *Cash and Cash Equivalents*
  Cash and cash equivalents substantially consist of cash on hand and other cash items, amounts due from BSP and other banks that are known amounts of cash with maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. These are carried in the books at cost, which approximates market.

- *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 arise with the Bank providing money, goods and 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, sales contract receivables and all receivables from customers and other banks (due from other banks). They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

The Bank's loan receivables represent the amounts granted to borrowers with interest charged at the prevailing lending rate approved by the Bank's Board of Directors. The loan policies followed by the Bank hew closely to the policies allowed by the Bangko Sentral ng Pilipinas (BSP).
Loans are particularly monitored for impairment in accordance with Appendix 15 of the MORB.

Individually significant other receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

(ii) *<u>Debt Instruments Classified as at FVTOCI</u>*
Debt instruments classified as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these debt instruments as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss.

The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these debt instruments had been measured at amortized cost. All other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these debt instruments are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) *<u>Equity Instruments Designated as at FVTOCI</u>*
On initial recognition, the Bank may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if: (1) it has been acquired principally for the purpose of selling it in the near term; (2) on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or (3) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive incomes and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with PFRS 9 unless the dividends clearly represent a recovery of part of the cost of the investment.

(iv) *<u>Financial Assets at FVTPL</u>*
Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI [see (i) to (iii) above] are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition [see (iii) above].

- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria [see (i) and (ii) above] are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Bank has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (the Bank has no hedge investments). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other services and other income' line item. Fair value is determined in the manner described in the Bank's material accounting policy information.

Impairment of Financial Assets
The Bank recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Bank always recognizes lifetime ECL (expected credit losses) for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Bank's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Bank recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) *Significant Increase in Credit Risk*
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Bank's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Bank's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g., a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- An actual or expected significant deterioration in the operating results of the debtor;

- Significant increases in credit risk on other financial instruments of the same debtor; and

- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if: (1) the financial instrument has a low risk of default; (2) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and (3) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Bank considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing.' Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of Default*

The Bank considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable: (1) when there is a breach of financial covenants by the debtor; or (2) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Bank, in full (without taking into account any collateral held by the Bank).

Irrespective of the above analysis, the Bank considers that default has occurred when a financial asset is more than 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events: (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event (see (ii) above); (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write-Off Policy*

The Bank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) *Measurement and Recognition of Expected Credit Losses (ECL)*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guaranty contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Bank's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with PFRS 16.

For a financial guarantee contract, as the Bank is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Bank recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve and does not reduce the carrying amount of the financial asset in the statement of financial position.

The key elements used in the calculation of ECL are as follows:

- Probability of Default (PD) – It is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- Loss Given Default (LGD) – It is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD), or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and what the Bank would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- Exposure at Default (EAD) – It represents the gross carrying amount of the financial instruments subject to impairment calculation; hence, this is the amount that the Bank expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In the event of a loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Derecognition of Financial Assets
The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

Modification of Loans
When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

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

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

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

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

Financial Liabilities and Equity

Classification as Debt or Equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs. Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial Liabilities
All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Bank, are measured in accordance with the specific accounting policies set out below.

Financial liabilities, which include deposit liabilities, bills payable and accrued expenses and other liabilities (excluding tax-related payables), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss under the caption Interest Expense in the statement of profit or loss.

Deposit liabilities are recorded or stated at amounts in which they are to be paid.

Bills payables are recognized initially at fair value, which is equivalent to the proceeds of the loan (fair value of consideration received). Bills payables are subsequently stated at amortized cost; any difference between the proceeds, net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments. Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the shareholders and the BSP.

Financial Liabilities Measured Subsequently at Amortized Cost
Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for

trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

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

When the Bank exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognized in profit or loss as the modification gain or loss within other gains and losses.

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

Bank Premises, Furniture, Fixtures and Equipment
Bank premises, furniture, fixtures and equipment, except for land, are carried at acquisition cost or construction cost less subsequent depreciation and amortization and any impairment losses. Land held for administration is stated at cost less any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

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

• Buildings and improvement	20 to 25 years
• Transportation equipment	8 to 10 years
• Furniture, fixtures and equipment	2 to 5 years
• Information technology equipment	2 to 5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements of two years, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes the costs of construction and other direct costs. The account is not depreciated until such a time that the assets are completed and available for use.

Fully-depreciated and fully-amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets. The estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

The carrying values of bank premises, furniture, fixtures and equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of bank premises, furniture, fixtures and equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and impairment losses, if any, 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 on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

Investment Properties
Investment properties include parcels of land acquired by the Bank from defaulting borrowers that are not expected to be sold within the next 12 months. These are initially measured at acquisition cost, which comprises the carrying amount of the related loan after adjustments for unamortized premium or discount less allowance for credit losses plus accrued interest and directly attributable costs. Investment properties also include building and improvements with currently undetermined use. Subsequently, investment properties are stated at cost less accumulated depreciation (except for land) and any impairment in value.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use.

ROPAs are booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit 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). If the carrying amount of ROPA exceeds ₱5.0 million, the appraisal of the foreclosed/ purchased asset is to be conducted by an independent appraiser acceptable to the BSP.

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

The non-financial assets portion of ROPA shall remain in ROPA and shall be accounted for as follows:

(1) Land and buildings are accounted for using the cost model under PAS/IAS 40 *Investment Property*;

(2) Other non-financial assets are accounted for using the cost model under PAS/IAS 16 *Property Plant and Equipment*;

(3) Buildings and other non-financial assets are depreciated over the remaining useful life of the assets, which shall not exceed twenty-five (25) years and ten (10) years from the date of acquisition, respectively; and

(4) Land, buildings and other non-financial assets are subject to the impairment provisions of PAS/IAS 36 *Impairment of Assets.*

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance, security maintenance and other holding costs are normally charged to income in the period in which the costs are incurred.

Investment properties are derecognized when they have either been disposed of or when investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on derecognition of an investment property is recognized in the statement of income in the year of derecognition.

Prepayments and Other Resources
Prepayments and other resources pertain to other resources controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. 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.

Intangible Asset
Intangible asset (presented as part of Prepayments and Other Resources in the statements of financial position) pertains to an acquired computer software license used in the performance of financial services and administration, which is accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up acquiring an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of two years as the lives of the intangible asset is considered finite.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are recognized as expense in profit or loss as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

Impairment of Non-Financial Assets
The Bank's bank premises, furniture, fixtures and equipment and investment properties are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes 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.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the assets or cash-generating unit's recoverable amount exceeds its carrying amount.

Share Capital and Other Equity Accounts
Share capital, which consists of common and preferred shares, represents the nominal value of shares that have been issued.
Reserve for retirement of preferred shares was established by the Bank to comply with the requirements of BSP as reserves for the retirement of preferred shares. Allocation to this fund is an appropriation from net profit, as authorized by the Bank's BOD.

Revaluation reserves comprise gains and losses on remeasurements of post-employment defined benefit assets or obligation.

Surplus and statutory reserves include all distributions of net surplus from current and prior period results, net of interest on share capital and patronage refunds, as reported in the statement of profit or loss, reduced by the amounts of dividends declared and any disbursements from the statutory reserves.

Statutory Funds
The Bank establishes statutory funds in accordance with the provisions of R.A. No. 9520, An Act Amending the Cooperative Code of the Philippines to be Known as the "Philippine Cooperative Code of 2008".

The following are the nature of these funds:

a) *General Reserve Fund (GRF)*
The General Reserve Fund, which receives 10% allocation every year from the net surplus of the Bank, is intended for the stability of the Bank and to meet losses in its operations. The General Assembly may decrease the amount allocated to the Fund when the Fund already exceeds the authorized share capital. Such sum of the reserve fund in excess of the share capital may be used at any time for any project that would expand the operations of the Bank upon the resolution of the General Assembly. Any sum recovered on items previously charged to the reserve fund shall be credited to such fund.

The Fund shall not be utilized for investments other than those allowed by the Cooperative Code. Upon the dissolution of the Bank, the General Reserve Fund shall not be distributed to members. However, the General Assembly may resolve to establish a usufructuary trust fund for the benefit of any federation or union to which the Bank is affiliated, or to donate, contribute, or otherwise dispose of the amount for the benefit of the community where the Bank operates. If the General Assembly cannot decide upon the disposal of the Fund, the same shall go to the federation or union to which the Bank is affiliated.

b) *Cooperative Education and Training Fund (CETF)*
The Cooperative Education and Training Fund, which also receives 10% allocation from the net surplus of the Bank every year, is intended for the education and training and other purposes of the Bank's members. Half of the allocation to the Fund is remitted to the Cooperative Education and Training Fund of the federation or union to which the Bank is affiliated. Upon the dissolution of the Bank, the unspent balance of the Fund shall be credited to the Cooperative Education and Training Fund of the federation or union to which the Bank is affiliated.

c) *Community Development Fund (CDF)*
The CDF receives 3% allocation from the net surplus of the Bank every year and is intended to be used for projects or activities that will benefit the community where the Bank operates.

d) *Optional Fund*
The Optional Fund is intended either for land and building or any purposes. It receives 7% allocation from the net surplus of the Bank every year.

Revenue and Cost Recognition
The Bank's revenue is derived substantially from banking business and related activities and comprises net interest income and non-interest income. Income is recognized on an accrual basis in the period in which it accrues. Management has determined that the revenue from interest on loans and receivables are within the scope of PFRS 9 while the income from non-interest related activities are within the scope of PFRS 15. The following specific criteria are the bases used in recognizing revenue:

Under PFRS 9

(a) Interest income and interest expenses are recognized in the statement of income for all financial assets or liabilities using the effective interest method on the basis of the cost of the individual financial instrument. The effective interest method is a method of calculating the amortized costs of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Interest expense on deposit liabilities are recognized based on the accrual method of accounting, using the effective interest method which is the rate that exactly discounts estimated future cash flows through the expected life of the interest-bearing financial instruments to the net carrying amount of the financial liability.

Under PFRS 15
The Bank earns service fees and commissions on various banking services, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15. The Bank has evaluated that these revenues are within the scope of PFRS 15, based on the following gating criteria:

For each contract with a customer, the Bank:

(1) Identifies the contract with a customer;
(2) Identifies the performance obligations in the contract;
(3) Determines the transaction price which takes into account estimates of variable consideration and the time value of money;
(4) Allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
(5) Recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the ‘expected value’ or ‘most likely amount’ method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognized as deferred revenue in the form of a separate refund liability.
The Bank recognizes income from other sources as follows:

(c) Service charges, loan fees and commissions are generally recognized when earned over the term of the credit lines granted to each borrower. Other non-finance charges on loans and penalties on delinquent accounts are recognized as the related services are performed.

