

ANNUAL REPORT 2025

Rural Bank of Bagabag (N.V.), Inc.

Your Progress, Our Success!

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I. CORPORATE POLICY

1. ABOUT US

In 1965, Retired Naval Captain Jose P. Castillo and his wife purchased a citrus plantation in Sta. Lucia, Bagabag, Nueva Vizcaya, and a lot in Diadi, Nueva Vizcaya. Needing more capital with which to develop these landholdings, Capt. Castillo thought of borrowing from a bank, with the titles of the lots as collateral.

Capt. Castillo found out the nearest bank was 20 kilometers away in Bayombong. No bank, government-owned, or private lending company, could be found in northern Nueva Vizcaya, from Solano to Maddela.

“Why don’t you put up one?” was the challenge presented to him.

Capt. Castillo urged some close relatives and acquaintances to help him establish a rural bank.

The Rural Bank of Bagabag (N.V.), Inc. was registered with the Securities and Exchange Commission (SEC) on July 29, 1968, and started its operation on August 24, 1968, with the primary aim of promoting countryside development through the extension of credit and other banking services.

The rural bank remained steadfast; an edifice anchored on solid foundation. It expanded its services and four branches were established in Lamut (1994) and Alfonso Lista (1998), in the Ifugao Province, and in Diadi (2007) and Villaverde (2009), in Nueva Vizcaya.

RB Bagabag is known for its financial strength and providing excellent banking services through innovation and technology to achieve total customer satisfaction. Approachable staff ensure that customer transactions are delivered without delays, while adhering to the existing policies and procedures. Up-to-date technology and equipment add to the improved processes thereby contributing to customer satisfaction.

On August 24, 2018, RB Bagabag celebrated its 50th Year-Golden Anniversary of its operation. Inspired by the motto Your Progress, Our Success, the bank renews its commitment to its clients and to the public that it will continue to uphold its legacy of working for the improvement and development of the countryside by offering consistent quality and excellent financial and banking services.

2. ISION, MISSION, AND CORE VALUES

Vision

To be the most trusted rural bank that provides quality financial services in the province and in neighboring regions

Mission Statement

We are a trusted rural bank who help our clients in countryside communities to achieve financial stability. We balance heart for service and adherence to sound business practices and established laws.

Core Values

Our values are exemplified in the word **SERVICE**:

S-ervice-oriented
E-xcellence
R-espect
V-ision-driven
I-ntegrity
C-ompassion
E-xtra Mile



Your Progress, Our Success

3. AN OVERVIEW OF PRODUCTS AND SERVICES

Deposits
Regular Savings
Time Deposits



Loans
Agricultural Loans
Business Loans
Housing Loans
Consumer/Personal Loans
Back-to-Back Loan



Other Services
POS Banking (Diadi Branch)
Western Union
Cebuana
Gcash & Maya (Cash-in)
Sale of Assets Acquired





4. BUSINESS MODEL

The Bank operates as a community-focused rural financial institution committed to promoting financial inclusion, countryside development, and sustainable banking growth. Our business model centers on responsible financial intermediation by mobilizing deposits and channeling these funds into productive lending activities that support individuals, farmers, entrepreneurs, and local businesses within our service areas.

Through relationship-driven banking, prudent risk management, and continuing digital transformation initiatives, the Bank seeks to deliver sustainable value to its depositors, borrowers, shareholders, employees, regulators, and communities.

How the Bank Creates Value

1. Deposit Generation

The Bank mobilizes deposits from retail customers, businesses, employees, farmers, and local institutions through regular savings and time deposit products.

These deposits serve as the Bank's primary source of funding and support liquidity management and lending operations.

2. Lending Activities

The Bank generates the majority of its revenues through interest income from loans extended to qualified borrowers.

The Bank focuses on responsible lending practices while supporting economic activity in rural and semi-urban communities.

Major Loan Segments

- Agricultural Loans
- Livelihood Financing
- MSME / Business Loans
- Housing Loans
- Consumer Loans

3. Fee-Based and Other Income

In addition to lending operations, the Bank earns recurring revenues from service fees and treasury activities.

Sources of Other Income

- Loan processing fees
- Transaction fees
- Investment income
- Other banking service charges

Customer Segments

The Bank primarily serves:

- Farmers and agricultural workers
- Micro, Small, and Medium Enterprises (MSMEs)
- Salaried employees
- Overseas Filipino Workers (OFWs) and their families
- Rural entrepreneurs
- Teachers and government workers
- Unbanked and underserved communities

The Bank continues to support financial inclusion by extending accessible and practical banking services to customers traditionally underserved by larger financial institutions.

Operational Framework

The Bank's operations are supported by the following key functions:

Branch Banking Operations

Customer servicing, deposit handling, loan servicing, and daily branch operations.

Credit and Lending Operations

Credit evaluation, loan approval, documentation, collection, and portfolio monitoring.

Risk Management

Management of credit, operational, liquidity, market, and information security.

Compliance and Governance

Adherence to regulatory requirements of the Bangko Sentral ng Pilipinas (BSP), Anti-Money Laundering Council (AMLC), Credit Information Corporation (CIC), and other applicable regulations.

Key Resources

The Bank's ability to create sustainable value is supported by:

- Dedicated employees and officers
- Stable deposit base
- Branch network and community presence
- Core banking systems and digital infrastructure
- Risk management and compliance framework
- Strong customer relationships and institutional reputation

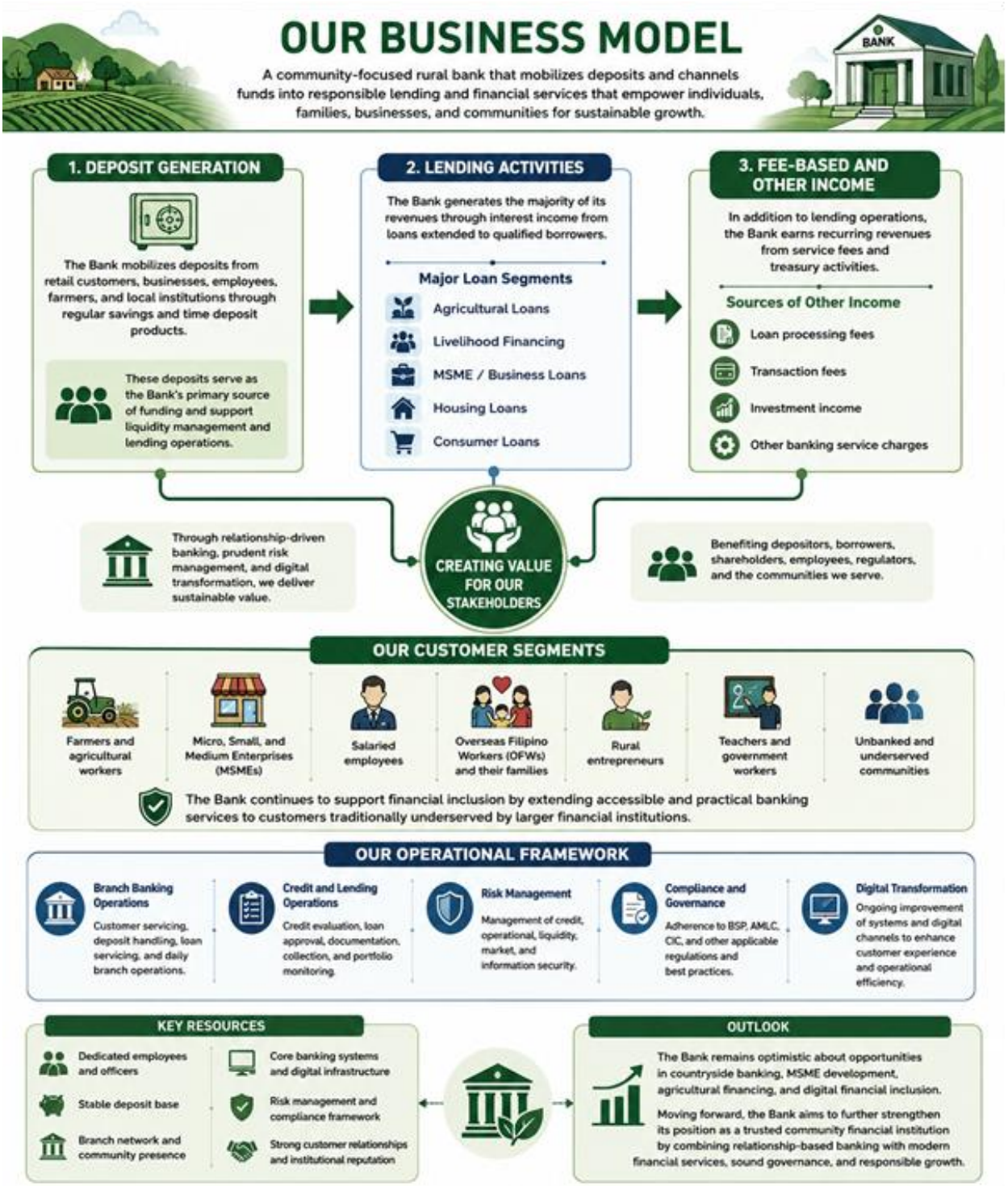
Outlook

The Bank remains optimistic about opportunities in countryside banking, MSME development, agricultural financing, and digital financial inclusion.

Moving forward, the Bank aims to further strengthen its position as a trusted community financial institution by combining relationship-based banking with modern financial services, sound governance, and responsible growth.



Below is a diagram of the Bank's business model in one photo.





II. THE PRESIDENT'S REPORT

1. PRESIDENT'S REPORT

Welcome to our esteemed stockholders, members of the Board, and Management.

I am honored to present the President's Report covering the period January to December 2025.

The past year was a challenging yet formative year for the Bank—one that tested our resilience, sharpened our risk awareness, and pushed us to strengthen our internal foundations in preparation for the future.

Financial Performance Overview
The Bank recorded a net loss, primarily driven by the recognition of higher allowance for credit losses. While this impacted our bottom line, management believes that this was a necessary and prudent action to realistically reflect credit risks and to reinforce the Bank's financial integrity. This proactive approach places us in a stronger position moving forward rather than deferring potential losses to future periods.

On a positive note, Due from Other Banks posted an increasing trend, indicating improved liquidity positioning. In addition, the Bank maintained investments in securities amounting to ₱17 million, providing stable placements for excess funds while balancing liquidity, safety, and yield considerations.

Deposit liabilities, while fluctuating throughout the year, ended higher compared to last year, reflecting continued depositor confidence despite heightened competition in the market.

However, our loan portfolio declined, ending the year ₱112 million lower than the previous year. This contraction was largely a result of tighter credit standards, cautious loan approvals, and intensified competition—particularly from cooperatives offering aggressive pricing and faster turnaround times.

Key Achievements and Internal Strengthening
Despite these headwinds, 2025 was a year of significant internal progress.

Among our key achievements was the development of a new performance appraisal system, designed to align individual accountability with institutional goals, reinforce performance culture, and support talent development across the organization.

We also implemented new and enhanced policies and procedures, strengthening governance, controls, and operational consistency. To ensure effective adoption, management conducted in-house seminars and walkthrough sessions, allowing employees to fully understand not only the "what", but the "why" behind these policies.

These initiatives reflect management's commitment to building a stronger, more disciplined, and more compliant institution—one that is prepared to meet both regulatory expectations and competitive pressures.

Challenges and Risk Management

The operating environment has become increasingly competitive, with cooperatives and other financial institutions expanding aggressively within our markets.

At the same time, the Bank continues to face credit quality challenges, which management is addressing through stricter credit evaluation, closer account monitoring, and more deliberate portfolio management.

We also acknowledge that regulatory and compliance matters have become more demanding and, at times, alarming. Management views this not as a setback, but as a clear signal to further strengthen risk management, compliance culture, and internal controls. Addressing these matters remains a top priority and is receiving full attention from both management and the Board.

Strategic Direction and Outlook

Looking ahead, management is focused on several key strategic priorities:

- Revitalizing loan growth, while maintaining prudent risk standards
- Strengthening deposit mobilization efforts to ensure stable and low-cost funding
- Investing in business and digital solutions to improve efficiency, service delivery, and competitiveness
- Enhancing risk management and compliance frameworks to meet regulatory expectations and protect the Bank
- Expanding our community presence through barangay-level campaigns, reinforcing our role as a trusted local banking partner

While challenges remain, we enter the coming year with clear direction, stronger internal foundations, and renewed focus.

While challenges remain, we enter the coming year with clear direction, stronger internal foundations, and renewed focus.

I would like to thank our stockholders for your continued trust, our Board of Directors for their guidance, and our officers and staff for their dedication throughout a demanding year.

With discipline, unity, and sustained effort, we are confident that the Bank will emerge stronger and better positioned for sustainable growth.

Vincent Z. Castillo
President-CEO

2. REPORT ON DEPOSIT LIABILITIES AND LIQUIDITY

The Branch Banking Department remains a vital component of the Bank's overall operations, ensuring the efficient administration, safekeeping, monitoring, and control of deposit accounts while maintaining adequate liquidity to support the Bank's operational, regulatory, and lending requirements. Through sound deposit management practices, effective liquidity monitoring, and strong internal controls, the Department contributes significantly to the Bank's financial stability, operational resilience, and ability to meet its obligations to depositors and other stakeholders.

Beyond its traditional custodial and operational functions, the Department plays a key role in managing the Bank's funding requirements and liquidity position. It is responsible for ensuring that deposit resources are properly managed and available to support lending activities, operational needs, and strategic growth objectives while maintaining compliance with regulatory requirements and prudent banking standards.

Despite the challenges posed by an increasingly competitive banking environment, the Bank continued to earn the confidence and trust of its depositors through reliable banking services, prudent financial management, and strong customer relationships. The continued support of our clients reflects their confidence in the Bank's stability, sound governance, and commitment to serving the financial needs of the communities within its area of operation.

As of December 31, 2025, total deposit liabilities amounted to ₱439.77 million, representing an increase of ₱5.70 million or 1.31% from ₱434.07 million recorded in 2024. Despite intense competition within the banking sector, the Bank achieved a steady increase in deposits, demonstrating sustained depositor confidence and the effectiveness of its customer relationship management and service delivery initiatives. The stable deposit base continued to provide the Bank with a reliable source of funding to support its operations and lending activities.

The Bank likewise maintained a strong liquidity position throughout the year. The Minimum Liquidity Ratio (MLR) significantly improved from 44.09% in 2024to 78.18% in 2025, reflecting a substantial strengthening of the Bank's capacity to meet withdrawal requirements, fund operational activities, support lending operations, and satisfy other financial obligations as they fall due.