(d) Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when collectability of the entire sales price is reasonably assured. This is included in the statement of income as part of Service Fees and Other Income.

Cost and Expenses
Costs and expenses are recognized in the statement of income when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen, which can be measured reliably. Costs and expenses are recognized in the statement of income: i) on the basis of a direct association between the cost incurred and the earnings of specific items of income; ii) on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

(e) Administrative and other operating expenses include the costs directly associated with the generation of revenue and cost of administering the business, and these are expensed as incurred.

Compensation and Fringe Benefits Expense
Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees or for the termination of their employment in the Bank. The Bank recognizes: (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expense when the Bank consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits. The following represent the accounting followed by the Bank for all types of employee benefits, except share-based payment, to which there is none:

a) Short-Term Employees’ Benefits
Short-term employees’ benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period during which employee services are rendered, but do not include termination benefits. These benefits include wages, salaries, profit-sharing and bonuses (if there are any) and non-monetary benefits paid to current employees. These are recognized when the employee has rendered the service and are measured at the undiscounted amount of benefits expected to be paid in exchange for that service. The benefits also include compensated absences which are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. The expected cost of short-term compensated absences is recognized as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur, and includes any additional amounts the Bank expects to pay as a result of unused entitlements at the end of the period.

The amounts recognized are included in the Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

b) *Post-employment Defined Benefit Plan*

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

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated at least every two years by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of either Interest Expense or Interest Income in the statement of profit or loss.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

c) *Post-employment Defined Contribution Plan*

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

Leases – The Bank as Lessee

The Bank's leases substantially involve the use of office spaces that are used for its branch offices. The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these low value leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

The incremental borrowing rate depends on the term, currency and start date of the lease and is determined based on a series of inputs including: the risk-free rate based on Government bond rates; a country-specific risk adjustment; a credit risk adjustment based on bond yields; and an entity-specific adjustment when the risk profile of the entity that enters into the lease is different to that of the Bank and the lease does not benefit from a guarantee from the Bank. For the purpose of discounting, the Bank is using the average borrowing rate of its bills payable and time deposits.

Lease payments included in the measurement of the lease liability comprise:

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

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under PAS/IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Bank applies PAS/IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the bank premises, furniture, fixtures and office equipment policy. Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Rent' in the statement of profit or loss.

As a practical expedient, PFRS 16 permits a lessee not to separate non-lease components, and instead accounts for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Leases – The Bank as Lessor
The Bank is not a lessor of properties.

Income Taxes
Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

Earnings per Share
Basic earnings per share (EPS) is computed by dividing the net surplus for the year attributable to common shareholders (net income for the period less dividends on convertible redeemable preferred shares) by the weighted average number of common shares issued and outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the period.

Diluted EPS is computed by dividing the net surplus for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of dilutive convertible redeemable preferred shares. Diluted EPS assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted EPS is presented.

Distribution of Net Surplus
In accordance with the provisions of Republic Act 9520, otherwise known as the Philippine Cooperative Code of 2008, the Bank distributes its net surplus as follows:

(1) At least ten percent (10%) is set aside as General Reserve Fund (GRF), to provide for the stability of the Bank and to absorb losses in its operations, if any;

(2) Not more than ten percent (10%) is set aside for Cooperative education and training, with half of the amount to be used for the Bank's own education and training activities and the other half to be remitted to the Cooperative Education and Training Fund (CETF) of the federation or union to which the Bank is affiliated;

(3) Not more than seven percent (7%) is set aside as Land and Building Fund, which is optional; and

(4) At least three percent (3%) is set aside for the Community Development Fund.

The remainder is allocated for interest on share capital and/or patronage refund as determined by the Board of Directors, provided that the interest on capital shall not exceed the normal rate of return on investments prescribed by CDA.

Related Party Relationships and Transactions
Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless of whether a price is charged. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and (d) the Bank's funded retirement plan. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Contingencies
A contingency arises when there is a situation for which the outcome is uncertain, and which should be resolved in the future, possibly creating a loss. The accounting for a contingency is essentially to recognize only those losses that are probable and for which a loss amount can be reasonably estimated. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognized either, but these are generally disclosed unless the possibility of an outflow of resources is remote.

Provisions and Contingent Liabilities
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle that 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 reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Events After Reporting Date
Post year-end events that provide additional information about the Bank's position at statement of financial position date (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Note 4
Significant Accounting Judgment and Key Sources of Estimation Uncertainty

In applying the Bank's accounting policies, which are described in Note 3, *Summary of Material Accounting Policy Information*, the management of the Bank are required to make judgments (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgments in Applying the Bank's Accounting Policies
The following are the critical judgments, apart from those involving estimations (which are presented separately below), that the management of the Bank have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

- *Business Model Assessment*
  Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

- *Determination of Lease Term of Contract with Renewal Options*
  In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options are only included in the lease term if the lease is reasonably certain to be extended.

  The renewal options are subject to mutual agreement of the lessor and lessee. The Bank did not include the renewal periods as part of the lease term for its leases since the renewal options are not enforceable considering that both parties still need to agree to renew, including the terms of the renewal, even if both parties have historically always come to a mutual agreement.

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

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

– *Classification and Determination of Fair Value of Acquired Properties*
The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9. At initial recognition, the Bank determines the fair value of acquired properties through internal and external appraisal depending on the Bank's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property.

– *Recognition of Provisions and Contingencies*
Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.

Key Sources of Estimation Uncertainty
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

– *Estimation of Allowance for ECL*
When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

– *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment*
The Bank reviews annually the estimated useful lives of its bank premises, furniture, fixture and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of these properties would increase recorded depreciation and amortization expense and decrease the related asset accounts.

– *Determination of Realizable Amount of Deferred Tax Assets*
Deferred tax assets are recognized for all unused tax losses and deductible temporary differences 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. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

– *Impairment of Non-Financial Assets*
  The Bank assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific asset, the recoverable amount represents the net selling price. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Bank is required to make estimates and assumptions that can materially affect the Bank's financial statements.

– *Fair Value Measurement for Financial Assets*
  The Bank carries financial asset at fair value which requires judgment and use of accounting estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques. The amount of changes in fair value would differ if the Bank had utilized different valuation methods and assumptions. Any change in fair value of the financial asset would affect other comprehensive income.

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

– *Determination of Fair Value of Investment Properties*
  Investment Properties are measured using the cost model. The fair values that are disclosed in the financial statements are determined by the Bank based on the appraisal reports of a professional and independent appraiser. (see Note 9). The fair values are determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such an amount is influenced by different factors including the location and specific characteristics of the property, quantity of comparable properties in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and the value of the assets.

– *Valuation of Post-employment Defined Benefit Asset or Obligation*
  The determination of the Bank's asset or obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by independent actuaries engaged by the Bank in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

Note 5
Cash and Cash Equivalents

This consists of the following:

December 31,	2023	2022
Due from other banks	₱509,989,695	₱682,553,528
Cash and other cash items	56,365,826	38,855,279
Due from Bangko Sentral ng Pilipinas	33,661,127	30,032,326
	₱600,016,648	₱751,441,133

The due from other banks represents restricted and unrestricted cash and earns interest at prevailing market rates. Interest income from bank deposits amounted to ₱1,242,386 and ₱881,643 in 2023 and 2022, respectively, which is presented as interest income on deposits with other banks in the statements of profit or loss.

Cash on hand represents the daily minimum cash balance in the vault of the Bank for a certain percentage of the deposit liabilities required by BSP to be retained. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or other branches after the Bank's clearing cut-off time until the close of the regular banking hours.

Due from Bangko Sentral ng Pilipinas represents the Bank's demand deposit with the BSP in compliance with BSP's reserve requirements. The Bank has satisfactorily complied with the reserve requirements of the BSP. The deposit does not earn interest.

Note 6
Loans and Receivables

The loans and receivables from the Bank's customers are categorized as follows:

December 31,	2023	%	2022	%
Loans receivable	₱2,938,650,785	99.36	₱2,502,799,508	99.38
Accrued interest receivable	18,129,762	0.61	13,489,538	0.54
Accounts receivables	729,409	0.02	1,851,651	0.07
Sales contract receivable	103,000	0.01	140,000	0.01
Total	2,957,612,956	100.00	2,518,280,697	100.00
Less allowance for expected credit losses	378,160,485	12.79	271,681,198	10.79
Net	₱2,579,452,471	87.21	₱2,246,599,499	89.21
Breakdown of Loans Receivable				
Loans receivable:				
Individual consumption	₱1,028,813,098	35.01	₱1,301,116,289	51.98
Agricultural	799,521,420	27.21	541,488,052	21.63
Commercial	754,454,379	25.67	333,657,176	13.34
Others	355,861,888	12.11	326,537,991	13.05
Total	2,938,650,785	100.00	2,502,799,508	100
Less allowance for expected credit losses	377,615,498	12.83	270,439,347	10.81
Net	₱2,561,035,287	87.17	₱2,232,360,161	89.19

December 31,	2023	%	2022	%
Breakdown of Accrued Interest Receivable				
Accrued interest receivable:	₱18,129,762	100	₱13,489,538	100
Allowance for expected credit losses	(181,298)	1	(134,895)	1
	₱17,948,464	99	₱13,354,643	99
Breakdown of Accounts Receivable				
Accounts receivable:	₱729,409	100	₱1,851,651	100
Allowance for expected credit losses	(363,689)	50	(1,106,956)	60
	₱365,720	50	₱744,695	40

Loans receivable bear interest rates ranging from 6% to 30% per annum collectible over a period of 1 month to 10 years. Income on loans recognized in the statements of profit or loss amounted to ₱374,455,228 in 2023 and ₱358,370,769 in 2022. Loan servicing fees amounted to ₱124,587,358 in 2023 and ₱125,802,101 in 2022. (See Note 17.)

The Cooperative bank assigned its loans amounting to ₱502,967,286 in 2023 and ₱345,520,062 in 2022 to secure the bills payable under rediscounting lines with the following banks.

December 31,	2023	2022
Small Business Corp. (SBGFC)	₱319,776,163	₱–
Land Bank of the Philippines (LBP)	145,493,010	345,520,062
Development Bank of the Philippines (DBP)	37,698,113	–
	₱502,967,286	₱345,520,062

Loans to Directors, Officers, Stockholders and Related Interests (DOSRI) amounted to ₱29,360,354 in 2023 and ₱26,902,821in 2022 representing 1.0% and 1.17% of the total loan portfolio, respectively.
Other loans mainly pertain to salary loan releases, the proceeds of which are being used by the borrowers in different industries. Accounts receivable represents amounts due from members, employees and other parties, which is due and demandable within one year.