The significant improvement in liquidity was primarily attributable to Management's lending and liquidity management strategies. During the year, the Bank adopted stricter loan evaluation and credit assessment standards to ensure that only qualified borrowers were granted credit facilities. While loan releases remained stable and continued to support the Bank's lending operations, the enhanced credit underwriting process contributed to a more controlled deployment of funds and improved cash position. Together with prudent cash flow management, careful asset-liability matching, and the maintenance of adequate liquid assets, these measures strengthened the Bank's overall liquidity profile and financial resilience.

To further strengthen its deposit base and liquidity profile, Management continued to implement various operational and risk management initiatives, including the enhancement of customer service and relationship management, continuous support to branch operations, implementation of liquidity preservation measures, maintenance of adequate funding and liquidity buffers, strengthening of internal controls over deposit operations, and regular monitoring of liquidity indicators and funding requirements to ensure compliance with regulatory standards and internal risk limits.

The substantial increase in the Bank's liquidity ratio during the year demonstrates Management's conservative approach to liquidity management and balance sheet administration. This strong liquidity position provides the Bank with greater flexibility to support future business growth while maintaining its ability to meet depositor demands and other financial commitments in a timely manner.



3. REPORT ON LOANS PERFORMANCE

The Loans Marketing Department remains a key operational unit of the Bank, responsible for extending credit facilities to qualified borrowers and supporting the financing requirements of the agricultural, commercial, and consumer sectors within the Bank's service areas. Lending activities continue to play a significant role in the Bank's financial intermediation function and revenue generation while contributing to local economic development.

During the year, the Bank's loan portfolio management was undertaken within an environment of heightened credit risk awareness and increased regulatory focus on credit administration practices. As part of the Bangko Sentral ng Pilipinas (BSP) examination process, certain weaknesses were identified relating to credit underwriting and borrower assessment practices, including deficiencies in the evaluation of borrowers' repayment capacity and instances involving capitalization practices that required corrective action. These findings prompted the Board of Directors and Management to implement measures aimed at strengthening the Bank's credit risk management framework and improving the overall quality of the loan portfolio.

In response to these observations, the Board directed Management to enhance credit governance by strengthening borrower creditworthiness assessments, repayment capacity analysis, collateral evaluation procedures, and loan approval processes. The Bank likewise intensified monitoring of existing loan accounts, reinforced compliance with credit policies, reviewed lending practices, and implemented corrective measures designed to ensure that future credit decisions are supported by adequate financial analysis, proper documentation, and appropriate risk assessment.

As of December 31, 2025, total Loans Receivable amounted to ₱443.10 million, representing a decrease of ₱112.31 million or 20.22% from ₱555.40 million reported in 2024. The decline in the loan portfolio was primarily attributable to Management's decision to adopt more stringent borrower evaluation procedures and exercise greater selectivity in granting new loans following the identified credit administration weaknesses. While the Bank continued to provide financing support to qualified borrowers, emphasis was placed on improving portfolio quality, mitigating credit risk exposures, and addressing areas requiring corrective action.

The Bank also observed an increase in non-performing loan exposures during the period, which highlighted the need for stronger credit assessment and monitoring practices. Consequently, Management enhanced its collection efforts, intensified account monitoring, and strengthened remedial management activities to facilitate the recovery of delinquent accounts and improve asset quality. The Bank likewise reviewed the adequacy of its Allowance for Credit Losses (ACL) to ensure that provisioning levels appropriately reflected the risk characteristics of the loan portfolio.

To further strengthen independent oversight of credit risk, the Bank established the position of Credit Risk Officer (CRO). The CRO is responsible for independently reviewing credit risk exposures, monitoring portfolio quality, identifying emerging credit concerns, evaluating the adequacy of the Allowance for Credit Losses, and providing recommendations to Management and the Board on credit risk mitigation measures. This initiative forms part of the Bank's continuing efforts to enhance credit discipline, strengthen risk management practices, and address the findings noted during the BSP examination.

The Bank remains committed to improving credit administration processes, strengthening risk management controls, and ensuring that lending activities are conducted in accordance with regulatory expectations, internal policies, and the Bank's risk appetite. The corrective measures implemented during the year are expected to support the gradual improvement of asset quality, strengthen credit risk governance, and promote the long-term sustainability of the Bank's lending operations.





III. FINANCIAL SECTION

1. COMPARATIVE STATEMENT OF FINANCIAL POSITION

			Increase/(Decrease)	
Assets	**December 31, 2025**	**December 31, 2024**	**Amount**	**Percentage**
Cash on Hand	14,824,795.00	11,045,612.00	3,779,183.00	34.21%
Checks and Other Cash Items	1,501,924.00	5,792,528.00	-4,290,604.00	-74.07%
Due from BSP	12,393,487.00	12,523,698.00	-130,211.00	-1.04%
Due from other Banks	222,794,423.00	110,961,339.00	111,833,084.00	100.79%
Investment in Bonds & Other Debt Instruments	17,221,036.00	17,221,036.00	0.00	0.00%
Loan and Receivables - Gross	443,097,177.00	555,404,403.00	-112,307,226.00	-20.22%
Unearned Interest and Discount	(7,001,673.00)	(8,981,493.00)	1,979,820.00	-22.04%
Allowance for Credit Losses	(143,282,271.00)	(96,326,917.00)	-46,955,354.00	48.75%
Net Loan Portfolio	292,813,233.00	450,095,993.00	-157,282,760.00	-34.94%
Sales Contract Receivable, Net	0	2,100,000.00	-2,100,000.00	-100.00%
Accrued Interest Receivables	1,995,147.00	4,054,055.00	-2,058,908.00	-50.79%
Bank Premises, Furniture, Fixtures and Equipment	10,228,993.00	12,988,073.00	-2,759,080.00	-21.24%
Other Intangible Assets	12,561.00	12,561.00	0.00	0.00%
Real and Other Properties Owned or Acquired (ROPOA)	57,858,863.00	36,209,425.00	21,649,438.00	59.79%
Other Assets	1,721,503.00	1,016,441.00	705,062.00	69.37%
Deferred Tax Asset	26,252,421.00	14,691,487.00	11,560,934.00	78.69%
TOTAL ASSETS	659,618,386.00	678,712,248.00	-19,093,862.00	-2.81%
LIABILITIES				
Savings Deposit	314,941,034.00	322,859,110.00	-7,918,076.00	-2.45%
Time Deposit	124,828,693.00	111,207,485.00	13,621,208.00	12.25%
Total Deposit Liabilities	439,769,727.00	434,066,595.00	5,703,132.00	1.31%
Accrued interest, taxes, and other expenses	1,995,198.00	2,225,199.00	-230,001.00	-10.34%
Other Liabilities	12,490,976.00	15,231,967.00	-2,740,991.00	-17.99%
TOTAL LIABILITIES	454,255,901.00	455,133,217.00	-877,316.00	-0.19%
EQUITY				
Capital Stock	96,807,300.00	96,807,300.00	0.00	0.00%
Surplus Reserves	148,000.00	148,000.00	0.00	0.00%
Surplus Free	108,407,185.00	126,623,731.00	-18,216,546.00	-14.39%
TOTAL EQUITY	205,362,485.00	223,579,031.00	-18,216,546.00	-8.15%
TOTAL LIABILITIES AND EQUITY	659,618,386.00	678,712,248.00	-19,093,862.00	-2.81%

2. COMPARATIVE STATEMENT OF INCOME (LOSS) AND EXPENSES

			Increase/(Decrease)	
Income and Expenses Accounts	**December 31, 2025**	**December 31, 2024**	**Amount**	**%**
Interest Income	65,635,767.00	71,193,145.00	-5,557,378.00	-7.81%
Interest Expense	-4,877,344.00	-4,882,579.00	5,235.00	-0.11%
Net Interest Income	60,758,423.00	66,310,566.00	-5,552,143.00	-8.37%
Provision for Credit Losses	61,220,296.00	15,429,238.00	45,791,058.00	296.78%
Net Interest Income After Provisions	-461,873.00	50,881,328.00	50,419,455.00	99.09%
Non-Interest Income			0.00	
Recovery on Charged-Off Assets	13,411,657.00	0.00	13,411,657.00	
Fees and Commissions Income	1,924,874.00	3,742,257.00	-1,817,383.00	-48.56%
Gains/(Losses) from Sale/ Derecognition of Non-Financial Assets				
Real and Other Properties Acquired	5,398,303.00	12,206,623.00	-6,808,320.00	-55.78%
Miscellaneous Income	455,711.00	241,048.00	214,663.00	89.05%
Total Non-Interest Income	21,190,545.00	16,189,928.00	5,000,617.00	30.89%
Net Income Before Operating Expenses	20,728,672.00	67,071,256.00	-46,342,584.00	-69.09%
Non-Interest Expenses				
Compensation/Fringe Benefits	20,146,199.00	18,164,523.00	1,981,676.00	10.91%
Taxes and Licenses	4,737,843	5,457,824	-719,981.00	-13.19%
Fees and Commissions Expenses	42,740	178,320	-135,580.00	-76.03%
Depreciation/Amortization	4,177,472	5,412,820	-1,235,348.00	-22.82%
Total Non-Interest Expenses	29,104,254	29,213,487	-109,233.00	-0.37%
Other Operating Expenses				
Litigation expenses	5,862,751.00	2,421,007	3,441,744.00	142.16%
Security, clerical and janitorial services	4,078,910.00	3,793,703	285,207.00	7.52%
Insurance Expenses	1,353,959.00	1,298,939	55,020.00	4.24%
Power, light and water	535,727.00	547,927	-12,200.00	-2.23%
Donations and charitable contributions	533,423.00	731,815	-198,392.00	-27.11%
Fuel and lubricants	398,873.00	427,618	-28,745.00	-6.72%
Repairs and maintenance	274,938.00	315,981	-41,043.00	-12.99%
Interest expense – lease liabilities	187,486.00	261,563	-74,077.00	-28.32%
Representation and entertainment	181,205.00	356,959	-175,754.00	-49.24%
Advertising and publicity	157,800.00	353,050	-195,250.00	-55.30%

Supervision fees	129,011.00	122,188	6,823.00	5.58%
Others	2,785,146.00	4,493,739.00	-1,708,593.00	-38.02%
Total Other Operating Expenses	16,479,229.00	15,124,489.00	1,354,740.00	8.96%
Net Income Before Tax	-24,854,811.00	22,733,280.00	-47,588,091.00	-209.33%
Income Tax Benefit (Expense)	6,638,265.00	-5,382,756	12,021,021.00	-223.32%
Net Income/(Loss) After Tax	(18,216,546.00)	17,350,524.00	-35,567,070.00	-204.99%



3. FINANCIAL HIGHLIGHTS

For the Year Ended December 31, 2025

The Bank continued to strengthen its risk management framework, asset quality initiatives, and liquidity position during 2025 while maintaining capital levels well above regulatory requirements.

Total assets amounted to ₱659.62 million as of December 31, 2025, a decrease of ₱19.09 million or 2.81% from ₱678.71 million in 2024. The decline was primarily attributable to the reduction in the loan portfolio and the increase in allowance for credit losses.

Gross loans and receivables decreased by 20.22% to ₱443.10 million as Management implemented stricter credit assessment and loan evaluation procedures and continued its collection and recovery efforts. Consequently, net loans and receivables declined by 34.94% to ₱292.81 million following the increase in allowance for credit losses.

The Bank maintained a strong liquidity position throughout the year. Due from Other Banks increased by 100.79% to ₱222.79 million as excess liquidity arising from loan repayments and moderated loan growth was strategically placed with other banks and short-term placements. Total deposit liabilities increased by 1.31% to ₱439.77 million, supported primarily by growth in time deposits.

Real and Other Properties Acquired (ROPOA) increased by 59.79% to ₱57.86 million due to foreclosure and recovery activities involving non-performing loan accounts.
The Bank reported a net loss after tax of ₱18.22 million in 2025 compared to a net income after tax of ₱17.35 million in 2024. The decline in profitability was primarily attributable to the substantial increase in provision for credit losses as part of Management's approach to strengthening reserve coverage and addressing credit risk exposures.

Despite the higher provisioning requirements, non-interest income increased by 30.89% to ₱21.19 million, driven mainly by recoveries from previously charged-off accounts. Meanwhile, operating expenses remained generally manageable despite higher litigation expenses associated with foreclosure and recovery activities.

Total equity stood at ₱205.36 million as of year-end. Despite the current year's loss, the Bank maintained a strong capital position, with capital adequacy ratios remaining substantially above the minimum regulatory requirements prescribed by the Bangko Sentral ng Pilipinas.

Management remains focused on improving asset quality, strengthening collection and recovery efforts, maintaining adequate liquidity and capital buffers, and pursuing sustainable growth opportunities while adhering to sound banking practices and regulatory requirements.

Key Financial Indicators

Particulars	2025	2024	Change
Total Assets	₱659.62 Million	₱678.71 Million	(2.81%)
Gross Loans and Receivables	₱443.10 Million	₱555.40 Million	(20.22%)
Net Loans and Receivables	₱292.81 Million	₱450.10 Million	(34.94%)
Allowance for Credit Losses	₱143.28 Million	₱96.33 Million	48.75%
Deposit Liabilities	₱439.77 Million	₱434.07 Million	1.31%
Due from Other Banks	₱222.79 Million	₱110.96 Million	100.79%
ROPOA	₱57.86 Million	₱36.21 Million	59.79%
Total Equity	₱205.36 Million	₱223.58 Million	(8.15%)
Net Interest Income	₱60.76 Million	₱66.31 Million	(8.37%)
Non-Interest Income	₱21.19 Million	₱16.19 Million	30.89%
Provision for Credit Losses	₱61.22 Million	₱15.43 Million	296.78%
Net Income (Loss) After Tax	(₱18.22 Million)	₱17.35 Million	(204.99%)

The Bank's profitability indicators declined during 2025 as a result of the net loss incurred during the year. Return on Average Equity (ROAE) decreased to negative 8.49% from positive 8.07% in 2024, while Return on Average Assets (ROAA) declined to negative 2.72% from positive 2.61%. Net Interest Margin (NIM) likewise decreased to 8.98% from 10.15%, reflecting lower interest income generation and a reduced volume of earning assets.

Basic Quantitative Indicators of Financial Performance

Indicator	2025	2024
Return on Average Equity (ROAE)	(8.49%)	8.07%
Return on Average Assets (ROAA)	(2.72%)	2.61%
Net Interest Margin (NIM)	8.98%	10.15%
Minimum Liquidity Ratio	78.18%	44.09%
CET1 Ratio	27.08%	29.23%
Capital Conservation Buffer (CCB)	21.08%	23.23%
Tier 1 Capital Ratio	27.08%	29.23%
Total Capital Adequacy Ratio (CAR)	27.45%	29.57%
Leverage Ratio	27.15%	30.78%

Despite the decline in profitability, the Bank's liquidity position strengthened considerably, as evidenced by the increase in its minimum liquidity ratio to 78.18% from 44.09% in the previous year. This was largely attributable to higher liquid asset holdings and increased placements with other banks.

The Bank also maintained a strong capital position, with a CET1 Ratio of 27.08%, Tier 1 Capital Ratio of 27.08%, and Total Capital Adequacy Ratio (CAR) of 27.45%, all substantially above the minimum regulatory requirements. These levels demonstrate the Bank's continued capacity to absorb potential losses and support future business growth.



4. FINANCIAL REVIEW

a. Financial Condition

Total assets amounted to ₱659.62 million as of December 31, 2025, a decrease of ₱19.09 million or 2.81% from ₱678.71 million in 2024. The decline was primarily attributable to the reduction in the loan portfolio and the increase in allowance for credit losses, partially offset by higher placements with other banks, increased Real and Other Properties Acquired (ROPOA), and higher deferred tax assets.

b. Gross Loans and Receivables

Gross loans and receivables decreased by ₱112.31 million or 20.22%, from ₱555.40 million in 2024 to ₱443.10 million in 2025. The decrease was primarily attributable to Management's implementation of stricter credit underwriting standards and enhanced loan evaluation procedures aimed at improving portfolio quality and mitigating credit risk. In addition, several loan accounts were fully settled during the year, while certain non-performing accounts were transferred to Real and Other Properties Acquired (ROPOA) following foreclosure proceedings and recovery activities.

c. Allowance for Credit Losses

Allowance for credit losses increased by ₱46.96 million or 48.75%, from ₱96.33 million in 2024 to ₱143.28 million in 2025. The increase was primarily attributable to Management's reassessment of credit risk exposures, elevated past due loan levels, and the Bank's approach in maintaining adequate reserves for potential credit losses consistent with regulatory expectations and applicable accounting standards.

As a result of the lower gross loan portfolio and higher allowance for credit losses, net loans and receivables declined by ₱157.28 million or 34.94%, from ₱450.10 million to ₱292.81 million.

d. Real and Other Properties Acquired (ROPOA)

ROPOA increased by ₱21.65 million or 59.79%, from ₱36.21 million in 2024 to ₱57.86 million in 2025. The increase was primarily due to the transfer of foreclosed collateral arising from non-performing loan accounts as part of the Bank's recovery and collection initiatives.

e. Deferred Tax Assets

Deferred tax assets increased by ₱11.56 million or 78.69%, from ₱14.69 million in 2024 to ₱26.25 million in 2025. The increase was primarily attributable to the recognition of tax benefits arising from the higher provision for credit losses and the net operating loss incurred during the year.

f. Liquidity Position

The Bank maintained adequate liquidity throughout the year. Due from Other Banks increased by ₱111.83 million or 100.79%, from ₱110.96 million to ₱222.79 million. The increase was primarily attributable to excess liquidity generated from loan repayments, moderated loan growth resulting from stricter credit evaluation procedures, and stable deposit funding. Excess funds were strategically placed with other banks and short-term placements pending deployment to qualified lending opportunities.

Total deposit liabilities increased by ₱5.70 million or 1.31%, from ₱434.07 million to ₱439.77 million, mainly due to the growth in time deposits which increased by ₱13.62 million or 12.25%.

The Bank's minimum liquidity ratio improved to 78.18% in 2025 from 44.09% in 2024, reflecting the Bank's strong liquidity position and prudent management of liquid assets.
Results of Operations

The Bank recorded a net loss after tax of ₱18.22 million in 2025 compared with a net income after tax of ₱17.35 million in 2024. The decline in profitability was primarily attributable to the significant increase in provision for credit losses during the year.

g. Net Interest Income

Net interest income amounted to ₱60.76 million in 2025, a decrease of ₱5.55 million or 8.37% from ₱66.31 million in 2024. The decrease was mainly due to lower interest income resulting from the reduction in the average loan portfolio. Interest expense remained relatively stable during the year.

h. Provision for Credit Losses

Provision for credit losses increased substantially by ₱45.79 million or 296.78%, from ₱15.43 million in 2024 to ₱61.22 million in 2025. The increase reflects Management's continuing efforts to strengthen the Bank's reserve position in view of elevated past due loan levels and the reassessment of credit risk exposures within the loan portfolio.

i. Non-Interest Income

Total non-interest income increased by ₱5.00 million or 30.89%, from ₱16.19 million in 2024 to ₱21.19 million in 2025.

The increase was primarily attributable to recoveries on previously charged-off assets amounting to ₱13.41 million. These recoveries arose from loan accounts that were fully settled during the year, resulting in the reversal of previously recognized allowance for credit losses and the corresponding recognition of recovery income.

The increase in recoveries more than offset the decline in gains from the sale of acquired assets and lower fees and commissions income.

The favorable recovery performance reflects Management's continuing efforts to improve collection efficiency, strengthen recovery initiatives, and maximize recoveries from previously impaired assets.

j. Non-Interest Expenses

Total non-interest expenses remained generally stable at ₱29.10 million compared with ₱29.21 million in 2024.

However, other operating expenses increased by ₱1.35 million or 8.96%, from ₱15.12 million in 2024 to ₱16.48 million in 2025.

The increase was primarily attributable to higher litigation expenses, which rose by ₱3.44 million or 142.16% during the year. The increase in litigation expenses was mainly driven by a higher number of foreclosure proceedings and related legal actions undertaken by the Bank as part of its loan recovery, collection, and asset preservation efforts. These actions support Management's objective of improving asset quality and maximizing recoveries from non-performing accounts.

Despite the increase in litigation expenses, Management continued to exercise prudent cost management across other operating expense categories.

k. Capital Position

Total equity stood at ₱205.36 million as of December 31, 2025, compared with ₱223.58 million in 2024. The decrease was primarily attributable to the net loss recognized during the year.

Capital stock remained unchanged at ₱96.81 million while surplus reserves remained at ₱0.15 million.

Despite the decline in retained earnings, the Bank maintained capital ratios well above the minimum regulatory requirements prescribed by the Bangko Sentral ng Pilipinas. As of December 31, 2025, the Bank reported a Common Equity Tier 1 (CET1) Ratio of 27.08%, Tier 1 Capital Ratio of 27.08%, and Total Capital Adequacy Ratio (CAR) of 27.45%. These levels demonstrate the Bank's continued capacity to absorb potential losses and support future operations.

l. Highlights of Major Activities During the Year that Impact Operations

During 2025, the Bank continued to implement strategic initiatives aimed at strengthening asset quality, enhancing operational efficiency, improving risk management practices, and reinforcing corporate governance and regulatory compliance.

A significant development during the year was the conduct of the regular examination by the Bangko Sentral ng Pilipinas (BSP). The examination provided Management and the Board of Directors with valuable opportunities to further strengthen the Bank's governance framework, risk management systems, internal controls, and compliance processes. In response, the Bank undertook a comprehensive review of its policies, procedures, and operating manuals, resulting in the enhancement of existing policies and the formulation of additional policies designed to address identified gaps, improve operational effectiveness, and align banking practices with regulatory expectations and industry standards.

The Board of Directors further strengthened the Bank's corporate governance framework through enhanced oversight of strategic, financial, operational, compliance, and risk management matters. The Audit and Risk Management Committee (ARMC) actively monitored risk exposures, policy implementation, corrective action plans, and regulatory compliance initiatives to promote accountability, transparency, and prudent banking operations.

To address credit quality concerns, the Bank intensified its monitoring of loan portfolio performance and collection activities. The Board required Management to provide regular updates on past due loans, non-performing loan levels, collection efforts, recovery initiatives, and remedial actions to facilitate timely intervention and informed decision-making.

Recognizing the need for stronger independent credit risk oversight, the Board approved the strengthening of the Credit Risk Management function through the designation of a Credit Risk Officer. The Credit Risk Officer was tasked with conducting independent post-credit reviews, assessing compliance with lending policies and procedures, evaluating the adequacy of the Allowance for Credit Losses (ACL), identifying emerging credit risks, and recommending corrective actions to Management and the Board.

The Bank also continued to invest in the professional development of its directors, officers, and employees through various training programs, seminars, workshops, and coaching sessions covering corporate governance, credit management, risk management, compliance, internal controls, consumer protection, and other key banking functions.

As part of its asset quality improvement initiatives, the Bank intensified collection efforts through the Remedial Management Unit (RMU), accelerated the disposal of Real and Other Properties Acquired (ROPA), and implemented appropriate write-off strategies for qualified accounts in accordance with applicable accounting standards, regulatory guidelines, and Board-approved policies.

m. Major Strategic Initiatives of the Bank

The Bank pursued the following strategic initiatives during 2025:

- Reduction of non-performing loans and improvement of overall asset quality
- Strengthening of credit underwriting, borrower assessment, and loan evaluation processes to improve the quality of loan originations and reduce future credit risk exposures
- Enhancement of collection, recovery, and remedial management strategies through intensified monitoring of delinquent accounts and strengthened recovery efforts by the Remedial Management Unit (RMU)
- Strengthening of Board oversight over significant credit exposures through revised approval authorities and enhanced monitoring of the loan portfolio
- Designation and strengthening of the Credit Risk Officer function to provide independent assessment of credit risk exposures, post-credit reviews, portfolio quality, and adequacy of Allowance for Credit Losses (ACL)
- Accelerated disposal of Real and Other Properties Acquired (ROPA), particularly assets approaching or exceeding the regulatory holding period
- Implementation of account clean-up and write-off initiatives for qualified accounts with minimal recovery prospects in accordance with regulatory and accounting requirements
- Strengthening of corporate governance practices through enhanced Board oversight, committee monitoring, policy reviews, and governance-related initiatives
- Enhancement of risk management systems, internal controls, and compliance monitoring processes
- Review, amendment, and formulation of policies and operating manuals to align with regulatory expectations and support operational efficiency
- Continuous capability-building and professional development programs for directors, officers, and employees
- Promotion of a culture of accountability, risk awareness, ethical conduct, and regulatory compliance throughout the organization.

n. Challenges, Opportunities, and Responses During the Year

The Bank's most significant challenge during 2025 remained the management and reduction of past due loans, which continued to affect profitability, asset quality, and overall financial performance. Recognizing the importance of maintaining a sound and resilient loan portfolio, the Board of Directors exercised heightened oversight over credit operations and directed Management to implement comprehensive measures aimed at strengthening credit risk management and improving asset quality.

To address increasing levels of loan delinquency, the Board directed Management to implement stricter credit underwriting and loan evaluation standards to ensure that credit accommodations are extended only to borrowers with acceptable risk profiles and demonstrated repayment capacity. As an additional governance measure, the Board revised the credit approval framework by requiring Board approval for aggregate loan exposures amounting to ₱500,000 and above. This strengthened oversight over significant credit transactions and ensured a higher level of review and risk assessment before approval.

The Board likewise intensified monitoring of the Bank's loan portfolio by requiring monthly reporting on past due accounts, collection performance, recovery efforts, non-performing loan ratios, and remedial actions. These reports enabled the Board to assess portfolio trends, evaluate the effectiveness of collection strategies, and institute timely corrective measures when necessary.

To accelerate loan recovery efforts, the Board directed the Remedial Management Unit (RMU) to intensify collection activities, borrower engagement, restructuring assessments, field visits, and other recovery initiatives. The RMU was required to provide regular status reports to Management and the Board regarding the progress of collection efforts and recovery actions undertaken on delinquent accounts.

Recognizing the need to improve asset quality and maintain accurate financial reporting, the Board also approved the write-off of qualified accounts that had been fully provided for and determined to have limited recovery prospects, subject to applicable accounting standards, regulatory guidelines, and Board-approved policies. This initiative formed part of the Bank's overall asset quality improvement program and enabled Management to focus collection efforts on accounts with greater recovery potential.

In addition, Management was directed to accelerate the disposal of Real and Other Properties Acquired (ROPA), particularly properties that had exceeded or were approaching the regulatory holding period. The disposal program was intended to improve liquidity, reduce carrying and maintenance costs, optimize asset utilization, and maintain compliance with regulatory requirements.

The BSP examination conducted during the year likewise presented opportunities for the Bank to further strengthen its governance framework, internal controls, risk management systems, and compliance processes. In response, the Board and Management implemented corrective action plans, enhanced oversight mechanisms, strengthened policy governance, improved monitoring procedures, and reinforced accountability across all levels of the organization.

The Board further strengthened corporate governance practices through enhanced committee oversight, more robust monitoring of key risk indicators, regular review of strategic and operational performance, continuous policy enhancement, and promotion of a culture of accountability, transparency, ethical conduct, and prudent risk-taking.

Through these initiatives, the Board and Management reaffirmed their commitment to improving asset quality, strengthening risk management practices, enhancing corporate governance standards, maintaining regulatory compliance, protecting stakeholder interests, and ensuring the long-term safety, soundness, and sustainability of the Bank.





IV. RISK MANAGEMENT FRAMEWORK

1. OVERALL RISK MANAGEMENT CULTURE & PHILOSOPHY

Risk Management (RM) Policy Statement

The Bank's risk management system embeds risk management into the awareness and day-to-day activities of the Bank's officers and employees. The Bank takes risks inherent to its operations and ensures that its risk management system is aligned with the Bank's strategic goals and objectives. Thus, managing these risks forms an essential part of the Bank's business. The aim of risk management within the Bank is to provide reasonable assurance that the risks associated with achieving the business objectives is understood and that these risks are addressed appropriately at all levels within the organization. This is achieved by ensuring that at all times:

1. Risks are properly identified, assessed, managed and reported;
2. Risk ownership is taken and communicated;
3. Resources are effectively and efficiently allocated to manage risks;
4. Risks that could significantly affect the employees, the Bank, the suppliers or the clients are suitably managed;
5. The Bank is compliant with regulatory and legal requirements.

General Risk Management Functions

The general functions of Risk Management are the following:

1. Develop and implement risk management framework and program;
2. Review the Bank's risk profile and identify new and emerging risks;
3. Assess and measure risks;
4. Recommend policies, systems and procedures to control risks and address risk management effectiveness gaps;
5. Evaluate the effectiveness of risk mitigation strategies; and
6. Monitor risks based on external and internal conditions and continually enhance risk management process.

2. RISK APPETITE AND STRATEGY

The Bank has an overall conservative risk appetite. The Bank will act in accordance with this risk appetite statement to achieve strategic objectives. The Bank manages six (6) interrelated categories of risk to effectively supervise and ensure a safe and sound banking system. The Bank has a low appetite for liquidity, reputational, and strategic risks and a moderate appetite for credit, compliance and operational. Risk management practices will not prevent challenges but will enable the company to operate proactively.