December 31,	2023	%	2022	%
Breakdown by Concentration of Credit				
Agriculture, forestry and fishing	₱971,930,533	33.07	₱732,310,760	29.26
Wholesale and retail trade	791,074,782	26.92	574,071,048	22.94
Information and communication	450,997,612	15.35	397,653,123	15.89
Human health and social work activities	144,141,405	4.91	193,179,860	7.72
Real estate activities	12,113,777	0.41	101,837,904	4.07
Accommodation and food storage	63,243,831	2.15	69,272,537	2.77
Financial and insurance activities	35,213,211	1.20	40,268,406	1.61
Construction	50,307,097	1.71	76,955,882	3.07
Manufacturing	95,786,621	3.26	69,824,506	2.79
Transportation and storage	19,061,889	0.65	16,549,320	0.66
Other service activities	304,780,027	10.37	230,876,162	9.22
	₱2,938,650,785	100.00	₱2,502,799,508	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30% of total loan portfolio.

December 31,	2023	%	2022	%
Breakdown by Type of Security				
Secured by real estate	₱519,358,794	17.76	₱360,546,554	14
Secured by chattel	13,882,439	0.47	9,797,658	4
Other security	51,652,079	1.77	41,665,443	1.6
Secured loans	584,893,312	20	412,009,655	16
Unsecured loans	2,353,757,473	80	2,090,789,853	84
Total loans	₱2,938,650,785	100	₱2,502,799,508	100
Maturity Profile				
Due within 12 months	₱1,080,619,482	36.77	₱1,415,938,908	56.57
Due more than 12 months	1,858,031,303	63.23	1,086,860,600	43.43
Total loans and receivables	₱2,938,650,785	100	₱2,502,799,508	100

Breakdown by Age of Accounts

December 31, 2023	*Current*	*Past Due*	*In Litigation*	Total
Individual consumption	₱833,357,568	₱194,275,271	₱1,180,259	₱1,028,813,098
Agricultural	704,361,190	49,829,981	263,208	754,454,379
Commercial	280,774,215	74,587,698	499,975	355,861,888
Others	727,536,676	71,984,744	–	799,521,420
	₱2,546,029,649	₱390,677,694	₱1,943,442	₱2,938,650,785
	86.64%	13.30%	0.06%	100.0%
December 31, 2022				
Individual consumption	₱1,052,723,964	₱247,173,364	₱1,218,961	₱1,301,116,289
Agricultural	485,066,493	56,139,352	282,208	541,488,053
Commercial	273,873,875	59,236,818	546,483	333,657,176
Others	320,754,302	5,783,688	–	326,537,990
	₱2,132,418,634	₱368,333,222	₱2,047,652	₱2,502,799,508
	85.20%	14.72%	0.78	100.0%

Breakdown As to Status of Loans

December 31, 2023	*Performing*	%	*Non-Performing*	%	Total	%
Individual consumption	₱846,906,749	33	₱181,906,349	49	₱1,028,813,098	35
Agricultural	708,613,680	28	45,840,698	12	754,454,378	26
Commercial	280,774,215	11	75,087,673	20	355,861,888	12
Others	727,536,676	28	71,984,745	19	799,521,421	27
	₱2,563,831,320	100	₱374,819,465	100	₱2,938,650,785	100
December 31, 2022						
Individual consumption	₱1,146,332,722	53	₱238,450,692	69	₱1,384,783,414	55
Agricultural	493,108,614	23	48,379,438	14	541,488,052	22
Commercial	266,678,151	12	59,783,301	17	326,461,452	13
Others	249,142,529	12	924,061	0	250,066,590	10
	₱2,155,262,016	100	₱347,537,492	100	₱2,502,799,508	100

Non-Performing Loans

The non-performing loans as defined under Section 304 of the MORB amounted to ₱374,819,465 in 2023 and ₱347,537,492 in 2022. Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written off. The Bank reported no restructured loans in 2023 and in 2022.

Interest income recognized on impaired loans and receivables amounted to ₱39,983,416 and ₱61,143,091 in 2023 and 2022, respectively.

Allowance for Expected Credit Losses (ECL)
The accounts were subjected to impairment testing using the loan loss estimation methodology, provisioning and allowance for credit losses prescribed by the Bangko Sentral ng Pilipinas. The Appendix 15 of the MORB forms the basis of the procedures followed by the Bank. Generally, BSP reviews the Bank's provisioning every year and any deficiency noted by the BSP is recorded in the books.

The recorded ECL have been determined from the analysis performed by the Bank on its accounts which are in accordance with Appendix 15. A 12- month ECL was provided at 1% of on all current accounts (general loan-loss provisions) and ECL at graduated rates for accounts classified as past due as follows:

I. Individually Assessed Loans and Other Credit Accommodations

A. For Unsecured Loans and Other Credit Accommodations

No. of Days Unpaid/with Missed Payments	*Classification*	*ECL Rate*
31-90 days	Substandard	10%
91-120 days	Substandard	25%
121-180 days	Doubtful	50%
181 days and over	Loss	100%

B. For Secured Loans and Other Credit Accommodations

31-180 days	Substandard	10%
181-365 days	Substandard	25%
Over 1 year to 5 years	Doubtful	50%
Over 5 years	Loss	100%

C. For Loans and Other Credit Exposures (Classified Accounts)

Especially Mentioned	5%
Substandard – Secured	10%
Substandard – Unsecured	25%
Doubtful	50%
Loss	100%

II. Collectively Assessed Loans and Other Credit Exposures

D. For Unsecured Loans and Other Credit Accommodations

No. of Days Unpaid/with Missed Payments	*Classification*	*ECL Rate*
1-30 days	LEM	2%
31-60 days	Substandard	25%
61-90 days	Doubtful	50%
Over 90 days	Los s	100%

E. For Secured Loans and Other Credit Accommodations

31-90 days	Substandard	10%
91-120 days	Substandard	15%
121-360 days	Doubtful	25%
361 days-5 years	Loss	50%
Over 5 years	Loss	100%

Roll-Forward Analysis of the Allowance for ECL

December 31,	2023	2022
Opening balances	₱271,681,198	₱208,546,075
Additional provisions for the year (Note 16)	122,513,112	70,020,700
Written-off accounts	(16,033,825)	(6,885,577)
Closing balances	₱378,160,485	₱271,681,198

The Bank has determined that after the provision of additional expected credit losses, the level of its allowance for expected credit losses approximates the requirements of Section 143 of the MORB.

Allocation of Provision for ECL for Non-Members of Income Tax Computations
The provisions for ECL allocated to non-members for income tax purposes amounted to ₱40,306,814 in 2023 and ₱18,625,506 in 2022, representing 70% of the total provisions. Written-off accounts allocated to non-members for income tax purposes amounted to ₱5,275,128 in 2023 and ₱1,831,563 in 2022. (See note 19.)

Note 7
Bank Premises, Furniture, Fixtures and Equipment and Right of Use Assets

This account consists of the following:

December 31,	2023	2022
Land	₱60,285,562	₱44,780,235
Buildings	90,514,178	83,945,801
Furniture, fixtures, and office equipment	37,667,565	31,027,539
Transportation equipment	33,589,509	25,324,218
Information technology equipment	31,480,806	28,360,207
Construction in Progress	13,516,342	8,400,588
Leasehold Improvement	19,942,913	9,508,322
Total	286,996,875	231,346,910
Less accumulated depreciation	101,138,712	86,448,436
Net Book Value	₱185,858,163	₱144,898,474

Reconciliation of the Movements of the Accounts

December 31, 2023	*Opening Balances*	*Additions*	*Retiremnts/Reclass*	*Closing Balances*
Cost				
Land	₱44,780,235	₱15,505,327	₱–	₱60,285,562
Buildings	83,945,801	6,568,377	–	90,514,178
Furniture, fixtures, & office equip't	31,027,519	6,640,046	–	37,667,565
Transportation equipment	25,324,218	10,654,009	(2,388,718)	33,589,509
Information technology equipment	28,360,207	3,215,796	(95,197)	31,480,806
Construction in progress	8,400,588	5,115,754	–	13,516,342
Leasehold improvements	9,508,342	11,610,395	(1,175,824)	19,942,913
Total	231,346,910	59,309,704	(3,659,739)	286,996,875

(Carried Forward.)

(Brought Forward.)

December 31, 2023	*Opening Balances*	*Additions*	*Retiremnts/Reclass*	*Closing Balances*
Less accumulated depreciation				
Building	27,240,427	4,720,164	–	31,960,591
Furniture, fixtures, & office equip't	23,019,198	4,215,888	(5,909)	27,229,177
Transportation equipment	12,829,356	3,201,543	(2,076,571)	13,954,328
Information technology equipment	18,900,306	4,882,014	–	23,782,320
Leasehold improvements	4,459,149	928,971	(1,175,824)	4,212,296
Total	86,448,436	17,948,580	(3,258,304)	101,138,712
Net Book Value	₱144,898,474	₱41,361,124	(₱401,435)	₱185,858,163
December 31, 2022				
Cost				
Land	₱38,895,946	₱7,060,250	(₱1,175,961)	₱44,780,235
Buildings	80,759,392	7,003,872	(3,817,463)	83,945,801
Furniture, fixtures, & office equip't	28,180,068	2,847,451	–	31,027,519
Transportation equipment	32,426,170	5,410,425	(12,512,377)	25,324,218
Information technology equipment	24,221,398	4,156,309	(17,500)	28,360,207
Construction in progress	4,201,829	4,552,034	(353,275)	8,400,588
Leasehold improvements	4,549,966	7,842,291	(2,883,915)	9,508,342
Total	213,234,769	38,872,632	(20,760,491)	231,346,910
Less accumulated depreciation				
Buildings	24,739,308	4,340,462	(1,839,343)	27,240,427
Furniture, fixtures, & office equip't	19,583,502	3,369,559	66,137	23,019,198
Transportation equipment	18,433,006	2,577,491	(8,181,141)	12,829,356
Information technology equipment	15,363,106	3,791,340	(254,140)	18,900,306
Leasehold improvements	2,306,799	2,152,350	–	4,459,149
Total	80,425,721	16,231,202	(10,208,487)	86,448,436
Net Book Value	₱132,809,048	₱22,641,430	(₱10,552,004)	₱144,898,474

In 2023 and 2022, the Bank recognized gain on retirement of bank premises, furniture, fixtures and equipment amounting to ₱371,163 and ₱3,297,816, respectively. The amount is presented as part of Other Operating Income in the statements of profit or loss. (See Note 17.)

Note 8
Right-of-Use Asset

This account consists of the following:

December 31,	2023	2022
Right-of-use assets	₱11,990,957	₱8,743,908
Accumulated depreciation	(6,732,822)	(3,829,721)
Net Book Value	₱5,258,135	₱4,914,187

The Bank has leases for buildings and spaces occupied by its branches dispersed in strategic locations within Mindanao. With the exception of short-term leases and leases of low value assets, the leases are reflected on the statement of financial position collectively as right-of-use assets and lease liabilities. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liabilities and assets.