The Bank considered a number of factors to determine its tolerance for each of the above risks. This Risk Appetite Statement characterizes the Bank's tolerance for each risk as low, moderate, or high, according to the following definitions:

- **Low** – The level of risk will not substantially impede the ability to achieve the Bank's mission, goals, or strategic objectives. Controls are prudently designed and effective.
- **Moderate** – The level of risk may delay or disrupt achievement of the Bank's mission, goals, or strategic objectives. Controls are adequately designed and are generally effective.
- **High** – The level of risk will significantly impede the ability to achieve Bank's mission, goals, or strategic objectives. Controls may be inadequately designed or ineffective.

The Bank has significant exposure to the following risks namely, Credit Risk, Operational and Strategic Risk, Compliance Risk, Liquidity and Interest Rate Risk, Reputational Risk.

Credit Risk

Credit risk is the risk of financial loss arising from a borrower's or counterparty's failure to meet contractual obligations to the Bank. The Bank manages credit risk through the continuous enhancement of its credit risk management framework, including the review and strengthening of existing credit policies, formulation of additional credit risk controls, implementation of borrower assessment standards, portfolio diversification, establishment of credit limits, credit monitoring, risk-based pricing, proper loan documentation, loan loss provisioning, stress testing, and capability enhancement of lending personnel.

The Bank's credit risk management structure is organized under three functional lines of activity to ensure proper segregation of duties and accountability. The front office is responsible for loan origination, evaluation, underwriting, and collection activities. The middle office performs independent risk management and monitoring functions, while the back office provides credit administration support, documentation control, collateral management, and management reporting.

The Bank further strengthened its credit risk management framework through the establishment of an independent Credit Risk Officer (CRO) function responsible for monitoring credit risk exposures, identifying emerging problem accounts, evaluating the adequacy of the Allowance for Credit Losses (ACL), and providing independent credit risk assessments to Management and the Board.

During the year, the Bank experienced an increase in non-performing loans (NPLs), which highlighted weaknesses in certain borrower assessment and credit evaluation practices. The resulting deterioration in asset quality contributed to higher foreclosure activities and increased provisioning requirements, leading to a corresponding increase in the Allowance for Credit Losses (ACL).

In response, the Bank strengthened its credit underwriting standards, borrower repayment capacity assessment procedures, collateral evaluation processes, and post-disbursement monitoring activities. Credit monitoring, collection, remedial management, and portfolio review processes were likewise enhanced to support early identification of problem accounts, improve asset quality, and minimize potential credit losses. These initiatives form part of Management's continuing efforts to strengthen credit governance, improve portfolio quality, and ensure that lending activities remain aligned with the Bank's risk appetite and long-term sustainability objectives.

Strategic Risk

Strategic Risks is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. The Bank addresses this risk by ensuring that business decisions are aligned with established short-term and long-term strategic goals and responsive to industry changes. Performance is regularly monitored through key performance indicators, and actual results are periodically compared against set targets/key performance indicators. Succession planning and continuity measures are likewise in place to ensure sustained operations and organizational stability.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. The Bank manages operational risk by establishing clear risk management policies aligned with its overall business objectives and strategic direction. Risk appetite, limits, and tolerance thresholds are defined, and mechanisms are in place for the resolution of limit breaches, reporting, and escalation of issues. These controls are supported by internal policies and procedures that promote operational discipline and risk awareness across all units.

Liquidity Risk

Liquidity Risk is the current and prospective risk to earnings or capital arising from a bank's inability to meet its obligations when they come due without incurring unacceptable losses. The Bank ensures adequate funding at all times through daily monitoring of liquidity positions and monthly review of maturity gaps. It maintains sufficient liquid assets and reserves to support its funding requirements under normal and stress conditions. The Bank also adopts a conservative liquidity management approach by maintaining readily available cash resources and investing selectively in low-risk and easily marketable instruments to enhance liquidity flexibility and stability. These measures ensure that the Bank is able to meet its obligations in a timely manner while supporting ongoing operations and lending activities.

Interest Rate Risk in the Banking Books (IRRBB)

Interest Rate Risk in the Banking Books (IRRBB) is the current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect a bank's banking book positions. The Bank monitors prevailing market interest rates and ensures that lending rates are appropriately benchmarked to maintain reasonable spreads. Management assesses interest rate movements to minimize adverse effects on earnings. Given that the Bank's financial assets and liabilities are predominantly fixed-rate in nature, exposure to interest rate risk is considered minimal and remains within manageable levels.

Reputational Risk

Reputational Risk is the risk of negative public opinion adversely affecting the Bank's earnings or capital. The Bank mitigates this risk by promoting a strong culture of ethical conduct, integrity, and professionalism and by establishing a reputation as a reliable and trustworthy bank deserving of the highest level of respect from its various publics clientele and colleagues, the industry, financial institutions, and the general.

A Code of Conduct is strictly enforced across all levels of the organization, supported by appropriate disciplinary measures for violations. These measures are designed to maintain the Bank's reputation as a stable, reliable, and trustworthy financial institution.

Compliance Risk

Compliance Risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. The Bank manages compliance risk through the implementation of comprehensive policies, procedures, and internal controls aligned with BSP regulations and other regulatory requirements. Standards of employee conduct are clearly defined, and sanctions are imposed for non-compliance to ensure adherence to regulatory expectations and to safeguard the Bank from penalties and operational disruptions.

Overall, the Bank's risk management framework is continuously strengthened to ensure alignment with regulatory expectations, industry best practices, and its strategic objectives. Through prudent governance, strong internal controls, and disciplined risk management practices, the Bank remains committed to maintaining financial stability, protecting depositor interests, and supporting sustainable growth.



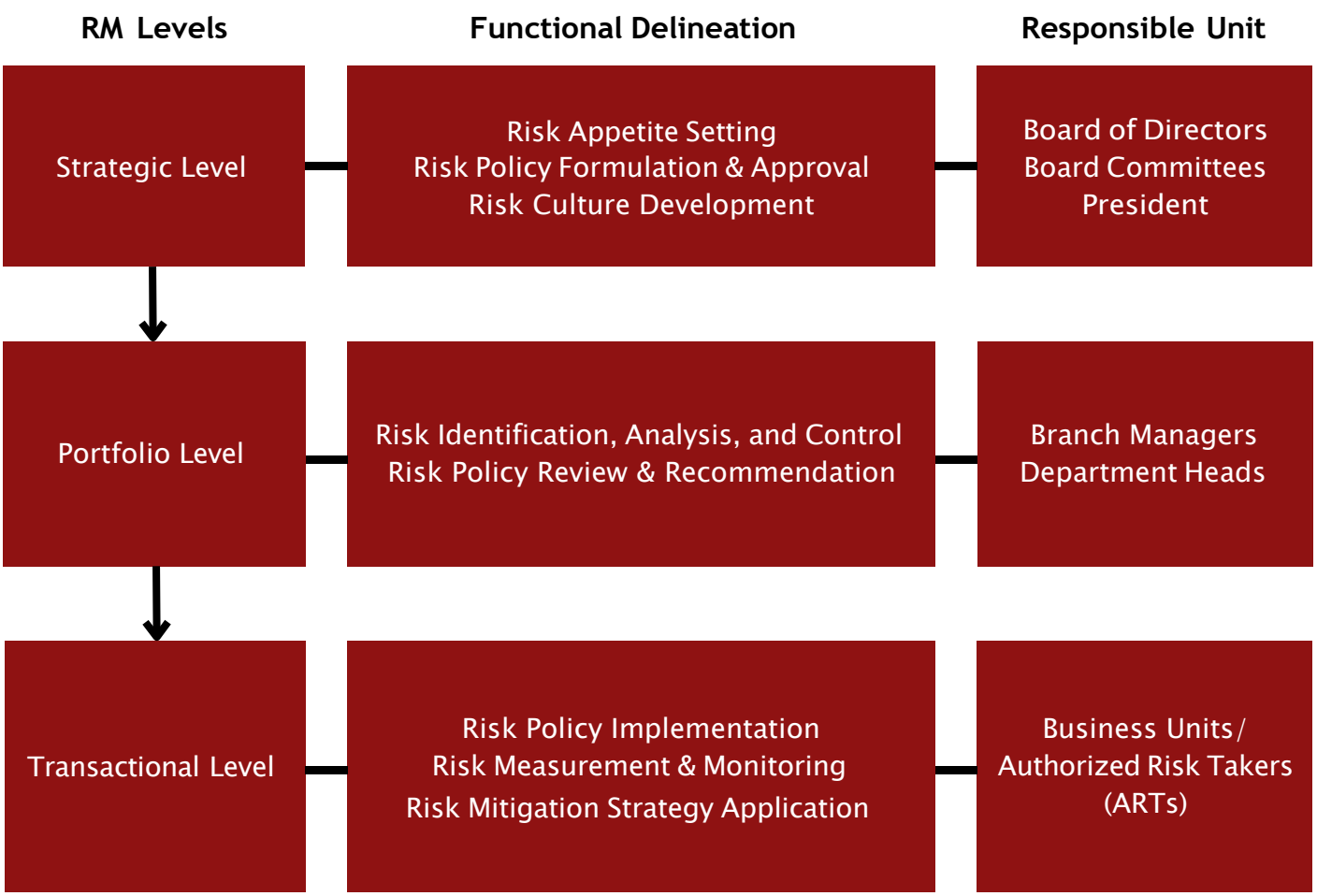
3. RISK GOVERNANCE STRUCTURE & MANAGEMENT PROCESS

Risk Governance Structure

The Risk Management is performed at three different levels:

1. Strategic Level;
2. Portfolio Level; and
3. Transactional Level

Risk Governance Structure, Reporting Lines and Risk Reporting System



The Bank adopts a structured risk governance framework that clearly defines accountabilities and reporting lines across all levels of the organization. Risk management responsibilities are distributed among the Board of Directors, Senior Management, business units, Risk Management Function, Compliance Function, and Internal Audit Function to ensure effective oversight and independent review of risk-taking activities.

The Board of Directors has overall responsibility for establishing the Bank's risk governance framework, approving risk management policies, determining risk appetite, and ensuring that risks are managed within acceptable levels. The Board receives periodic reports on the Bank's overall risk profile, significant risk exposures, limit breaches, emerging risks, and the status of risk mitigation measures.

Senior Management is responsible for implementing Board-approved risk management strategies and ensuring that adequate systems, controls, and resources are in place to identify, measure, monitor, and control risks. Department Heads and Branch Officers are accountable for managing risks within their respective areas of responsibility and ensuring compliance with approved policies and procedures.

The Bank adopts the Three Lines of Defense model in managing risks. Business and operating units serve as the first line of defense and are responsible for identifying, assessing, controlling, and reporting risks arising from day-to-day operations. The Risk Management and Compliance Functions serve as the second line of defense by providing independent oversight, monitoring, risk assessment, compliance testing, and reporting of risk exposures. The Internal Audit Function serves as the third line of defense by independently evaluating the effectiveness of the Bank's governance, risk management, and internal control systems and reporting audit results directly to the Board through the Audit Committee.

The Risk Management Function is independent from risk-taking activities and is responsible for providing objective assessment, monitoring, and reporting of the Bank's risk exposures. Risk reports are submitted to Senior Management and the Board of Directors on a regular basis to facilitate timely decision-making and ensure that risk exposures remain within approved risk appetite and tolerance levels. Significant risk issues, policy exceptions, and emerging risks are escalated to the appropriate level of Management and the Board for review and action.

Scope and Nature of Risk Reporting System

The Bank maintains a risk reporting system that provides Management and the Board with timely, accurate, and relevant information on the Bank's risk exposures and risk management activities. Risk reports are prepared and submitted on a regular basis to facilitate informed decision-making and proactive risk management.

The risk reporting system includes, among others, credit risk reports, loan portfolio quality reports, non-performing loan reports, Allowance for Credit Losses (ACL) adequacy assessments, liquidity monitoring reports, maturity gap analyses, operational risk incident reports, compliance monitoring reports, regulatory compliance status reports, internal audit reports, and exception monitoring reports.

Significant risk events, emerging issues, policy exceptions, and limit breaches are escalated to Senior Management and the Board through established reporting channels to ensure timely corrective action and effective oversight.

Scope and Nature of Risk Measurement System

The Bank employs both quantitative and qualitative risk measurement tools appropriate to the nature, size, and complexity of its operations.

Credit risk is measured through portfolio quality indicators, delinquency ratios, non-performing loan levels, concentration analyses, collateral coverage assessments, and Allowance for Credit Losses adequacy evaluations.

Liquidity risk is measured through liquidity ratios, maturity gap analysis, funding concentration analysis, cash flow projections, and monitoring of liquid asset levels.
Operational risk is measured through operational loss events, incident reporting, internal control assessments, compliance monitoring results, and key risk indicators.

Compliance risk is assessed through compliance reviews, regulatory monitoring activities, policy compliance testing, and tracking of regulatory findings and corrective actions.

Strategic and reputational risks are evaluated through performance monitoring, achievement of strategic objectives, customer feedback, complaint monitoring, market developments, and assessment of factors that may adversely affect the Bank's reputation and long-term sustainability.

Risk measurement results are incorporated into management reports and are used by Management and the Board in evaluating risk exposures, determining appropriate risk mitigation strategies, and ensuring that the Bank's activities remain within approved risk appetite and tolerance levels.

Risk Management Process

The risk management process consists of four (4) parts:

1. **Risk Identification.** Evaluates the Bank's exposure to events that could impact its day-to-day operations and estimates the impact those events could have on the Bank's operation, revenue and reputation. This requires a sound understanding of its strategic and operational objectives.
2. **Risk Assessment.** The Bank's risks are evaluated and measured based on likelihood of impact and risk management effectiveness (if there are risk management strategies in place.
3. **Risk Management and Control.** Implementation of policies and procedures that will help avoid or minimize risks.
4. **Monitoring.** Risk management is an ongoing process and does not end once risks have been identified and mitigated. Risk management policies are revisited every year to ensure policies are up-to-date and relevant.



4. AML GOVERNANCE AND CULTURE

Rural Bank of Bagabag (N.V.), Inc. remains committed to protecting the integrity of the financial system by preventing the Bank from being used, knowingly or unknowingly, as a vehicle for money laundering, terrorist financing, proliferation financing, fraud, and other unlawful activities. The Bank recognizes that effective Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) controls are essential to maintaining public confidence, protecting depositor interests, and complying with regulatory expectations.

To achieve these objectives, the Bank maintains a comprehensive Money Laundering and Terrorist Financing Prevention Program (MLTPP) that is designed to identify, assess, monitor, and mitigate money laundering and terrorist financing risks inherent in its products, services, customers, delivery channels, and geographic locations. The program is implemented in accordance with the Anti-Money Laundering Act of 2001, as amended, its Revised Implementing Rules and Regulations, applicable AMLC issuances, and the relevant provisions of the Manual of Regulations for Banks (MORB).