The Bank discounted the future lease payments at 2.879% per annum, the incremental borrowing rate (IBR) based on the average borrowing rate of the Bank's existing loans payable to a Government banks. (See Note 13.). The observable rate was no longer adjusted for credit risk and other factors as management determined that any adjustments are immaterial. The Bank applied a single discount rate to the portfolio of leases as it considers the leases similar in class of underlying assets in a similar economic environment.

During 2023, the Bank recognized its right-of-use assets at ₱3,247,049 and lease liability at ₱3,247,049, interest expense of ₱276,340 and depreciation expense of ₱2,903,101. Total lease payments (including interest) amounted ₱2,995,349 in 2023 and ₱1,978,000 in 2022. Deductible rent expense allocated to non-members for income tax purposes amounted to ₱985,470 in 2023 and ₱526,148 in 2022.

Reconciliation of Carrying Amounts

December 31, 2023	*Opening Balances*	*Additions*	*Disposal/Adjustment*	*Closing Balances*
Right-of-use assets	₱8,743,908	₱3,247,049	₱–	₱11,990,957
Less accumulated depreciation	3,829,721	2,903,101		6,732,822
Net Book Value	₱4,914,187	₱343,948	₱–	₱5,258,135
December 31, 2022				
Right-of-use assets	₱4,513,999	₱4,229,909	₱–	₱8,743,908
Less accumulated depreciation	1,908,331	1,921,390		3,829,721
Net Book Value	₱2,605,668	₱2,308,519	₱–	₱4,914,187

Lease Liabilities

Lease liabilities are presented in the statement of financial position as follows:

December 31,	2023	2022
Current	₱2,425,107	₱1,598,741
Non-current	3,102,386	3,400,712
	₱5,527,493	₱4,999,453

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Bank is prohibited from selling or pledging the underlying leased assets as security and must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must incur maintenance fees on the leased assets in accordance with the lease contracts.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2023 are as follows:

December 31, 2023	*Within one year*	*1 to 2 years*	*2 to 5 years*	Total
Lease payments	₱2,608,789	₱1,665,224	₱1,580,163	₱5,854,176
Finance Charges	(183,683)	(97,167)	(45,834)	(326,684)
Net present values	₱2,425,106	₱1,568,057	₱1,534,329	₱5,527,492
December 31, 2022				
Lease payments	₱1,735,400	₱1,183,840	₱2,420,387	₱5,339,627
Finance Charges	(136,659)	(92,600)	(110,915)	(340,174)
Net present values	₱1,598,741	₱1,091,240	₱2,309,472	₱4,999,453

Lease Payments Not Recognized as Liabilities
The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred. The rent payments amounted to ₱1,653,336 and ₱3,600,728 in 2023 and 2022, respectively and is presented as part of Other Operating Expense in the statement of profit of loss. (See Note 18.)

Details of Depreciation Expense
Depreciation as presented in profit or loss consisted of the following:

December 31,	2023	2022
Depreciation on bank premises, furniture, fixture and equipment	₱16,060,047	₱16,231,202
Depreciation on right-of-use assets	2,903,102	1,921,390
Investment property *(Note 9)*	102,308	612,314
	₱19,065,457	₱18,764,906

Note 9
Investment Properties

This account consists of land and real properties acquired in settlement of loans, which are held for capital appreciation. In 2020, certain land and buildings that are no longer used in operations were transferred to noncurrent assets held for sale from bank premises, furniture, fixtures and equipment. Investment properties are carried at cost less accumulated depreciation and allowance for impairment.

December 31,	2023	2022
Cost	₱5,218,685	₱6,635,095
Accumulated depreciation	(2,421,329)	(2,319,021)
Allowance for impairment	(36,561)	(156,820)
Net carrying amount	₱2,760,795	₱4,159,254

Reconciliation of the Carrying Amount of Investment Properties

Opening balances	₱4,159,254	₱4,310,235
Additions	–	461,333
Disposal	(1,416,410)	–
Depreciation	(102,308)	(612,314)
Reversal of impairment	120,259	–
Closing balances	₱2,760,795	₱4,159,254

Income from disposed-off investment properties amounted ₱120,260 in 2023 and ₱1,578,940 in 2022. The fair market value of assets disposed amounted to ₱6,595,000. (See Note 17).

Note 10
Details of Other Assets

December 31,	2023	2022
Deferred tax assets *(Note 19)*	₱56,804,123	₱48,245,673
Prepayments	6,553,871	4,019,872
Stationery and supplies on hand	2,430,785	2,227,175
Financial asset at FVOCI	1,156,263	1,156,263
Financial asset at amortized cost	433,080	606,312
	₱67,378,122	₱56,255,295

This account consists of the following: (a) prepayments pertain to advance payments of insurance expenses covering Bank premises, furniture, fixtures and equipment, money securities and payroll; (b) financial asset at fair value thru other comprehensive income consists of investment in Cooperative Insurance System of the Philippines (CISP), Metro South Cooperative, BANGKOOP and DIGICOOP, and (c) financial asset at amortized cost consists of the investments in bonds of Land Bank of the Philippines.

The Bank has determined that its other assets have not been impaired at the end of the year.

Note 11
Deposit Liabilities

This account is composed of the following:

December 31,	2023	2022
Savings deposits	₱1,098,476,220	₱900,419,477
Time deposits	861,358,837	782,516,957
Demand deposits	18,722,197	25,107,625
	₱1,978,557,254	₱1,708,044,059

Maturity Analysis of Time Deposits

December 31,	2023	2022
12 months and below	₱675,590,450	₱621,590,025
Over 12 months to five years	185,768,387	160,926,932
	₱861,358,837	₱782,516,957

The deposit liabilities earn annual fixed interest of 1% for savings deposits, and from 1% to 12% for time deposits.

Total interest incurred amounted to ₱59,298,644 in 2023 and ₱53,596,548 in 2022. Deposits of Directors, Officers, Stockholders and Related Interests (DOSRI) amounted to ₱14,242,865 in 2023 and ₱12,248,829 in 2022, representing 0.72% of the total depository balance as at those dates, respectively.

Note 12
Bills Payable

This consists of the following:

December 31,	2023	2022
Land Bank of the Philippines (LBP)	₱301,678,605	₱308,741,188
Development Bank of the Philippines (DBP)	196,645,358	194,700,000
SB-Guarantee Finance Corporation (SB-GFC)	137,955,123	109,287,852
Rizal Commercial Banking Corporation (RCBC)	4,670,460	–
	₱640,949,546	₱612,729,040

Maturity Profile

December 31,	2023	2022
One year and below	₱99,225,138	₱66,680,730
More than one year	541,724,408	546,048,310
	₱640,949,546	₱612,729,040

The bills payable to DBP bears interest of 2.76% per annum and is collateralized by assigning the Bank's promissory notes amounting to ₱37,698,113 in 2023 and ₱0 in 2022. Loans amounting to ₱145,493,010 in 2023 and ₱374,445,228 in 2022 are assigned to secure the bills payable to LBP under the Coop Bank's rediscounting lines with LBP. The bills payable to SBGFC bear an interest rate of 2.00% to 8.00% per annum with two years term and payable quarterly. (See Note 7.)

Interest incurred on bills payable amounted ₱22,109,371 in 2023 and ₱11,170,391 in 2022. Accrued interest payable at the end of the year amounted to ₱9,215,806 in 2023 and ₱10,144,868 in 2022.

Accounting of the Movements During the Year:

December 31,	2023	2022
Opening balances	₱612,729,040	₱299,709,710
Additional loans availed during the year	737,631,229	520,752,624
Payments of principal amortizations during the year	(709,410,723)	(207,733,294)
Closing balances	₱640,949,546	₱612,729,040

Note 13
Other Liabilities

This consists of the following:

December 31,	2023	2022
Retirement fund payable *(Note 14)*	₱50,036,399	₱57,630,392
Accrued expenses (See paragraph below.)	17,725,694	27,633,999
Cash dividend payable (See table below.)	14,629,902	28,059,894
Due to CETF	11,124,699	18,823,216
Accrued interest payable *(Note 12)*	9,215,806	10,144,868
Documentary stamp tax (DST) payable	5,162,090	1,849,602
Income tax payable	2,083,090	2,477,312
Withholding tax payable	903,624	3,253,606
Accounts payable	63,464	1,673,500
Others	4,212,712	921,211
	₱115,157,480	₱152,467,600

Cash Dividends Payable
The accounting of the movements of the Account during the year follows:

December 31,	2023	2022
Opening balances	₱28,059,894	₱17,303,228
Dividend declared *(Note 16)*	–	17,104,154
Adjustments	–	(407,229)
Cash dividends paid during the year	(13,429,992)	(5,940,259)
Closing balances	₱14,629,902	₱28,059,894

Accrued and Other Liability Accounts
Accrued expenses represent payables to various suppliers that remain unpaid at the end of the year that are expected to be settled within 12 months from the end of the reporting period. CETF payable refers to the amount for remittance to the apex organization of which the Bank is a member.

Note 14
Post-employment Defined Benefit Obligation

The Bank's employees are provided with separation benefits at retirement in accordance with the provisions of R.A. 7641. The Bank maintains a partially funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by trustee banks that are legally separated from the Bank. The post-employment plan covers all regular full-time employees. Normal retirement benefit is equivalent to125% of the employee's final monthly covered compensation (average monthly basic salary during the last 12 months of credit service), plus one twelfth (1/12) of the 13th month pay, and cash equivalent of not more than five (5) days of service incentive leaves, multiplied by the number of years of service. A fraction of six (6) months is considered as one whole year. A fraction of one (1) month is considered six (6) months.

The Bank's retirement benefits obligation as of the year end were established based on actuarial valuations as required under PAS/IAS 19 Employee Benefits and PAS/IAS 26, Accounting and Reporting by Retirement Benefit Plans. The computed retirement benefits obligation approximates the recorded retirement liability, thereby stating fairly the Bank's retirement benefits liability at the end of the year. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary with a valuation dated December 31, 2022 with projected amounts for 2023.

December 31,	2023	2022
Components of Post-Employment Defined Benefit Asset		
Fair value of plan assets	(₱58,868,887)	(₱69,198,830)
Present value of the obligation	50,036,399	57,630,392
Net Obligation/ (Asset)	(₱8,832,488)	(₱11,568,438)
Movements in the Present Value of Post-Employment Defined Benefit Obligation		
Balance at beginning of year	₱57,630,392	₱55,038,285
Actuarial losses (gains)	–	(3,990,071)
Current service cost	3,973,941	3,824,760
Net Interest expense (income)	(898,976)	2,757,418
Benefits paid	(10,668,958)	–
Balance at end of year	₱50,036,399	₱57,630,392
Movements in the Present Value of Plan Assets		
Balance at beginning of year	₱69,198,830	₱57,515,636
Actual contribution	39,397,400	10,189,144
Withdrawals	(39,058,385)	–
Benefits paid	(10,668,958)	–
Interest income	–	2,881,533
Return on plan assets (excluding amounts included in net interest)	–	(1,387,483)
Balance at end of year	₱58,868,887	₱69,198,830

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

As Reported in Profit or Loss		
Current service cost	₱3,973,941	₱3,824,760
Net interest expense (income)	(898,976)	(124,115)
	₱3,074,965	₱3,700,645

The non-deductible retirement expense, for income tax purposes representing 70% of the total retirement expense amounted to ₱2,152,476 in 2023 and ₱2,590,451 in 2022. (See Note 19.)

The net interest income and expense are presented as Interest Expense and Interest Income on the net Post-employment Defined Benefit Obligation or Asset, respectively, in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

December 31,	2023	2022
As Reported in Other Comprehensive Income		
Actuarial (gains) losses arising from:		
Change in financial assumptions	₱–	₱8,193,392
Due to Experience	–	(4,203,321)
Return on plan assets (excluding amount included in net interest)	–	(1,387,483)
Total	–	2,602,588
Deferred tax (asset)/liability	–	(650,647)
Remeasurement gain (loss) – net of tax	–	₱1,951,941
Movement in the Net Liability/(Asset) Recognized in the Balance Sheet		
Opening Net Liability/ (Asset)	(₱11,568,438)	(₱2,477,351)
Amount to be Recognized in Profit or Loss	3,074,965	3,700,645
Amount to be Recognized in OCI	–	(2,602,588)
Actual contributions	(339,015)	(10,189,144)
Liability/(asset) to be recognized at the end of the year	(₱8,832,488)	(₱11,568,438)
Movement in the Revaluation Surplus Recognized in the Balance Sheet		
Opening Balance	(₱8,881,722)	(₱10,833,663)
Transfer from Optional Fund *(Note 16)*	8,881,722	–
Amount to be Recognized in OCI	–	2,602,588
Deferred Tax Asset	–	(650,647)
Revaluation Surplus at the end of the year	₱–	(₱8,881,722)

In determining the amounts of the defined benefit post-employment obligation, the significant actuarial assumptions used in both years are: (a) discount rates, 7.44% and expected rate of salary increases, 1.00%.

Sensitivity Analysis
The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2023 and 2022:

Impact on post-employment defined benefit obligation:

December 31, 2023	*Change in assumption*	*Increase in assumption*	*Decrease in assumption*
Discount rate	+/- 1.00%	(2,274,145)	2,837,081
Salary increase rate	+/- 1.00%	2,937,836	(2,378,329)
December 31, 2022			
Discount rate	+/- 1.00%	(2,274,145)	2,837,081
Salary increase rate	+/- 1.00%	2,937,836	(2,378,329)

Funding Arrangements and Expected Contributions
The plan is currently overfunded by ₱8.8 Million based on the latest actuarial valuation. The Bank does not expect to make contribution to the plan during the next financial year. The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years.

There were no significant changes in the retirement profile, demographic and financial assumptions and other circumstances that could materially impact the valuation and remeasurements of the Bank's post-employment defined benefit obligation as of December 31, 2023, from the assumptions and circumstances as of December 31, 2022.

December 31,	2023	2022
Within one year	₱6,130,728	₱6,130,728
More than one year to five years	13,709,529	13,709,529
More than five years to ten years	13,217,595	13,217,595
More than ten years to fifteen years	43,191,494	43,191,494
More than 15 years to 20 years	36,360,044	36,360,044
More than 20 years	376,258,992	376,258,992
	₱488,868,382	₱488,868,382

Note 15
Share Capital

This account consists of the following:

December 31,	2023	2022
Ordinary (Common) Shares		
Authorized – 164,000 shares, ₱1000 par value		
Issued and outstanding shares: 78,592 in 2023 and 73,629 in 2022	₱78,592,000	₱73,629,000
Fractional shares – 85.159 in 2022		85,159
Preference (Preferred) Shares "A"		
Non-Voting and Convertible, Authorized – 1,000 shares, ₱1000 par value		
Issued and outstanding – 1000 shares	1,000,000	1,000,000
Preference (Preferred) Shares "B"		
Non-Voting and Convertible, Authorized – 5,000 shares, ₱1000 par value		
Issued and outstanding – 0 shares	–	–
Preference (Preferred) Shares "C"		
Non-Voting and Convertible, Authorized – 30,000 shares, ₱1000 par value		
Issued and outstanding – 2441 shares	2,441,000	2,441,000
	₱82,033,000	₱77,155,159

Nature of Capital
Preference (preferred) shares 'A' are issued only against investments of the Development Bank of the Philippines (DBP) in the share capital of the Bank and shall have preference over common shares in the assets of the Bank in the event of liquidation. However, in case of sale of the Development Bank of the Philippines of its preferred shares to those qualified to be members of the Bank, such shares shall automatically become common shares with voting rights, thereby reducing the number of outstanding preferred shares 'A' and increasing the number of outstanding common shares. When preferred shares 'A' of the Bank have been sold to member-cooperatives, the Articles of Cooperation of the Bank shall be amended to reflect the conversion of preferred shares into common shares. These shares are entitled to a maximum of two percent (2%) interest on share capital, subject to the declaration of interest on common shares.

Preference (preferred) shares "B" shall be issued only to cover investments of the Land Bank of the Philippines in the share capital of the Bank and shall have preference over common shares in the assets of the Bank in the event of liquidation. These shares are entitled to preference as to profits before any cash/stock dividends are declared and paid out to holders/owners of the common shares. It shall earn non-cumulative cash dividend at the following rates:

a) Four percent (4%) per annum if redeemed within the first two (2) years from issuance of the shares;
b) Six Percent (6%) per annum if redeemed within the 3rd to the 4th year from issuance of the shares;
c) Eight percent (8%) per annum if redeemed within the 5th to the 6th year from issuance of the shares;
d) Ten percent (10%) per annum if redeemed within the 7th to the 8th year from issuance of the shares;
e) Twelve percent (12%) per annum if redeemed within the 9th to the 10th year from issuance of the shares.

Preference (preferred) shares "B" are convertible into common shares after the tenth year at the same par value as before conversion. Preference (preferred) shares "C" shall be issued only to cover the investment of qualified non-cooperative institutions, private persons and individuals and shall have preference over the common stock as to assets in case of dissolution. These shares are entitled to a maximum of 2.00% interest.

Reserve for retirement of preferred shares
Reserve for retirement of preferred shares amounting to ₱3,441,000 in 2023 and 2022 was established by the Bank to comply with the requirements of BSP as reserves for the retirement of preferred shares. Allocation to this fund is an appropriation from net profit, as authorized by the Bank's BOD.

Compliance with Minimum Capital Required
In accordance with Section 121 *Minimum Required Capital* of the MORB, the Bank's minimum capital is pegged at ₱40 million. As of 2023, the Bank has complied with this capitalization requirement.

Compliance with Regulatory Requirements
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRSs in some aspect. The BSP determines the minimum level of capital to be held by the Bank against its market risks, in addition to its credit risk. Appendix 62 of the MORB defines risk-based capital adequacy ratio as a percentage of qualifying capital to risk-weighted assets which shall not be less ten percent (10.00%). Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out or assignment of deposits, loans or acceptance under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board.

As at December 31, 2023, the Bank is in compliance with the minimum capital-to-risk ratio. Please see significant ratios in the following section.

Significant Financial Ratios
The financial ratios of the Bank for the years 2023 and 2022 are as follows:

December 31,	2023	2022
Return on Average Equity	3.22%	5.14%
Return on Average Assets	0.69%	1.28%
Net Interest Margin	6.13%	11.42%
Tier 1 Capital (in thousands)	₱614,639	₱589,828
Tier 2 Capital (in thousands)	₱25,283	₱20,976
CET 1 Capital (in thousands)	₱612,198	₱587,387
Total Qualifying Capital (in thousands)	₱639,924	₱610,804
Total Risk-Weighted Assets (in thousands)	₱3,551,162	₱3,245,649
Tier 1 Ratio	17.42%	18.17%
Risk-Based Capital Adequacy Ratio	18.04%	18.82%
Minimum Liquidity Ratio	29.89%	44.41%

Debt to Equity Ratio

December 31,	2023	2022
Total Liabilities	₱2,740,191,773	₱2,478,240,152
Total Equity	700,532,562	730,027,690
Overall financing	₱3,440,724,335	₱3,208,267,842
Debt-to-Equity Ratio	3.91	3.39

Gearing Ratio
The Bank's Gearing ratios computed at the end of each year are as follows:

December 31,	2023	2022
Borrowings (total liabilities)	₱ 2,740,191,773	₱2,478,240,152
Less cash and cash equivalents	600,016,648	751,441,133
Net Debt	2,140,175,125	1,726,799,019
Total Equity	700,532,562	730,027,690
Equity and Net Debt	₱2,840,707,687	₱2,456,826,709
Gearing Ratio (Net Debt / Equity and Net Debt)	75%	70%

Gearing (otherwise known as "leverage") measures the proportion of assets invested in a business that are financed by long-term borrowing. In theory, the higher the level of borrowing (gearing) the higher are the risks to a business since the payment of interest and repayment of debts are not "optional" in the same way as dividends to shareholders. However, gearing can be a financially sound part of a business's capital structure particularly if the business has strong, predictable cash flows.

The Bank will strive to reduce its gearing ratio by reducing working capital through increasing the speed of loans receivable collections and/or lengthening the days required to pay accounts payable, thereby producing cash that can be used to pay down borrowings. It will also try to increase profits through a combination of an increase in market share and control of variable costs so that the Bank can generate more cash with which to pay down borrowings.

Declaration and Accrual of Dividends to Members
No dividend was declared in 2023. On June 29, 2022, the Cooperative Bank's Board of Directors approved the declaration of dividends to common shareholders amounting to ₱17,097,558 and dividends to Class C preferred shares amounting to ₱6,596. Outstanding dividend payable at the end of the year amounted to ₱14,629,902 in 2023 and ₱28,059,894 in 2022. (See Note 13.)