The Bank adopts a risk-based approach in the implementation of its AML/CFT framework. This approach enables Management to allocate resources proportionate to identified risks and apply enhanced controls where higher risk exposures are present. The framework includes customer due diligence procedures, transaction monitoring, sanctions screening, record management, employee training, regulatory reporting, and independent testing of AML controls.

Customer Due Diligence and Know Your Customer (KYC)

The Bank maintains strict customer identification and verification procedures to ensure that it knows and understands the identity, background, source of funds, and expected transaction patterns of its customers. Prior to establishing any business relationship, the Bank obtains and validates relevant information and supporting documents to verify customer identity and assess the purpose and intended nature of the account relationship.

Customer Due Diligence (CDD) measures are applied throughout the customer relationship and are supplemented by ongoing monitoring to identify unusual, suspicious, or inconsistent transaction activity. Enhanced Due Diligence (EDD) procedures are performed when warranted by the customer's risk profile or as required by applicable regulations.

The Bank likewise prohibits the establishment of fictitious accounts, anonymous accounts, and accounts opened under false or misleading identities.

Customer Due Diligence for Business and Juridical Entities

For corporations, partnerships, cooperatives, associations, and other juridical entities, the Bank performs enhanced verification procedures to establish the legitimacy of the organization, identify authorized representatives, determine beneficial ownership, and understand the nature of business operations and sources of funds.

The Bank requires the submission and validation of relevant registration documents and ownership information prior to the establishment of any business relationship. Business accounts are subjected to ongoing review to ensure that transaction activity remains consistent with the customer's declared business profile.

Transaction Monitoring and Regulatory Reporting

The Bank employs transaction monitoring procedures designed to identify unusual transactions, suspicious activities, and transactions that may warrant further investigation. Transactions are reviewed based on customer profiles, transaction patterns, and risk indicators established under the Bank's AML framework.

Covered Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs) are submitted to the Anti-Money Laundering Council (AMLC) within the prescribed regulatory timelines whenever reporting thresholds or suspicious circumstances are identified. Appropriate confidentiality and reporting controls are maintained to ensure compliance with applicable laws and regulations.

Institutional Risk Assessment and Sanctions Compliance

The Bank conducts periodic Institutional Risk Assessments (IRA) to identify, measure, and evaluate money laundering, terrorist financing, and proliferation financing risks across its operations. Results of these assessments are used to strengthen internal controls, enhance monitoring procedures, and update risk mitigation measures.

Sanctions screening procedures are likewise performed to ensure compliance with applicable sanctions regulations and directives issued by competent authorities. The Bank implements freezing measures and other required actions whenever applicable under AMLC regulations and relevant legal issuances.

Record Management and Digital Documentation

The Bank maintains complete and reliable records of customer information, account documentation, transaction records, and AML-related reports in accordance with applicable regulatory retention requirements. Customer records are securely maintained in both physical and electronic formats to facilitate timely retrieval, regulatory reporting, examination reviews, and investigative requirements.

To strengthen customer information management and regulatory compliance, customer identification records and related account information are digitized and uploaded to the Bank's centralized database. This enables authorized personnel to efficiently access, verify, update, and monitor customer information across the Bank's operations while ensuring data integrity, security, and confidentiality.

Appropriate controls are maintained to safeguard customer data and ensure compliance with applicable data privacy, banking secrecy, and anti-money laundering regulations.

AML Governance and Oversight

The Board of Directors maintains overall responsibility for ensuring that the Bank's AML/CFT framework remains adequate, effective, and responsive to emerging risks. The Board provides strategic direction and oversight over AML compliance and receives regular reports regarding the Bank's AML risk profile, compliance status, significant issues, and corrective actions.

Senior Management supports the implementation of AML policies and ensures that sufficient resources, systems, and personnel are available to effectively manage AML risks throughout the organization.

Compliance Function

The Compliance Officer serves as the Bank's designated AML Compliance Officer and is responsible for overseeing the implementation and effectiveness of the AML/CFT/CPF program. The Compliance Officer conducts compliance monitoring activities, coordinates regulatory reporting requirements, performs risk assessments, reviews AML-related controls, and recommends enhancements to policies and procedures when necessary.

The Compliance Officer regularly reports to the Board of Directors and the appropriate Board-level Committee regarding AML compliance matters, risk exposures, monitoring results, regulatory developments, and corrective actions undertaken by Management.

Independent Testing and Internal Audit

The Internal Audit Function provides independent assessment of the effectiveness of the Bank's AML/CFT/CPF framework. Periodic audits are conducted to evaluate compliance with applicable laws, regulations, policies, and internal procedures. Audit findings and recommendations are reported directly to the Board of Directors through the Audit Committee, and corrective actions are monitored to ensure timely resolution.

The independent review process provides assurance that AML controls remain effective and that identified deficiencies are appropriately addressed.

AML Training and Awareness

The Bank recognizes that employee awareness and competence are essential components of an effective Anti-Money Laundering, Counter-Terrorism Financing, and Counter-Proliferation Financing (AML/CFT) Program. To ensure continued compliance with regulatory requirements, the Bank conducts annual AML/CFT training programs for its directors, officers, and employees.

The annual training covers key regulatory and operational topics, including customer due diligence and Know Your Customer (KYC) requirements, identification and reporting of covered and suspicious transactions, sanctions screening obligations, record-keeping requirements, emerging money laundering and terrorist financing risks, and updates on applicable laws, regulations, and regulatory issuances.

The training program is designed to strengthen employees' understanding of their responsibilities under the Bank's AML/CFT framework and to promote a culture of compliance, vigilance, and accountability throughout the organization. Newly hired personnel are likewise provided with AML orientation as part of their onboarding process to ensure awareness of the Bank's compliance standards and regulatory obligations.





V. CORPORATE GOVERNANCE

1. OVERALL CORPORATE GOVERNANCE STRUCTURE & PRACTICES

Rural Bank of Bagabag (N.V.), Inc. is committed to good corporate governance practices, processes and systems, specifically the principles of fairness, transparency, accountability and responsibility. These practices provide the framework within which the Board of Directors and management pursue the strategic objectives of the Bank and ensure its long-term viability for the benefit of shareholders. The board level committees: ARMC was organized with specific charter to ensure they provide strong oversight of strategic activities of the Bank, resulting in sound business decisions that benefit shareholders. Protecting shareholder interests and ensuring the integrity of the Bank's financial information are central to every aspect of the Bank's governance.

As per Bank's by-laws, the Board of Directors consists of seven (7) members, majority of them are independent. The Board of Directors meets once per month and strives to make timely decisions regarding the Bank's business strategies and other important management matters and to exercise appropriate oversight of business execution.

a. Selection Process for the Board of Directors and Senior Management

The Board of Directors is tasked to implement a selection process to ensure a combination of competent directors and key officers who can add value and contribute independent judgment to the formulation of sound corporate policies. The Board has prescribed qualification criteria for members of the Board among others, ability, integrity and expertise necessary for the position.

The Board likewise evaluates the proposed senior management appointments of the Bank and selects qualified and competent supervisory officers.

Executive Directors and Non-Executive Directors

The nomination and election of Executive Directors and Non-Executive Directors are conducted in accordance with the Bank's By-Laws and Corporate Governance Manual. Any stockholder may submit the names of nominees for election to the Board of Directors through the Corporate Secretary. Nominations must be submitted in writing within the period prescribed by the Board, typically on or before January 15 of the election year, or such other date as may be determined by the Board of Directors.

All nominees undergo a formal screening process conducted by the Bank's Screening Committee composed of one (1) incumbent Director, the Internal Auditor, and the Acting Compliance Officer. The Committee evaluates the qualifications and determines any grounds for disqualification of nominees based on applicable laws, regulations, and internal policies.

Nominees for Executive and Non-Executive Directors are required to possess the following minimum qualifications: ownership of at least one (1) share of stock of the Bank, at least a college degree, relevant business or banking exposure of not less than five (5) years, at least twenty-five (25) years of age, and demonstrated integrity and probity. The Board ensures that elected directors collectively possess the necessary skills, experience, and independence of judgment required to effectively oversee the Bank's operations and strategic direction.

Independent Directors

Independent Directors are nominated and elected through the same stockholder nomination process, subject to additional screening requirements to ensure compliance with BSP independence standards. The Board evaluates nominees to ensure that they are free from any relationship or circumstance that may compromise their ability to exercise independent judgment.

In addition to the general qualifications required of all directors, Independent Directors must meet the independence criteria prescribed under applicable BSP regulations and corporate governance standards. The Bank requires that Independent Directors possess at least a college degree or equivalent experience, have relevant exposure to business or banking for at least five (5) years, be at least twenty-five (25) years of age, and demonstrate unquestionable integrity and probity.

Senior Management Officers

The President and Vice President are elected by the members of the Board of Directors from among themselves. The Compliance Officer, Internal Auditor, and other Senior Management Officers are appointed by the Board based on established fit-and-proper standards.

Candidates for Senior Management positions are generally selected first from within the organization to support succession planning and internal capability development. External candidates may also be considered when additional expertise is required.

Senior Management candidates must possess at least a college degree, a minimum of five (5) years of experience in a supervisory or managerial position, and must demonstrate proven moral and ethical behavior. They are likewise evaluated based on leadership capability, communication skills, decision-making competence, and ability to effectively manage operational and regulatory risks.

Supervisory Officers
Supervisory Officers are appointed by Senior Management and confirmed by the Board of Directors. The Bank adopts a merit-based selection process where candidates are preferably sourced from within the organization, although external applicants may also be considered when necessary.

Supervisory Officers must possess at least a college degree, at least five (5) years of experience in banking operations, and must have completed training programs acceptable to BSP Supervisory Examination Sector (SES) requirements. Candidates are likewise assessed based on their initiative, professionalism, technical competence, and ability to effectively supervise personnel and ensure compliance with internal controls and regulatory requirements.

Through this structured selection process, the Bank ensures that all members of the Board, Senior Management, and Supervisory levels possess the competence, integrity, and experience necessary to support sound governance, effective risk management, and sustainable banking operations.

b. Board's Overall Responsibility
The Board of Directors is primarily responsible for the overall governance of the Bank and the exercise of sound and prudent oversight over Management. In accordance with applicable laws, Bangko Sentral ng Pilipinas (BSP) regulations, and the Bank's Corporate Governance Manual, the Board is accountable for ensuring that the Bank operates in a safe and sound manner, consistent with its strategic objectives, risk appetite, and long-term sustainability.

The Board is responsible for the approval, formulation, and periodic review of the Bank's strategic direction, business plans, and corporate objectives. It ensures that Management's initiatives and operational activities are aligned with the approved strategic goals and that adequate resources are in place to achieve such objectives effectively.

In the area of risk management, the Board has the ultimate responsibility for approving the Bank's overall risk management framework and risk appetite. It ensures that appropriate risk management systems are in place to identify, measure, monitor, and control risks inherent in the Bank's operations, including credit, liquidity, operational, market, compliance, strategic, and reputational risks. The Board also ensures that risk exposures remain within approved limits and that appropriate corrective actions are taken for identified risk issues.

The Board likewise provides oversight on the implementation of corporate governance standards and ensures that the Bank adheres to the principles of accountability, transparency, integrity, and fairness. It is responsible for establishing and promoting a strong corporate culture and ethical standards that guide the conduct of the Bank's officers and employees in the performance of their duties.

In addition, the Board oversees the performance of Senior Management and ensures that Management implements Board-approved strategies, policies, and control systems effectively. It regularly reviews Management reports on financial performance, risk exposures, compliance status, audit findings, and other key operational matters to ensure that the Bank remains financially sound and operationally stable.

The Board also ensures compliance with all applicable laws, rules, and regulations, including those issued by the BSP and other regulatory authorities. It is responsible for safeguarding the interests of depositors, shareholders, and other stakeholders by ensuring that the Bank maintains adequate capital, liquidity, and risk management controls.

Through these responsibilities, the Board ensures that Management's actions are properly guided, monitored, and evaluated, thereby supporting the Bank's long-term viability, stability, and sustainable growth.



2. ROLE, ACCOUNTABILITIES, AND DELIVERABLES

The duties and responsibilities of the Chairman and President are defined by the Board.

	Chairman	President
Role	The Chairman shall ensure effective functioning of the board and provide leadership, including maintaining a relationship of trust. He shall: (1) ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns; (2) ensure a sound decision-making process; (3) encourage and promote critical discussion; (4) ensure that dissenting views can be expressed and discussed within the decision making process; (5) ensure that the members of board of directors receive accurate, timely, and relevant information; (6) ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and (7) ensure conduct of performance evaluation of the board of directors at least once a year.	As per by-laws, the president shall be the Chief Executive Officer of the Bank. He shall see to it that all orders and resolutions of the Board of Directors, all orders of the Monetary Board of the Central Bank of the Philippines, and all rules and regulations of the Bank are carried into effect, and shall exercise such other powers and perform such other duties as per prescribed for the Office of the President in the by-laws. The President shall have supervision and direction of the day-to-day business affairs of the Corporation. The President is accountable to the Chairman and to the stockholders and other stakeholders of the Corporation.

	Chairman	President
Accountabilities	• To establish general administrative and operating policies. • Unless otherwise determined by the Board, to attend and to act and vote in person or by proxy, for and on behalf of the Corporation, at any meeting of shareholders of any corporation in which the Corporation may hold stock, and at any such meeting, to exercise any and all the rights and powers incident to the ownership of such stock which the owner thereof might possess or exercise if present. • To exercise such other powers and perform such other duties and functions as the Board of Directors may, from time to time, assign.	• To recommend specific projects for the accomplishment of corporate objectives and policies for the approval of the Chairman and the Board. • To ensure that the administrative and operating policies are carried out. • To appoint, remove or suspend any and all employees and other subordinate personnel of the Bank, prescribe their duties, determine their salaries and, when necessary, require bonds in such amounts as he may determine, to secure the faithful discharge by said employees of their official trust, subject to the approval of the Board. • To prepare such statements and reports as may be required from time to time by law with respect to corporations organized according to the laws of the Republic of the Philippines. • To preside at meeting of the directors and stockholders in the absence of the Chairman. • To exercise such powers and perform such duties and functions as may be assigned to him by the Chairman.