Capital Management Objectives, Policies and Procedures
BSP, as the Bank's lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. The Bank's policy is to maintain a strong capital base to maintain stockholders, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding:

(a) Unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) Total outstanding unsecured credit accommodations to DOSRI;

(c) Deferred tax asset or liability;
(d) Sinking fund for redemption of redeemable preferred shares; and
(e) Other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP. The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

Supplementary Information Required By The CDA
The financial ratios of the Bank for the periods December 31, 2023 and 2022, are as follows:

Years Ended December 31,	2023	2022
Liquidity Ratios		
Quick ratios (cash + receivables / current liabilities)	1.77	1.82
Current ratios (current assets / current liabilities)	0.96	1.03
Profitability Ratios		
Gross income margin (gross income / gross revenue)	78.26%	81.95%
Net surplus margin (net surplus for the year / gross revenue)	6.13%	10.32%
Return on equity (net surplus after reserves / ave. share capital)	3.22%	5.14%
Return on fixed assets (net surplus for the year / ave. fixed assets)	13.91%	25.99%
Over-all profitability (net surplus for the year / gross income)	7.83%	12.59%
Solvency Ratios		
Debt to total assets ratio (total liabilities / total assets)	0.80	0.77
Debt to equity ratio (total liabilities / ave. share capital)	3.93	3.39

Note 16
Statutory Reserves

This account consists of the following:

December 31,	2023	2022
General Reserve Fund	₱83,197,271	₱81,324,362
Cooperative Education and Training Fund	897,782	1,205,437
Community Development Fund	9,070,076	9,556,164
Optional Fund	960,784	62,688,037
	₱94,125,913	₱154,774,000

The funds are not available for distribution to members but are used only for specific purposes for which they are recognized, as may be approved by the BOD and the General Assembly.

The accounting of the movements of the accounts follows:

December 31, 2023	*Opening Balances*	*Dist. of Net Profit*	*Charges*	*Closing Balances*
General Reserve Fund	₱81,324,362	₱1,872,909	₱–	₱83,197,271
Coop. Education & Training Fund	1,205,437	936,454	(1,244,109)	897,782
Community Development Fund	9,556,164	561,873	(1,047,961)	9,070,076
Optional Fund	62,688,037	1,311,036	(63,038,289)	960,784
	₱154,774,000	4,682,272	(₱65,330,359)	₱94,125,913

December 31, 2022	*Opening Balances*	*Dist. of Net Profit*	*Charges*	*Closing Balances*
General Reserve Fund	₱77,479,454	₱3,844,908	₱–	₱81,324,362
Coop. Education & Training Fund	2,170,393	1,922,454	(2,887,410)	1,205,437
Community Development Fund	9,632,069	1,153,471	(1,229,376)	9,556,164
Optional Fund	59,996,602	2,691,435	–	62,688,037
	₱149,278,518	₱9,612,268	(₱4,116,786)	₱154,774,000

Provision for Expected Credit Losses (ECL) from Optional Fund

The Bank recognized provision for ECL amounting to ₱122,513,112 of which ₱69,513,112 were charged to current operations and the remaining ₱53 million charged against the Optional Fund, as approved by the Board of Directors. The direct charge to Optional fund pertaining to additional provision for ECL were reflected as Subsidy Income from GRF and shown as part of Loan Servicing Fees as other income (Note 17).

Transfer from Optional Fund to Revaluation Surplus

To offset the accumulated unrealized loss amounting to ₱8,881,723, the Bank transferred fund from Optional Reserve to Revaluation Reserve due to adjustments based on actuarial valuation. (See Note 14).

Distribution of Net Surplus for the Year

The distribution of net surplus for the years ended December 31, 2023 and 2022 is presented below.

Years Ended December 31,	2023	2022
General Reserve Fund (10%)	₱1,872,909	3,844,908
Cooperative Education and Training Fund (5%)	936,454	1,922,454
Community Development Fund (3%)	561,873	. 1,153,471
Optional Fund (7%)	1,311,036	2,691,435
Total for Statutory Reserves	4,682,272	9,612,268
CETF payable (5%)	936,454	1,922,454
Interest on share capital and patronage refund (70%)	17,393,396	25,523,448
	₱23,012,122	₱37,058,170

Note 17
Details of Loan Servicing Fees and Other Income

Years Ended December 31,	2023	2022
Fees and collection income *(Note 6)*	₱124,587,358	₱125,802,101
Subsidy income from General Reserve Fund *(Note 16)*	53,000,000	–
Excess notarial	2,420,309	2,282,359
Recovery on charged-off assets	781,366	96,093
Gain on sale/derecognition *(Note 7 and 9)*	491,423	4,876,756
Interest income on post-employment benefit *(Note 14)*	898,976	124,115
Others	7,490,644	6,360,900
	₱189,670,076	₱139,542,324

Note 18
Details of Other Operating Expenses

Years Ended December 31,	2023	2022
Compensation and fringe benefits (See table below.)	₱203,912,682	₱213,628,194
Depreciation *(Note 8)*	19,065,457	18,764,907
Security, messengerial and janitorial services	17,113,032	12,524,702
Travel and transportation	16,114,645	6,945,690
Insurance	10,665,471	7,315,211
Representation	10,018,795	7,504,933
Promotions	9,819,070	9,584,495
Taxes and licenses *(Note 27)*	9,034,969	11,336,203
Communication, light and water	8,998,885	7,908,352
Banking fees and charges	7,589,824	268,640
Management and other professional fees	5,226,692	5,119,428
Stationery and supplies used	5,215,839	4,077,914
Fuel, oil and lubricants	3,662,465	4,873,052
Repairs and maintenance	2,622,549	3,087,499
Rent *(Note 7)*	1,653,336	3,600,728
Other operating expenses	11,727,425	8,926,715
	₱342,441,136	₱325,466,662

Details of Compensation and Fringe Benefits

Years Ended December 31,	2023	2022
Salaries, wages and bonuses	₱104,410,747	₱94,307,031
Employees benefits	83,005,657	105,790,821
SSS, HDMF, Philhealth Premium Expense, Pag-Ibig Contribution	12,522,337	9,705,582
Retirement benefits *(Note 14)*	3,973,941	3,824,760
	₱203,912,682	₱213,628,194

Note 19
Income Tax

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill
The income tax expense for 2023 was computed based on the provisions of Revenue Regulations No. 5-2021, *'Corporate Recovery and Tax Incentives for Enterprises Act'* (CREATE), Which Further Amended the National Internal Revenue Code (NIRC) of 1997. Provisions under the CREATE Act include reductions in RCIT rate from 30% to 25% for large corporations and 20% for small and medium corporations with net taxable income not exceeding ₱5,000,000 and total assets not exceeding ₱100,000,000 (excluding land) effective July 1, 2020.

As Reported in Profit or Loss

Years Ended December 31,	2023	2022
Regular corporate income tax	₱3,277,590	₱9,612,269
Tax effects of:		
Non-taxable transactions with members and statutory reserves	(2,022,326)	(7,456,925)
Non-taxable income	(5,911,854)	(943,226)
Non-deductible expense	373,555	178,788
Origination and reversal of temporary differences	8,558,450	3,824,318
Current Tax Expense	₱4,275,415	₱5,215,224

Regular Corporate Income Tax (RCIT)

Years Ended December 31,	2023	2022
Net surplus for distribution	₱18,729,087	₱38,449,075
Surplus allocated to statutory reserves (*Note 16*)		
General reserve fund	(1,872,909)	(3,844,908)
Cooperative education and training fund & CETF Payable	(1,872,909)	(3,844,908)
Optional fund	(1,311,036)	(1,153,471)
Community development fund	(561,873)	(2,691,435)
Interest on share capital and patronage refund *(Note 16)*	13,110,360	26,914,353
Add/(deduct) reconciling items		
Allocated for interest on share capital to members	(8,089,303)	(18,292,979)
Interest income from deposits with other banks	(2,927)	(184,688)
Interest income from investments	(242,798)	–
Nontaxable subsidy income from Optional fund	(17,437,000)	–
Non-deductible interest expense (tax arbitrage)	61,431	46,172
Non-deductible representation expense	1,432,789	668,980
Nontaxable interest income on loans (accruals)	(5,964,692)	(3,588,217)
Non-deductible provision for probable losses *(Note 6)*	40,306,814	18,625,506
Write off of allowance for ECL *(Note 6)*	(5,275,128)	(1,831,563)
Non-deductible depreciation on ROU asset	955,121	511,090
Non-deductible interest expense on lease liability	90,916	24,302
Deductible rental payments for finance leases *(Note 8)*	(985,470)	(526,148)
Non-deductible retirement expense *(Note 14)*	2,152,476	2,590,451
Deductible contributions to plan asset	(237,311)	(2,590,451)
Deductible amortization of excess of contribution over CSC	(2,773,618)	(1,505,914)
Total Taxable Income	17,101,660	20,860,894
Tax Rate	25%	25%
Tax Due	₱4,275,415	₱5,215,224

Income Tax on Business Transactions with Non-Members

The Bank having accumulated reserves and undivided surplus of more than ₱10 million are taxed on transactions with non-members. The tax base for all cooperatives liable to income tax shall be the net surplus arising from the business transactions with non-members after deducting the amounts for statutory reserves as provided for in the Cooperative Code and Joint Rules and Regulation Implementing Articles 60,61 and 144 of RA 9520. Following tables show the computation of the Cooperative's income tax due:

Income Tax Payable

Years Ended December 31,	2023	2022
Tax Due		
Taxable Income	₱17,101,660	₱20,860,894
Income Tax Rate	25%	25%
Tax Due at RCIT	₱4,725,415	₱5,215,224
Tax due at MCIT	₱1,236,027	₱526,632
Tax due (higher of RCIT or MCIT)	₱4,725,415	₱5,215,224
Taxes paid (1st, 2nd, and 3rd quarters)	2,192,325	2,737,911
Income Tax Payable *(Note 13)*	₱2,083,090	₱2,477,313

Movements of Deferred Tax Assets

Years Ended December 31,	2023	2022
Opening balances	48,245,673	₱45,072,004
Origination of temporary differences arising from:		
Non-deductible provision for probable losses *(Note 6)*	10,076,703	4,656,377
Write-off of allowance for expected credit losses *(Note 6)*	(1,318,782)	(457,892)
Retirement benefits temporary differences *(Note 14)*	(214,613)	(376,479)
PFRS 16 temporary differences *(Note 8)*	15,142	2,312
Net	8,558,450	3,824,318
Remeasurement gain/loss on retirement obligation *(Note 14)*	–	(650,647)
Closing balances	₱56,804,123	₱48,245,673

Note 20
Earnings Per Share

Years Ended December 31,	2023	2022
Interest on share capital and patronage refund attributable to		
Common and preferred shares	₱17,393,396	₱25,940,719
Preferred shares	–	(6,596)
Net Available for Common Shares	17,393,396	25,934,123
Weighted Average Number of Ordinary Shares	78,592	73,857
Basic Earnings per Share	₱221	₱351

As of December 31, 2023 and 2022, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share is equal to diluted earnings per share.