	Chairman	President
Deliverables	• Agenda for Meetings • Chairman's Annual Report • Statement of Management • Responsibility for the Audited Financial Statements • Certificate of Attendance in Board Meetings • Annual Report • Others	• Statement of Management • Responsibility for the Audited • Financial Statements • Annual Report • Others



BOARD OF DIRECTORS



Teresita I. Hernaez, Chairman of the Board

- Filipino, 75 years old
- Graduated from Dr. Nicanor Reyes Memorial College with a degree in B.A. Political Science from Dr. Nicanor Reyes Memorial College
- Completed a one-year Secretarial Course at Saint Mary's University, Bayombong, N.V.
- Past positions in RB Bagabag: Clerk Typist (1973–1975); Loan Clerk (1975–1980); Teller (1980–1994); Loan Officer (1994–1999); Officer-in-Charge of the Alfonso Lista Branch (1999–2000); Branch Manager of the Lamut Branch (2000–2014); Director/Branch Manager (2014–2015); Regular Director (2015–2023); Regular Director (2024)



Vincent Z. Castillo, President-CEO

- Filipino, 77 yrs old
- Graduated from the University of the East, Manila, with a degree in Business Administration
- Former President of the Jose P. Castillo Foundation, Inc.
- Past positions in RB Bagabag: President (2014-2015; Vice President for Finance (2016-2017)



Pura C. Romero, VP-COO

- Filipino, 75 yrs old
- Chairman of the Management Committee
- Executive Director since 1997
- Graduated from University of the Philippines, Diliman, QC, with a degree in B.S. Social Work and Community Development
- Passed the Board Examination for B.S. Social Work in 1973
- A Trustee and Treasurer of Jose P. Castillo Foundation, Inc.
- Director of the Rural Bankers Association of the Philippines (1999)
- President of the Confederation of Northern Luzon Rural Bankers (2003-2004)
- Past positions in RB Bagabag: Chairman/President/General Manager (2003-2013); Vice President (2014-2015); VP for Operations (2016); President (2017 to 2024)



Joe Vincent Z. Castillo, Branch Head-Lamut

- Filipino, 54 years old
- Executive Director since 2024
- Graduated from Philippine School of Business Administration with a degree in B.S. Business Administration, Major in Management
- Past positions in RB Bagabag: General Clerk (1999-2004); Inspector/Clerk (2007-2008); Administrative Assistant (2016-2022); Officer-in-Charge-Villaverde (2022-2023); Branch Manager-Villaverde Branch (2023-2024); Marketing Division Head (2024)



Marlyne R. Galapon, Independent Director

- Filipino, 60 years old
- Independent Director and member of the Audit & Risk Management Committee since 2020
- Graduated from Saint Mary's University, Bayombong, N.V. with a degree in Business Administration.
- Past positions at Metrobank, Solano, over the years 1988-2018: Teller, Remittance Clerk, Loan Clerk, Regional Operations Coordinator, Branch Operations Officer, Branch Manager



Johnson D. Saquing, Independent Director

- Filipino, 59 years old
- Chairman of the Audit & Risk Management Committee
- Graduated from Saint Mary's University, Bayombong, N.V. with a degree in B.S. Accountancy
- Past positions at Philippine National Bank (PNB) over the years 1990-2011: Contractual Teller, Teller, Clearing Assistant, Cash Clerk IV, Investment Analyst I, Remittance Analyst, Financial Manager, Relationship Officer, Sales and Service Officer, and Business Manager
- Past position at Rizal Commercial Banking Corporation (RCBC): Business Manager/Branch Head (2011-2019)
- Past positions with RB Bagabag: Independent Director (2021-2022); Independent Director (2024)



Allan Anthony D. Cadang, Independent Director

- Filipino, 60 years old
- Independent Director since November 2024
- Member of the Audit & Risk Management Committee
- Graduated from University of the Philippines, Diliman, Q.C. with a degree in B.S. Mathematics
- Graduated from Aldersgate College, Solano, N.V. with a Masters Degree in Business Administration
- Past position at Aldersgate College: College Instructor (1987-1989)
- Past positions at Philippine National Bank (PNB), Bayombong over the years 1989-1993: Remittance Assistant, General Clerk, Clearing Asst. II
- Past positions at PNB, Solano over the years 1993-2021: Clearing Asst. II, Credit Investigator III, Loans and Credit Officer II, Branch Cashier Per Pro, Sales and Service Head (Mgmt. Ass. II)
- PNB Assset Management Group: Regional Desk Head (Mgmt. Associate II, 2004-2006); Regional Desk Head (Mgmt. Associate III, 2007-2010)
- PNB Regional Asset Management Center: Regional Asset Management Center Officer Mgmt. Associate III (2010-2013); Regional Asset Management Center Officer (Assistant Manager 1, 2013-2019); Regional Asset Management Center Officer (Assistant Manager 2, 2019-2021)

3. BOARD COMPOSITION

Name of Director	Type of Directorship	Name of Principal	No. of years served as director	Number of Shares	% of shares held to outstanding shares held by the bank
Vincent Z. Castillo	Executive		>20 years	47,948	4.95%
Pura C. Romero	Executive		>20 years	95,895	9.91%
Marlyne R. Galapon	Independent		>5 years	1	0.000103%
Joe Vincent B. Castillo	Executive		<2 years	59,934	6.19%
Johnson D. Saquing	Independent		>2 years	1	0.000103%
Allan Anthony D. Cadang	Independent		<2 years	1	0.000103%
Teresita I. Hernaez	Non-Executive (Regular)		>20 years	6,948	0.72%

Note: No indirect shares held by the directors.



4. BOARD QUALIFICATION

The Bank recognizes that effective corporate governance depends on a competent, ethical, and qualified Board of Directors. Accordingly, all candidates for election or re-election as Directors of Rural Bank of Bagabag (N.V.), Inc. must satisfy the qualification standards prescribed under applicable laws, Bangko Sentral ng Pilipinas (BSP) regulations, the Bank's By-Laws, Corporate Governance Manual, and Fit and Proper standards.

A candidate for Director must possess the integrity, competence, education, diligence, and experience necessary to effectively discharge the duties and responsibilities of a Director. The candidate must be capable of exercising sound judgment, providing strategic direction, and contributing to the safe and sound operation of the Bank.
In addition to the qualifications prescribed under BSP regulations, the Bank requires that a candidate:

- Own at least one (1) share of stock of the Bank at the time of election or appointment;
- Possess at least five (5) years of substantial experience in banking, finance, business, agriculture, risk management, accounting, law, or other related fields relevant to the Bank's operations;
- Be physically and mentally fit to perform the duties and responsibilities of a Director;
- Not be more than eighty (80) years old at the time of election or re-election, except as may be otherwise provided under the Bank's By-Laws or approved by the Board in accordance with applicable policies;
- Be of proven integrity, honesty, and good reputation and must not possess any disqualification under applicable laws, BSP regulations, or the Bank's internal governance policies.

The Bank considers educational attainment, professional qualifications, leadership capability, banking knowledge, business experience, and risk management competence in evaluating candidates for Board membership. Preference is given to individuals whose expertise will contribute to the effective oversight of banking operations, financial performance, risk management, regulatory compliance, and strategic planning.

All Directors are expected to satisfy the BSP Fit and Proper standards on a continuing basis and devote sufficient time and attention to the performance of their fiduciary duties. Newly elected Directors are required to attend the mandatory Corporate Governance Seminar prescribed under BSP regulations within the prescribed period, while incumbent Directors are expected to participate in continuing education programs and regulatory training to strengthen their knowledge of corporate governance, risk management, banking regulations, and emerging industry developments.

The Board periodically reviews the qualifications, performance, and continuing fitness and propriety of its members to ensure that the Board remains capable of providing effective oversight, sound governance, and strategic leadership consistent with the Bank's objectives and regulatory obligations.

Independent Directors

In addition to the qualifications applicable to all Directors, Independent Directors must satisfy the independence requirements prescribed under Section 131 of the Manual of Regulations for Banks (MORB) and other applicable BSP regulations.

An Independent Director is a person who, apart from shareholdings and fees received from the Bank, is independent of Management and free from any business, financial, family, professional, or other relationship that could materially interfere with the exercise of independent judgment in carrying out the responsibilities of a Director.

An Independent Director must possess the same standards of competence, integrity, and experience required of all Directors, including ownership of at least one (1) share of stock of the Bank and at least five (5) years of substantial experience in banking, finance, business, or other related fields.

An Independent Director must not be, and must not have been within the period prescribed by BSP regulations, an officer, employee, consultant, adviser, or significant service provider of the Bank, its subsidiaries, affiliates, or related interests. Likewise, an Independent Director must not be a substantial shareholder of the Bank or any related entity and must not be related within the degree prescribed by BSP regulations to any Director, Officer, substantial shareholder, or controlling person of the Bank.

All Directors are expected to satisfy the BSP Fit and Proper standards on a continuing basis and devote sufficient time and attention to the performance of their fiduciary duties. Newly elected Directors are required to attend the mandatory Corporate Governance Seminar prescribed under BSP regulations within the prescribed period, while incumbent Directors are expected to participate in continuing education programs and regulatory training to strengthen their knowledge of corporate governance, risk management, banking regulations, and emerging industry developments.

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An Independent Director is a person who, apart from shareholdings and fees received from the Bank, is independent of Management and free from any business, financial, family, professional, or other relationship that could materially interfere with the exercise of independent judgment in carrying out the responsibilities of a Director.

An Independent Director must possess the same standards of competence, integrity, and experience required of all Directors, including ownership of at least one (1) share of stock of the Bank and at least five (5) years of substantial experience in banking, finance, business, or other related fields.

An Independent Director must not be, and must not have been within the period prescribed by BSP regulations, an officer, employee, consultant, adviser, or significant service provider of the Bank, its subsidiaries, affiliates, or related interests. Likewise, an Independent Director must not be a substantial shareholder of the Bank or any related entity and must not be related within the degree prescribed by BSP regulations to any Director, Officer, substantial shareholder, or controlling person of the Bank.

Independent Directors are expected to provide objective oversight of Management, safeguard the interests of depositors and stakeholders, promote transparency and accountability, and contribute to the effective functioning of the Board and its Committees.

They must continuously satisfy the independence criteria prescribed by BSP regulations and immediately disclose any circumstance that may affect their independence or create an actual or potential conflict of interest.

The Bank periodically assesses the continuing fitness, propriety, and independence of its Independent Directors to ensure compliance with BSP regulations and sound corporate governance practices.

Policy on Directors' and Officers' Interlocking Positions

The Bank maintains a Policy on Directors' and Officers' Interlocking Positions to ensure compliance with BSP regulations and promote sound corporate governance practices. The policy establishes guidelines governing the holding of concurrent directorships and officerships within the Bank and other entities, while ensuring that potential conflicts of interest are properly identified, evaluated, and managed.

Interlocking directorships and officerships are subject to the limitations and conditions prescribed under applicable BSP regulations. The Bank permits interlocking positions only when such arrangements do not impair the ability of Directors and Officers to effectively perform their duties, compromise their independence of judgment, or create actual or potential conflicts of interest.

All interlocking positions are subject to appropriate review and approval by the Board of Directors and are assessed based on applicable regulatory requirements, fit-and-proper standards, independence, integrity, competence, and the ability of the concerned individual to devote sufficient time and attention to his or her responsibilities. Directors and Officers are likewise required to disclose all existing and subsequent interlocking positions and update such disclosures on a continuing basis.

The Bank maintains an updated record of interlocking positions and submits the required reports to the Bangko Sentral ng Pilipinas within the prescribed reporting periods. Through these measures, the Bank seeks to ensure transparency, accountability, and effective oversight while safeguarding the interests of the Bank, its depositors, and other stakeholders.



5. BOARD-LEVEL COMMITTEE: AUDIT & RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee (ARMC) of Rural Bank of Bagabag (N.V.), Inc. is composed of three (3) Non-Executive Directors, all of whom are Independent Directors. The Committee assists the Board of Directors in fulfilling its oversight responsibilities relating to financial reporting, risk management, internal controls, regulatory compliance, internal audit, and external audit functions. The composition of the Committee promotes objective and independent judgment in the discharge of its duties and responsibilities.

The Committee is responsible for overseeing the integrity and reliability of the Bank's financial reporting process and ensuring that financial statements are prepared in accordance with applicable accounting standards and regulatory requirements. It reviews significant financial reporting issues and provides recommendations to the Board on matters affecting the accuracy, completeness, and transparency of financial disclosures.

In the area of risk governance, the Committee assists the Board in reviewing the Bank's risk management framework, policies, and processes to ensure that significant risks are properly identified, measured, monitored, and controlled. It regularly evaluates the adequacy and effectiveness of risk management practices and internal control systems and reviews incidents involving control weaknesses, operational deficiencies, fraud, or other significant risk events.

The Committee also oversees the effectiveness and independence of the Internal Audit Function and reviews the results of internal audit activities, corrective action plans, and management responses to audit findings. It ensures that identified issues are addressed in a timely and appropriate manner to strengthen the Bank's control environment.

With respect to external audit, the Committee evaluates the qualifications, independence, performance, appointment, reappointment, compensation, and scope of work of the External Auditor and recommends appropriate actions to the Board of Directors. It also serves as a forum for discussion between Management and the External Auditor on matters relating to financial reporting, audit findings, and internal controls.

The Committee further oversees the Bank's compliance with applicable laws, regulations, BSP issuances, and internal policies. It reviews the results of examinations conducted by regulatory authorities, monitors corrective actions on regulatory findings, and provides guidance to Management on areas of significant compliance and regulatory risk.

The Audit and Risk Management Committee regularly reports to the Board of Directors on the results of its activities, significant audit and risk matters, key control issues, and recommendations aimed at strengthening the Bank's governance, risk management, and internal control framework.

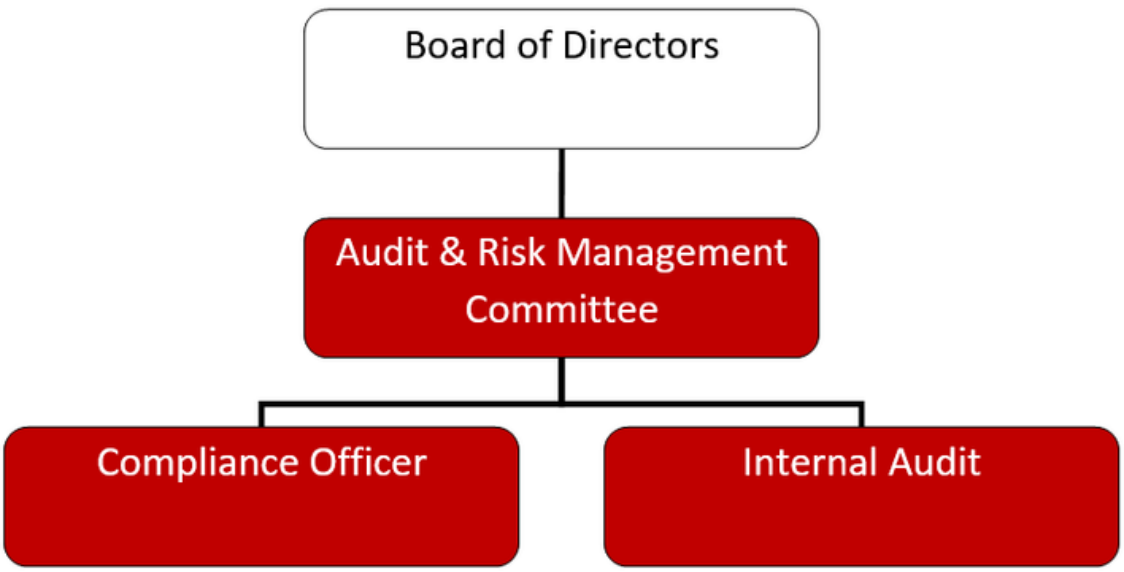
Chairman: Johnson D. Saquing

Members

- Marlyne R. Galapon
- Allan Anthony D. Cadang

Committee Secretary: Romeo L. Villante, Jr.