Note 21
Related Party Transactions

In the ordinary course of trade or business, the Bank has transactions with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. The significant related party transactions are summarized as follows:

(a) In the ordinary course of business, the Bank has loan transactions with DOSRI. Under the Bank's policy, these loans and other transactions are to be made substantially on the same terms and conditions as with other individuals and businesses of comparable risks. Under the General Banking Act and BSP regulations, the aggregate amount of loans to directors, officers, stockholders and related interest (DOSRI) should not exceed the total capital funds or 15% of the total loan portfolio of the Bank, whichever is lower. In addition, the amount of direct credit accommodation to DOSRI, of which 70% must be secured, should not exceed the amount of their respective regular and/or quasi-deposits and book value of their respective investments in the Bank. At the end of 2023 and 2022, the following are the information related to DOSRI:

December 31,	2023	2022
Total Outstanding DOSRI loans *(Note 6)*	₱29,360,354	₱26,902,821
Percent of DOSRI loans to total loans	0.99%	1.07%
Percent of unsecured DOSRI loans to total DOSRI loans	84.19%	70.33%
Percent of past-due DOSRI loans to total DOSRI loans	4.69%	3.28%

(Carried Forward.)

(Brought Forward.)

December 31,	2023	2022
Percent of non-performing DOSRI loans to total DOSRI loans	4.69%	2.32%
Total Outstndg loans to reltd parties other than DOSRI loans	₱38,889,877	₱34,256,710
Percent of other related party (ORP) loans to total loans	1.32%	1.37%
Percent of unsecured ORP loans to total ORP loans	87.72%	79.96%
Percent of non-performing ORP loans to total ORP loans	2.31%	0.47%
Total Outstanding DOSRI deposits *(Note 11)*	₱14,242,865	₱12,248,829
Percent of DOSRI deposit to total savings deposits	1.30%	1.36%

(b) The key management compensation consists of the following:

Years Ended December 31,	2023	2022
Salaries and wages	₱19,105,280	₱16,578,823
Employees' benefits	13,733,045	18,182,095
	₱32,838,325	₱34,760,918

Note 22
Fair Value Measurements

Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The following table summarizes the fair value hierarchy of the Bank's financial assets liabilities which are not measured at fair value in the 2023 and 2022 statements of financial position but for which fair value is disclosed.

December 31, 2023	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Cash and cash equivalents *(Note 5)*	₱600,016,648	₱–	₱–	₱600,016,648
Loans and receivables *(Note 6)*	–	–	2,561,035,287	2,561,035,287
FA at FVOCI *(Note 10)*	1,156,263	–	–	1,156,263
FA at Amortized Cost *(Note 10)*	433,080	–	–	433,080
	₱601,605,991	₱–	₱2,561,035,287	₱3,162,641,278
Financial liabilities				
Deposit liabilities *(Note 11)*	₱–	₱–	₱1,978,557,254	₱1,978,557,254
Bills payable *(Note 12)*	–	640,949,546	–	640,949,546
Trade and other payables *(Note 13)*	–	–	115,157,482	115,157,482
	₱–	₱640,949,546	₱2,093,714,736	₱2,734,664,282
December 31, 2022				
Financial assets				
Cash and cash equivalents *(Note 5)*	₱751,441,133	₱–	₱–	₱751,441,133
Loans and receivables *(Note 6)*	–	–	2,246,599,499	2,246,599,499
FA at FVOCI *(Note 10)*	1,156,263	–	–	1,156,263
FA at Amortized Cost *(Note 10)*	606,312	–	–	606,312
	₱753,203,708	₱–	₱2,246,599,499	₱2,999,803,207
Financial liabilities				
Deposit liabilities *(Note 11)*	₱–	₱–	₱1,708,044,059	₱1,708,044,059
Bills payable *(Note 12)*	–	612,729,040	–	612,729,040
Other liabilities *(Note 13)*	–	–	152,467,600	152,467,600
	₱–	₱612,729,040	₱1,860,511,659	₱2,473,240,699

For financial assets with fair values included in Level 1, management considers that the carrying amounts of financial instruments approximate their fair values. The fair values of the financial assets and liabilities included in Level 3 above which are not traded in an active market are determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

Fair Value Disclosures for Investment Properties Carried at Cost
The fair value of investment properties, which consist of parcels of land, amounted to ₱8,403,491 and ₱6,853,232 as of December 31, 2023, and 2022, respectively. The fair values were determined though appraisals, which were conducted by an in-house appraiser of the Bank, except for the appraisals of investment properties with carrying amount exceeding ₱5,000,000, which was conducted by an independent appraiser acceptable to the BSP. The fair value disclosed for the Bank's investment properties is under Level 2. The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2.

Note 23
Risk Management Objectives and Policies

The Bank is exposed to various risks in relation to financial instruments. The Bank's principal financial instruments are its cash and cash equivalents (Note 5), loans and receivables (Note 6), financial asset at FVTOCI restricted funds and some items of its other assets (Note 10), deposit liabilities (Note 11), bills payable (Note 12), and other liabilities (Note 13). The main types of risks are credit and concentration risks, investments risks, market risk and liquidity risk. The Bank is not exposed to foreign currency risk since it has no foreign currency deposits and foreign transactions. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Bank's financial performance and financial position. The Bank actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principle.

Risk Management Structure
The Board of Directors has overall responsibilities for the Bank's financial risk management, which includes the establishment and approval of risk strategies, policies and limits. The main objective of the financial risk management of the Bank is to minimize the adverse impact of financial risks on the Bank's financial performance and financial position.

Credit and Concentration Risks/Investment Risk
Credit risk refers to the risk that the counterparty will default and/or not honor its financial or contractual obligations resulting in financial losses to the Bank. The Bank is exposed to credit risk from financial assets including its cash held in banks, loans and discounts and investments in financial instruments. The credit risk in respect of cash balances held with other banks are managed via diversification of bank deposits and are only with major reputable financial institutions and are regularly monitored. For loans and discounts, the Bank manages the level of credit risk by actively monitoring its portfolio to avoid significant concentrations of credit. The Bank manages the level of credit risk by actively monitoring all its receivables to avoid significant delinquency.

The investment risk related to investments in financial instruments (or capital-loss risk) represents the exposure to loss of all or part of the capital invested resulting from cash flows from invested assets being less than the cash flows required to meet the obligations of maturing deposits and the necessary return on investments. To maintain an adequate yield to match the interest necessary to support future policy liabilities, the Board of Directors is investing mostly on Government financial instruments which are fairly safe investments.

The Bank deals only with creditworthy counterparties duly approved by the Board of Directors. Its maximum exposure to credit risk for the components of the statements of financial position is the carrying amounts as shown in the following table:

December 31,	2023	2022
Cash and cash equivalents *(Note 5)*	₱600,016,648	₱751,441,133
Loans and receivables *(Note 6)*	2,579,452,471	2,246,599,499
FA at FVOCI *(Note 10)*	1,156,263	1,156,263
FA at Amortized Cost *(Note 10)*	433,080	606,312
	₱3,181,058,462	₱2,999,803,207

Loans and Receivables

In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical information about customer default rates, management considers the credit quality of loans and receivables that are not past due or impaired to be good.

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

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

The table below shows exposure to credit risk of loans and receivables (gross) based on the Bank's rating system as of December 31, 2023 and 2022 and the related allowance for impairment.

December 31, 2023	*Level 1*	*Level 2*	*Level 3*	*Total*
Pass	₱2,291,469,219	₱–	₱–	₱2,291,469,219
Especially Mentioned		382,595,925		382,595,925
Substandard		16,859,999	25,436,210	42,296,209
Doubtful			54,702,070	54,702,070
Loss			167,587,362	167,587,362
Total	₱2,291,469,219	399,455,924	247,725,642	2,938,650,785
Allowance for impairment	(28,141,764)	(101,748,092)	(247,725,642)	(377,615,498)
Carrying Amount	₱2,263,327,455	₱297,707,832	₱–	₱2,561,035,287
December 31, 2022				
Unclassified	₱2,112,054,463	₱–	₱–	₱2,112,054,463
Especially Mentioned		45,711,322		45,711,322
Substandard		21,980,121	8,100,224	30,080,345
Doubtful			14,908,335	14,908,335
Loss			315,526,231	315,526,231
Total	2,112,054,463	67,691,443	338,534,790	2,518,280,696
Allowance for impairment	(16,247,480)	(3,977,624)	(251,456,093)	(271,681,197)
Carrying Amount	₱2,095,806,983	₱63,713,819	₱87,078,697	₱2,246,599,499

The credit grades used by the Bank in evaluating the credit quality of its loans and receivables are the following:

(a) *Current/Unclassified*
These are individual credits that do not have a greater-than-normal risk and do not possess the

characteristics of adversely classified loans. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) *Loans Especially Mentioned*
It is an adverse classification of loans/accounts that have potential weaknesses and deserves management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

(c) *Substandard*
Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) that may jeopardize Payment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

(d) *Doubtful*
Accounts classified as 'Doubtful' are individual credits or portions thereof which exhibit more severe weaknesses that those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors, which may strengthen the assets.

(e) *Loss*
Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

The Bank holds collateral against loans and receivables from borrowers in order to mitigate risk. The collateral is usually in the form of a real estate mortgage.

The Bank's manner of disposing of the collateral for impaired loans and other receivables is normally through the sale of these assets after foreclosure proceedings have taken place. The Bank does not generally use the non-cash collateral for its own operations.

The Bank writes off loans and receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include cessation of enforcement activity and, where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of loans and receivables to be written off. The Bank still has, however, enforceable the right to receive payment even if the loans and receivables have been written off.

Operations Risks
Operations risks are risks arising from the potential inadequate information systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls and fraud or unforeseen catastrophes that may result in unexpected loss. Operations risks include the risk of loss arising from various types of human or technical error, settlement or payment failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately. The Bank has established measures to mitigate the effects of risks related to operations through its senior management. At year-end, the Bank also ensures that disclosures are made in the financial statements for any significant accounts, if any, which may have been affected by such risks.

Market Risks
Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. Market risk is also the possibility that changes in equity prices or interest rates will adversely affect the value of the Bank's assets, liabilities or expected future cash flows. The Bank has no exposure arising from complex investments since it is not engaging in high-risk investments, forward contracts, hedging, and the like, whether local or foreign transactions.

Liquidity Risks
The liquidity risk is that the Bank might be unable to meet its obligations as they become due without incurring unacceptable losses or costs. The Bank's objectives to manage its liquidity profile are a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; and c) to be able to access funding when needed at the least possible cost. The Bank manages its liquidity by carefully monitoring its scheduled servicing payments for financial liabilities as well as its cash flows due on its day–to–day business. The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis in the following table. Net cash requirements are compared to available cash position in order to determine headroom or any shortfalls. This analysis shows that the available cash position is expected to be sufficient over the lookout period.