Committee Structure



6. BOARD ATTENDANCE

Board Meeting

Name	No. of meetings held during the year	No. of meetings attended	Percentage of attendance
Vincent Z. Castillo	12	11	92%
Pura C. Romero	12	12	100%
Marlyne R. Galapon	12	12	100%
Joe Vincent B. Castillo	12	12	100%
Teresita I. Hernaez[1]	12	9	75%
Johnson D. Saquing	12	12	100%
Allan Anthony D. Cadang	12	12	100%

1 Resigned from position on 06 November 2025

ARMC Meeting

Name	No. of meetings held during the year	No. of meetings attended	Percentage of attendance
Johnson D. Saquing	12	12	100%
Allan Anthony D. Cadang	11	11	100%
Marlyne R. Galapon	11	11	100%



7. INTERNAL AUDIT FUNCTION

The Internal Audit Function serves as an independent and objective assurance and consulting activity designed to add value and improve the Bank's operations. It assists the Board of Directors and Management in achieving the Bank's objectives through a systematic and disciplined approach in evaluating and enhancing the effectiveness of governance, risk management, and internal control processes.

The Internal Audit Department operates independently from the Bank's business and operational units and reports functionally to the Audit and Risk Management Committee and administratively to the President/Chief Operating Officer. This reporting structure promotes organizational independence and supports the objective performance of internal audit activities.

The Internal Audit Function adopts a risk-based audit approach and is responsible for assessing the adequacy and effectiveness of the Bank's internal controls, risk management systems, governance processes, regulatory compliance framework, information systems, financial reporting processes, and asset safeguarding measures. It also evaluates operational efficiency, monitors the implementation of corrective actions on audit findings, and provides recommendations to strengthen controls and improve overall organizational effectiveness.

The Internal Audit Department is granted unrestricted access to the Bank's records, personnel, systems, and physical properties necessary to perform its responsibilities. Significant audit findings, control deficiencies, fraud-related concerns, governance issues, and risk exposures are regularly reported to the Audit and Risk Management Committee and the Board of Directors for appropriate action and oversight.

To ensure continuous improvement and adherence to professional standards, the Internal Audit Function maintains a Quality Assurance and Improvement Program and conducts its activities in accordance with applicable BSP regulations, the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, and the Bank's Internal Audit Charter.



8. COMPLIANCE FUNCTION

The Compliance Function of Rural Bank of Bagabag (N.V.), Inc. serves as an independent control function responsible for promoting and maintaining the Bank's compliance with applicable laws, regulations, regulatory issuances, internal policies, ethical standards, and sound banking practices. It supports the Board of Directors and Senior Management in ensuring that compliance risks are effectively identified, assessed, monitored, controlled, and reported throughout the organization.

The Compliance Officer operates independently from the Bank's business and operational units and reports functionally to the Audit and Risk Management Committee. This organizational structure promotes objectivity and enables the Compliance Function to perform its responsibilities without undue influence from operational activities.

The Compliance Function is responsible for monitoring the Bank's compliance with Bangko Sentral ng Pilipinas (BSP) regulations, Anti-Money Laundering (AML) requirements, corporate governance standards, and other applicable regulatory requirements. It conducts compliance reviews and testing, identifies and assesses compliance risks, monitors regulatory developments, provides guidance to Management and staff, and recommends appropriate corrective actions to address identified compliance issues and prevent recurrence.

The Compliance Officer maintains an inventory of applicable laws, regulations, and regulatory issuances, monitors the timely submission of regulatory reports, and serves as a central point for compliance-related information within the Bank. Regular compliance reports are submitted to the Audit and Risk Management Committee and the Board of Directors to facilitate oversight and informed decision-making.

To promote a culture of compliance across the organization, the Compliance Function provides regulatory guidance and compliance awareness activities and works closely with Management and operating units in strengthening internal controls and ensuring adherence to regulatory and internal requirements. The effectiveness of the Compliance Function is periodically assessed through a quality assurance and improvement program to support continuous enhancement of compliance risk management practices.



9. LIST OF EXECUTIVE OFFICERS/SENIOR MANAGEMENT



Vincent Z. Castillo, Chief Executive Officer

- Filipino, 77 years old
- Graduated from the University of the East, Manila, with a degree in Business Administration
- Former President of the Jose P. Castillo Foundation, Inc.
- Past positions in RB Bagabag: President (2014-2015; Vice President for Finance (2016-2017)



Pura C. Romero, Chief Operating Officer

- Filipino, 75 years old
- Chairman of the Management Committee
- Executive Director since 1998
- Graduated from University of the Philippines, Diliman, QC, with a degree in B.S. Social Work and Community Development
- Passed the Board Examination for B.S. Social Work in 1973
- A Trustee and Treasurer of Jose P. Castillo Foundation, Inc.
- Past Director of the Rural Bankers Association of the Philippines (1999)
- Past President of the Confederation of Northern Luzon Rural Bankers (2003-2004)
- Past positions in RB Bagabag: Chairman/President/General Manager (2003-2013); Vice President (2014-2015); VP for Operations (2016); President (2017 to 2024)

10. MANAGEMENT-LEVEL COMMITTEE

Management Committee (ManCom)

The committee serves as the principal management body that assists the President and Chief Executive Officer in overseeing the Bank's day-to-day operations and implementing the strategic directions approved by the Board of Directors. The Committee functions as a key coordinating and decision-making body responsible for monitoring the Bank's financial condition, operational performance, business initiatives, and overall organizational effectiveness.

The Committee reviews the Bank's operating and financial results, evaluates significant business and operational matters, and formulates recommendations to Management and the Board on policies, operational strategies, and governance initiatives. It also supports the continuous enhancement of the Bank's corporate governance framework by recommending improvements in policies, organizational practices, and internal processes consistent with regulatory requirements and industry best practices.

As part of its oversight responsibilities, the Committee assists in identifying, assessing, and addressing significant risks affecting the Bank's operations. It ensures that Management maintains an adequate understanding of the Bank's business activities, organizational structure, internal controls, and risk exposures, and promotes the timely implementation of appropriate corrective and risk mitigation measures.

The Management Committee is composed of senior officers and department heads representing the Bank's major business, operational, control, and support functions. As of December 31, 2025, the Committee was composed of the following:

Chairman/Presiding Officer: Pura C. Romero

Members

1. Vincent Z. Castillo
2. Sherlie C. Domingo
3. Joe Vincent B. Castillo
4. Richmond P. Bides
5. Rhodora B. Casareno
6. Jensen Rusty C. Padua
7. Dianne Kriselle B. Moreno
8. Jimalyn G. Sagyawan

9. Joseph M. Ortillano
10. Cristofer C. Rivera
11. Frank T. Bayodao Jr.
12. Joy Marie D. Sibayan
13. Ray Oliver S. Eugenio

Committee Secretary: Adelle C. Romero

Through regular meetings and coordinated oversight, the Management Committee supports the achievement of the Bank's strategic objectives, financial stability, operational efficiency, sound risk management, regulatory compliance, and sustainable growth.

Credit Committee

The committee assists the Board of Directors in the oversight and management of the Bank's credit activities. The Committee serves as the primary management body responsible for reviewing and approving credit proposals within the authority delegated by the Board and ensuring that credit decisions are consistent with the Bank's credit policies, risk appetite, and regulatory requirements.

The Committee evaluates loan applications, renewals, and other credit accommodations within approved authority limits and ensures that credit decisions are supported by adequate credit assessment and risk evaluation. It also monitors the quality and performance of the Bank's loan portfolio, reviews credit risk concentrations, assesses emerging credit risks, and recommends appropriate actions to address potential problem accounts and non-performing loans.

As part of its risk management responsibilities, the Committee promotes adherence to prudent lending standards, reviews compliance with established credit limits and policies, and supports the implementation of the Bank's credit strategy. The Committee likewise provides recommendations on delegated credit authorities and other credit-related matters requiring Management or Board action.

The Committee regularly reports to the Board of Directors on significant credit decisions, loan portfolio performance, credit quality, and material credit risk exposures to facilitate informed oversight and decision-making.

As of April 16, 2025, the Management-Level Credit Committee was composed of the following officers:

Chairman/Presiding Officer: Vincent Z. Castillo or Pura C. Romero

Members

- Sherlie C. Domingo
- Rhodora C. Cachola

Through regular meetings and continuous monitoring of the Bank's credit portfolio, the Committee supports the maintenance of sound credit underwriting practices, effective credit risk management, and the overall safety and soundness of the Bank's lending operations.

10. KEY OFFICER'S PROFILE



VINCENT Z. CASTILLO, Chief Executive Officer

- Filipino, 77 years of age
- Has been with the Bank since 2006.
- Responsible for the overall direction and administration of programs and services provided by the Bank. Ensures that all aspects of the bank's activities obtain maximum profits commensurate with the best interest of shareholders, customers, employees, and the public.



PURA C. ROMERO, Chief Operating Officer

- Filipino, 75 years of age
- Has been with the Bank since 1998.
- Exercises general supervision over all other officers of the Bank.



SHERLIE C. DOMINGO, Head-Operations Division

- Filipino, 54 years of age
- Graduated with a Bachelor of Science degree in Commerce, Major in Management, from Saint Mary's University, Bayombong, in 1994.
- Joined the Bank in 1995 and currently holds the rank of Assistant Vice President.
- Oversees end-to-end credit operations; ensures strong internal controls; maintains asset quality; optimizes recovery; and ensures compliance with bank policies and regulatory requirements.



EVERLYN R. MARANAN, Compliance Officer

- Filipino, 48 years of age
- Graduated with a Bachelor of Science degree in Accountancy from Saint Mary's University, Bayombong, in 1998.
- Joined the Bank in 2004 and currently holds the rank of Manager.
- Ensures adherence to regulatory requirements, internal policies, and ethical standards; identifies targeted development actions where gaps may exist.



ROSELYN R. ALUYEN, Internal Auditor

- Filipino, 38 years of age
- Graduated with a Bachelor of Science degree in Commerce from Saint Mary's University, Bayombong, in 2008.
- Joined the Bank in 2008 and currently holds the rank of Manager.
- Provides independent assurance on governance, risk management, and internal controls; conducts risk-based audits, and reports audit results to the Board and Audit & Risk Management Committee in compliance with regulatory standards.



RICHMOND P. BIDES, Head-Loans Marketing

- Filipino, 35 years of age
- Graduated with a Bachelor of Science degree in Information Technology from Abra State Institute of Sciences & Technology, Main Campus, in 2011.
- Joined the Bank in 2017 and currently holds the rank of Manager.
- Drives loan growth; leads the marketing team; ensures sound credit quality, and maintains compliance with internal policies and regulatory requirements.



JOSEPH M. ORTILLANO, Credit Risk Officer

- Filipino, 37 years of age
- Graduated with a Bachelor of Science degree in Information Technology from Sierra College, Bayombong, in 2012.
- Joined the Bank in 2015 and currently holds the rank of Assistant Manager.
- Independently oversees credit risk; monitors portfolio quality; ensures adherence to risk appetite, and supports sound credit decision-making in compliance with regulatory requirements.



RHODORA C. CACHOLA, Head-Credit Administration

- Filipino, 30 years of age
- Graduated with a Bachelor of Science degree in Marketing Management from Saint Mary's University, Bayombong, in 2015.
- Joined the Bank in 2018 and currently holds the rank of Assistant Manager.
- Oversees credit services, documentation control and loan servicing functions; ensures accuracy, completeness, regulatory compliance and strong internal controls throughout the credit process.



DIANNE KRISELLE B. MORENO, Head-Controllership

- Filipino, 31 years of age
- Graduated with a Bachelor of Science degree in both Management Accounting and Accountancy from Saint Mary's University, Bayombong, in 2015 and 2016, respectively.
- Certified Bookkeeper
- Joined the Bank in 2018 and currently holds the rank of Assistant Manager.
- Ensures financial reporting accuracy; maintains robust internal controls; oversees general ledger integrity; and supports regulatory compliance and audit requirements.



JIMALYN G. SAGYAWAN, Head-Corporate Services

- Filipino, 37 years of age
- Graduated with a Bachelor of Science degree in Computer Science from Nueva Vizcaya State University, Bayombong, in 2009.
- Joined the Bank in 2018-2023. Rejoined in 2024 with the rank of Assistant Manager.
- Manages human resources, safety and security, and general services; ensures operational efficiency, regulatory compliance, and strong internal control.



GEOMER J. CRISTE, Head-Information Technology

- Filipino, 32 years of age
- Graduated with a Bachelor of Science degree in Information Technology from Nueva Vizcaya State University, Bambang, in 2020.
- Joined the Bank in 2022.
- Manages the bank's technology infrastructure; ensures system availability and security; supports operations; and maintains compliance with regulatory and internal IT governance standards.



JOE VINCENT B. CASTILLO, Branch Head-Main

- Filipino, 54 years of age
- Graduated with a Bachelor of Science degree in Business Administration, Major in Management, from Philippine School of Business Administration, Inc., Quezon City in 2002.
- Joined the Bank in 1999-2008. Re-joined in 2016 and currently holds the rank of Senior Manager.
- Oversees the overall operations, business development, customer service, and regulatory compliance of the branch.



CRISTOFER C. RIVERA, Branch Head-Lamut

- Filipino, 32 years of age
- Graduated with a Bachelor of Science degree in Business Administration, Major in Marketing Management, from Nueva Vizcaya State University, Bayombong, in 2014.
- Joined the Bank in 2016 and currently holds the rank of Assistant Manager.
- Oversees the overall operations, business development, customer service, and regulatory compliance of the branch.



FRANK T. BAYODAO, JR., Branch Head-Alfonso Lista

- Filipino, 32 years of age
- Graduated with a Bachelor of Science degree in Accountancy, from Our Lady of Pillar College, Cauayan, in 2014.
- Joined the Bank in 2014 and currently holds the rank of Assistant Manager.
- Oversees the overall operations, business development, customer service, and regulatory compliance of the branch.