The Bank considers its expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and loans and discounts. The Bank's existing cash resources and receivables (see tables below) significantly exceed the current cash outflow requirements. Cash flows from loans and discounts are all generally contractually due within six months to one year and those exceeding this period are expected to not materially affect its cash position.

Maturity Analysis of Assets and Liabilities

December 31, 2023	*Within One Year*	*Beyond One Year*	*Beyond five years*	*Total*
Financial Assets				
Cash and cash equivalents *(Note 5)*	₱600,016,648	₱–	₱–	₱600,016,648
Loans and receivables *(Note 6)*	987,239,703	1,569,647,719	22,565,049	2,579,452,471
FA at FVOCI *(Note 10)*		1,156,263		1,156,263
FA at Amortized Cost *(Note 10)*		433,080		433,080
	1,587,256,351	1,571,237,062	22,565,049	3,181,058,462
Financial Liabilities				
Deposit liabilities *(Note 11)*	1,731,349,750	185,630,249	61,577,255	1,978,557,254
Bills payable *(Note 12)*	99,225,137	533,635,609	8,088,800	640,949,546
Other liabilities *(Note 13)*	115,157,482			115,157,482
	1,945,732,369	719,265,858	69,646,055	2,734,664,282
December 31, 2022				
Financial Assets				
Cash and cash equivalents *(Note 5)*	₱751,441,133	₱–	₱–	₱751,441,133
Loans and receivables – net *(Note 6)*	947,271,969	1,296,530,725	2,796,805	2,246,599,499
FA at FVOCI *(Note 10)*		1,156,263		1,156,263
FA at Amortized Cost *(Note 10)*		606,312		606,312
	1,698,713,102	1,298,293,300	2,796,805	2,999,803,207
Financial Liabilities				
Deposit liabilities *(Note 11)*	1,494,635,370	160,250,427	53,158,262	1,708,044,059
Bills payable *(Note 12)*		612,729,040		612,729,040
Other liabilities *(Note 13)*	152,467,600			152,467,600
	1,647,102,970	772,979,467	53,158,262	2,473,240,699

Note 24
Commitments and Contingencies

There are recognized provisions in the statements of financial position that arise in the normal course of business operations. There may also have been commitments and contingencies that arose in the normal course of business that were not reflected in the Bank's financial statements. Management anticipates no material losses, if any, that may arise from these commitments and contingencies, and these losses, if any, will not materially affect its financial statements.

During 2023 and 2022, there were no contingencies and commitments arising from off-balance sheet items that were recognized by the Bank.

Note 25
COVID – 19 Pandemic Situational Report, January 2024

COVID-19 cases throughout the country has been reported to be declining so much so that Health Secretary Teodoro Herbosa described Covid-19 as just one of the illnesses that cause respiratory tract infection with its most recent variants of interest as similar to common coughs and colds unlike previous ones that cause severe pneumonia. Secretary Herbosa even confirmed that DOH does not require everyone to wear masks, although some hospitals still implement strict masking protocols. He also confirmed that DOH no longer has a budget for the procurement of new vaccines. The vaccines donated by the COVAX Facility are only allotted for senior citizens and individuals with comorbidities as they are at high risk of hospitalization for severe Covid-19 infection.

The Board of Directors of the Bank has determined that the COVID-19 Pandemic generally no longer affected its operations in 2023. Management considers this disclosure as the final note on COVID-19 Pandemic.

Note 26
Authorization of Financial Statements

The Bank's financial statements as of and for the year ended December 31, 2023, were presented to the Board of Directors on March 26, 2023 and subsequently approved by the Executive Committee of the Board of Directors on March 26, 2023. The audited financial statements were authorized for issue by the Executive Committee of the Board of Directors on March 26, 2024.

Note 27
Supplementary Information required by Revenue Regulations (RR) No.15-2010

Below is the additional information required by RR No. 15-0210; this information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

a. *Withholding Tax*

Years Ended December 31,	2023	2022
Final withholding tax on Interest	₱6,464,340	₱7,636,017
Compensation	3,309,631	7,951,958
Expanded	2,143,924	2,285,958
Total	₱11,917,895	₱17,873,933

b. *Documentary Stamp Tax*

The DST shouldered by the Bank amounted to ₱869,134 in 2023 and ₱4,109,570 in 2022 and included in the taxes and licenses account under Other Expense in the 2023 and 2022 statement of profit or loss.

c. *All other local and national taxes*

Years Ended December 31,	2023	2022
Gross Receipt Tax	₱6,323,221	₱6,261,417
Municipal permits and licenses	630,343	417,486
Real Property Tax	713,408	347,301
Miscellaneous	498,863	200,429
Total	₱8,165,835	₱7,226,633

d. *Tax Cases*

The Bank has no outstanding tax cases in any other court, as of December 2023.

SUPPLEMENTARY SCHEDULE TO THE FINANCIAL STATEMENTS

Annex I	Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP)

SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP AND CDA

Cooperative bank of Cotabato

Presented below and in the succeeding pages are the supplementary information required by the BSP under Section 174 (Appendix 55) of the Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks*.

(a) *Selected Financial Performance Indicators*

Years Ended December 31,	2023	2022
Return on average equity* *(Net surplus/Average total capital accounts)*	3.22%	5.14%
Return on average assets*: *(Net surplus/Average total resources)*	0.69%	1.28%
Net interest margin*: *(Net interest income/Average interest earning resources)*	6.13%	11.42%
Risk-Based Capital Adequacy Ratio	18.04%	18.17%

** Average asset, capital, and interest-earning assets are computed as the simple average of outstanding balance of assets, capital, and interest-earning assets at December 31, 2023 and December 31, 2022. (2 data points)*

(b) *Capital Instruments Issued*

As of December 31, 2023 and 2022, the Bank has only two classes of share capital, which are ordinary (common) and preference (preferred) shares.

December 31,	2023	2022
Common share	₱78,592,000	₱73,714,159
Preferred share	3,441,000	3,441,000
	₱82,033,000	₱77,155,159

(c) *Significant Credit Exposures for Loans*

The Bank's concentration of credit as to industry for its receivables from customers gross of allowance for ECL below are disclosed in Note 6.

December 31,	2023	%	2022	%
Agriculture, forestry and fishing	₱971,930,533	33.07%	₱732,310,760	29.26%
Wholesale and retail trade	791,074,782	26.92%	574,071,048	22.94%
Information and communication	450,997,612	15.35%	397,653,123	15.89%
Human health and social work activities	144,141,405	4.91%	193,179,860	7.72%
Real estate activities	12,113,777	0.41%	101,837,904	4.07%
Accommodation and food storage	63,243,831	2.15%	69,272,537	2.77%
Financial and insurance activities	35,213,211	1.20%	40,268,406	1.61%
Construction	50,307,097	1.71%	76,955,882	3.07%
Manufacturing	95,786,621	3.26%	69,824,506	2.79%
Transportation and storage	19,061,889	0.65%	16,549,320	0.66%
Other service activities	304,780,027	10.37%	230,876,162	9.22%
	₱2,938,650,785	100%	₱2,502,799,508	100%

(d) *Breakdown of Loans*

The following table shows information relating to receivables from customers by collateral, gross of unearned discounts and capitalized interest:

Breakdown by Type of Security

December 31,	2023	%	2022	%
Secured by real estate	₱519,358,794	18	₱360,546,554	14
Secured by chattel	13,882,439	0.47	9,797,658	0.4
Other security	51,652,079	1.76	41,665,443	1.6
	584,893,312	20	412,009,655	16
Unsecured loans	2,353,757,473	80	2,090,789,853	84
	₱2,938,650,785	100	₱2,502,799,508	100

Breakdown As to Status of Loans

December 31, 2023	*Performing*	%	*Non-Performing*	%	*Total*	%
Individual consumption	₱846,906,749	33	₱181,906,349	49	₱1,028,813,098	35
Agricultural	708,613,680	28	45,840,698	12	754,454,378	26
Commercial	280,774,215	11	75,087,673	20	355,861,888	12
Others	727,536,676	28	71,984,745	19	799,521,421	27
	₱2,563,831,320	100	₱374,819,465	100	₱2,938,650,785	100
December 31, 2022						
Individual consumption	₱1,146,332,722	53	₱238,450,692	69	₱1,384,783,414	55
Agricultural	493,108,614	23	48,379,438	14	541,488,052	22
Commercial	266,678,151	12	59,783,301	17	326,461,452	13
Others	249,142,529	12	924,061	0	250,066,590	10
	₱2,155,262,016	100	₱347,537,492	100	₱2,502,799,508	100

The non-performing loans as defined under Section 304 of the MORB amounted to ₱374,819,465 in 2023 and ₱347,537,492 in 2022.

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

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written off.

The Bank reported no restructured loans in 2023 and in 2022.

Interest income recognized on impaired loans and receivables amounted to ₱39,983,416 and ₱61,143,091 in 2023 and 2022, respectively.

(e) *Information on Related Party Loans*
In the ordinary course of business, the Bank has loan transactions with certain directors, officers, stockholders and related interests (DOSRI) based on BSP Circular No. 423 dated March 15, 2004, as amended. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of the respective total loan portfolio, whichever is lower, of the Bank.

The following table shows information on related party loans as reported to the BSP:

December 31,	2023	2022
Total Outstanding DOSRI loans *(Note 6)*	₱29,360,354	₱26,902,821
Percent of DOSRI loans to total loans	0.99%	1.07%
Percent of unsecured DOSRI loans to total DOSRI loans	84.19%	70.33%
Percent of past-due DOSRI loans to total DOSRI loans	4.69%	3.28%
Percent of non-performing DOSRI loans to total DOSRI loans	4.69%	2.32%
Total Otstndng loans to related parties other than DOSRI loans	₱38,889,877	₱34,256,710
Percent of other related party (ORP) loans to total loans	1.32%	1.37%
Percent of unsecured ORP loans to total ORP loans	87.72%	79.96%
Percent of non-performing ORP loans to total ORP loans	2.31%	0.47%
Total Outstanding DOSRI deposits *(Note 11)*	₱14,242,865	₱12,248,829
Percent of DOSRI deposit to total savings deposits	1.30%	1.36%

(f) *Secured Liabilities and Assets Pledged as Security*
Assets pledged by the Bank as security for liabilities are shown below.

Years Ended December 31,	2023	2022
Aggregate amount of secured liabilities	₱207,312,037	₱207,312,037
Aggregate amount of resources pledged as security	₱345,520,062	₱345,520,062

(g) *Contingencies and Commitments Arising from Off-balance Sheet Items*
During 2023 and 2022, there were no contingencies and commitments arising from off-balance sheet items that were recognized by the Bank.