JOY MARIE D. SIBAYAN, Branch Head-Diadi

- Filipino, 32 years of age
- Graduated with a Bachelor of Science degree in Management Accounting, from Saint Mary's University, Bayombong, in 2014.
- Joined the Bank in 2015 and currently holds the rank of Assistant Manager.
- Oversees the overall operations, business development, customer service, and regulatory compliance of the branch.



RAY OLIVER S. EUGENIO, Branch Head-Villaverde

- Filipino, 40 years of age
- Graduated with a Bachelor of Science degree in Public Administration, from Nueva Vizcaya State University, Bambang, in 2011.
- Joined the Bank in 2021 and currently holds the rank of Assistant Manager.
- Oversees the overall operations, business development, customer service, and regulatory compliance of the branch.



JAY-R M. TABANGKAY, Head-Credit Services

- Filipino, 39 years of age
- Graduated with a Bachelor of Science degree in Business Administration, Major in Marketing Management, from Saint Mary's University, Bayombong, in 2019.
- Joined the Bank in 2019 and currently holds the rank of Junior Officer.
- Leads the Bank's credit investigation and collateral appraisal functions, ensuring the integrity and reliability of information used in the credit approval process.



JENSEN RUSTY C. PADUA, Head-Litigation

- Filipino, 37 years of age
- Graduated with a Bachelor of Science degree in Political Science from Saint Mary's University, Bayombong, in 2008.
- Joined the Bank in 2021 and currently holds the rank of Assistant Manager.
- Leads the Bank's legal recovery and litigation management functions, ensuring the timely and effective resolution of legal cases involving non-performing assets, foreclosures, and collection actions.

11. PERFORMANCE ASSESSMENT PROGRAM

The Bank maintains a formal Performance Assessment Program designed to promote accountability, strengthen corporate governance, and support the continuous improvement of the Board of Directors, Board Committees, Individual Directors, and Senior Management. Performance evaluations are conducted annually using approved assessment tools and evaluation criteria established by the Board.

Board of Directors

The performance of the Board of Directors is evaluated annually through the submission and review of a Board Evaluation Form. The assessment measures the Board's effectiveness in carrying out its fundamental responsibilities of providing strategic direction, exercising oversight and control, and offering guidance and support to Management. The evaluation focuses on three key areas: Strategic Plan and Performance (35%), which assesses the Board's role in setting and monitoring strategic objectives; Board Organization (30%), which evaluates governance structure, effectiveness of meetings, and decision-making processes; and Board Oversight of Risks (35%), which measures the Board's effectiveness in overseeing the Bank's risk management framework and significant risk exposures. The results of the assessment are used to identify opportunities for improvement and enhance Board effectiveness.

Board Committees

The performance of Board Committees is evaluated annually through a Self-Assessment Process. For the Audit and Risk Management Committee, the assessment covers the Committee's composition and overall quality, understanding of the Bank's business and risk profile, effectiveness of its processes and procedures, oversight of financial reporting and internal controls, oversight of internal and external audit functions, compliance and ethical governance responsibilities, and monitoring activities. The evaluation assists the Board in determining whether the Committee continues to effectively discharge its responsibilities and support sound governance practices.

ARMC Criteria

1. Composition and Quality (10%)
2. Understanding the Business, Including Risks (20%)
3. Process and Procedures (15%)
4. Oversight of the Financial Reporting Process, including Internal Controls (15%)
5. Oversight of Audit Functions (20%)
6. Ethics and Compliance (5%)
7. Monitoring Activities (15%)

Individual Directors and Peer Assessment

Individual Directors are subject to annual self-assessment and peer evaluation to promote accountability, encourage professional development, and enhance Board effectiveness. The evaluation process assesses each Director's performance in fulfilling governance responsibilities, understanding of the Bank's business operations and external environment, effectiveness in maintaining constructive relationships and professional conduct, and overall contribution to Board discussions and decision-making. The assessment serves as an important feedback mechanism that supports continuous improvement and enables Directors to maximize their contributions to the Bank.

Criteria

1. Governance Role (20%)
2. Knowledge of the Bank and the Environment (30%)
3. Effective Behavior and Relationship (20%)
4. Contribution (30%)

Senior Management

The Board of Directors oversees the performance evaluation of Senior Management as part of its responsibility for ensuring effective leadership and sound internal controls. Senior Officers are evaluated based on their assigned duties and responsibilities, achievement of strategic and operational objectives, leadership effectiveness, regulatory compliance, risk management practices, and key performance indicators established by the Bank. The Chairman and President are likewise assessed under the Bank's Performance Evaluation System in accordance with the Bank's By-Laws, approved policies, and performance standards. The results of these evaluations are considered in determining management effectiveness, succession planning, and organizational development initiatives.



12. ORIENTATION AND TRAINING PROGRAM

The Bank remains committed to developing the competencies, skills, and professional capabilities of its directors, officers, and employees through continuous learning and development initiatives. During 2025, the Bank implemented and supported various internal and external training programs designed to strengthen operational efficiency, regulatory compliance, corporate governance, risk management, customer service, and employee development.

Training activities were conducted through a combination of in-house seminars, regulatory webinars, industry conventions, professional certification programs, and specialized workshops sponsored by regulatory agencies, industry associations, and accredited training providers.

Major training and development activities undertaken during the year included:

Regulatory Compliance and Anti-Money Laundering

To ensure continued compliance with BSP and AMLC regulations, officers and employees attended various Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) programs, including:

- AMLC Registration and Reporting Guidelines (ARRG);
- AML/CTF Fundamentals Course;
- Targeted Financial Sanctions (TFS) Course;
- AML Compliance Refresher Courses;
- Western Union Fraud Awareness and Compliance Training; and
- Related Party Transactions (RPT) and DOSRI regulatory sessions.

These programs strengthened the Bank's compliance culture and enhanced employees' awareness of emerging financial crime risks and regulatory obligations.

Corporate Governance and Board Development

Directors participated in governance-related seminars to strengthen oversight functions and governance practices, including:

- Advanced Corporate Governance Programs;
- Corporate Governance for Rural Banks;
- Board Self-Assessment and Governance Enhancement Workshops; and
- Director Development Programs conducted by the Rural Bankers Association of the Philippines (RBAP).

These activities supported the Board's continuing education requirements and reinforced sound governance principles throughout the organization.

Banking Operations and Credit Management

The Bank conducted operational and credit-related training programs aimed at improving service delivery and strengthening lending practices, including:

- Operations Manual System Seminars;
- Standard Business Loan Application Form (SBLAF) Orientation;
- Credit Line and Credit Scoring Modules under the RBSoftech Core Banking System;
- Credit Investigation Training; and
- Lending and Credit Information Webinars.

These programs enhanced operational efficiency and strengthened credit administration processes.

Information Technology and Digital Risk Awareness

Participants attended seminars relating to technology, cybersecurity, and digital banking risks, including:

- Digital Risk Management and Payment Systems Security;
- Technology Risk Awareness Programs; and
- Digital Transformation and Resilience Initiatives for Rural Banks.

These activities supported the Bank's efforts to strengthen information security and technology risk management frameworks.

Human Resource and Organizational Development

Employees participated in leadership, culture-building, and professional development programs, including:

- RBAP Lift Life Webinar Series;
- Brand and Culture Development Sessions;
- Strategic Marketing Programs;
- Human Resource Management and Workforce Development Workshops; and
- Employee Engagement and Organizational Culture Initiatives.

These programs contributed to employee development and reinforced the Bank's service-oriented culture.

Occupational Safety, Health and Emergency Preparedness

To promote workplace safety and business continuity, employees attended:

- Occupational Safety and Health (OSH) Training;
- First Aid and Basic Life Support (BLS) Certification Courses;
- Fire Safety and Earthquake Drills;
- Disaster Preparedness Programs; and
- Emergency Response and Workplace Safety Seminars.

These initiatives enhanced employee preparedness and strengthened the Bank's emergency response capabilities.

Other Professional and Regulatory Trainings

Employees also attended seminars and briefings covering:

- National ID Authentication Services;
- Tax Compliance Verification and Updates;
- Customer Complaint Reporting Requirements;
- Financial Literacy Programs;
- PAG-IBIG Employer Forums; and
- Other industry-related regulatory and operational updates.

Training Participation

During 2025, the Bank recorded extensive participation from directors, officers, and employees across its Head Office and branch network. Training activities covered regulatory compliance, governance, banking operations, credit management, information technology, risk management, occupational safety, and employee development, demonstrating the Bank's commitment to maintaining a competent workforce and a culture of continuous learning.

The Bank will continue to invest in employee and director development programs to ensure that its human resources remain equipped to meet evolving regulatory requirements, operational challenges, and the changing needs of its customers and stakeholders.






OPERATIONS MANUAL SYSTEM (OMS)
Definition:
In general sense, it is a compilation of the policies and operational procedures of the bank.
All the policies and procedures contained in these manuals should be properly followed and implemented to obtain maximum efficiency in all areas of operations.




Who are authorized to close the account?


BACK-TO-BACK LOAN




All Account openings shall be approved by any authorized branch officer (BM or SO)
Deficiency in account opening requirements like deferral of presentation of Valid Ids, deferral of submission of 2x2 ID picture shall require the approval of the Branch Manager
the said deficiency should be regularized within 5 working days if not the account shall be closed.




GENERAL
CREDIT
POLICIES FOR
PERSONAL &
BUSINESS
LOAN
OBJECTIVE
DEFINITION



13. SUCCESSION PLANNING & EMPLOYEE RETIREMENT PROGRAM

The Bank maintains structured human resource development and employee welfare programs consisting of a Succession Planning Program and an Employee Retirement Plan. These programs are designed to support organizational continuity, workforce stability, leadership development, and long-term sustainability in accordance with sound corporate governance principles and applicable regulatory requirements.

Succession Planning Program

The Bank implements a formal Succession Planning Program aimed at ensuring the timely availability of qualified personnel for critical positions, particularly at the middle management level and above. The program seeks to identify, develop, and prepare employees with the necessary education, experience, competencies, leadership potential, ambition, and personal attributes required to meet the Bank's current and future operational requirements.

The Succession Planning Program supports leadership continuity by identifying critical positions, assessing potential successors, and providing appropriate development opportunities through training, mentoring, performance management, and career development initiatives. The program is intended to ensure a sustainable pool of qualified personnel capable of assuming key responsibilities and facilitating the orderly transition of leadership and management functions.

Oversight of the program is provided through a Succession Planning Committee composed of senior management representatives, including the Chief Executive Officer, Chief Operating Officer, Human Resources Head or representative, Department Heads, and other officers as may be necessary. The Committee is responsible for identifying critical positions, evaluating potential successors, aligning succession initiatives with the Bank's strategic objectives, and periodically reviewing succession plans to ensure continued effectiveness and relevance.

Employee Retirement Plan

The Bank maintains a Board-approved Employee Retirement Plan effective June 24, 2021, which applies to all eligible regular employees, including members of Senior Management. The Plan is intended to promote employee welfare, recognize long-term service, and provide financial security upon retirement, disability, death, or separation under qualifying circumstances.

Under the Plan, all regular employees automatically become participants upon regularization. Employees who attain the normal retirement age of sixty (60) years and have completed at least five (5) years of continuous service are entitled to retirement benefits equivalent to one (1) month latest basic salary for every year of credited service.

The Plan likewise provides for early retirement at age fifty (50) with at least ten (10) years of service or upon completion of at least twenty (20) years of continuous service, subject to applicable benefit rates. Benefits are likewise provided in cases of voluntary resignation with qualifying years of service (with at least 10 years of service), involuntary separation due to authorized causes, death, and total and permanent disability, in accordance with the provisions of the Plan.

The Retirement Plan is fully funded by the Bank through a retirement fund held under trust and financed solely by Bank contributions based on actuarial principles. No employee contributions are required. Benefits are payable to designated beneficiaries as reflected in the employee's updated records and are administered in accordance with the approved Retirement Plan and applicable laws and regulations.

Governance and Human Capital Development

Both the Succession Planning Program and the Employee Retirement Plan are subject to periodic review and oversight to ensure continued alignment with the Bank's strategic objectives, human resource requirements, and regulatory expectations. These programs support effective human capital management, mitigate key-person dependency risks, strengthen leadership continuity, promote employee welfare, and contribute to the Bank's long-term stability and sustainability.

Through these initiatives, the Bank remains committed to developing, retaining, and preparing qualified personnel while ensuring that retirement and succession matters are managed in a prudent, transparent, and well-governed manner.



14. RELATED PARTY TRANSACTION

The Bank recognizes that Related Party Transactions (RPTs) may arise in the ordinary course of business and acknowledges the need to ensure that such transactions are conducted in a manner that protects the interests of the Bank, its depositors, shareholders, and other stakeholders. Accordingly, the Bank maintains a Related Party Transactions Policy that requires all transactions with related parties to be conducted on an arm's-length basis and under terms and conditions that are comparable to those prevailing in similar transactions with unrelated parties.

The Board of Directors exercises overall oversight of the Bank's RPT framework and is responsible for ensuring that all related party transactions are properly identified, reviewed, approved, monitored, and disclosed in accordance with applicable laws, BSP regulations, sound corporate governance principles, and internal policies. To support the Board in carrying out these responsibilities, the Audit and Risk Management Committee (ARMC) assists in the review and monitoring of material and significant RPTs, evaluates compliance with established policies, assesses potential conflicts of interest, and recommends appropriate actions to the Board whenever necessary.

a. Conflict of Interest Management

The Bank maintains policies requiring Directors, Officers, and Employees to conduct business with the highest standards of integrity, professionalism, and objectivity. Directors, Officers, and Employees are required to disclose any actual, potential, or perceived conflict of interest involving personal, family, financial, or business relationships that may influence, or appear to influence, their judgment and decision-making.

Any Director or Officer with a material interest in a Related Party Transaction is required to disclose such interest and refrain from participating in the evaluation, deliberation, recommendation, approval, or voting process involving the transaction. The Bank likewise prohibits Directors, Officers, and Employees from participating in credit approvals, personnel actions, incentive determinations, bonus recommendations, procurement decisions, or other transactions where an actual or potential conflict of interest exists.

To further strengthen governance, the Bank has enhanced its procedures for the review and evaluation of Related Party Transactions by requiring independent assessment and appropriate documentation of transactions involving related parties. These measures are intended to ensure that transactions are conducted fairly, transparently, and in the best interest of the Bank.

b. Related Party Transaction Review and Vetting Process

The Bank's RPT vetting process requires the identification of related parties prior to transaction approval. Proposed transactions are subjected to an independent review by non-interested Directors to determine whether the transaction is undertaken under terms and conditions comparable to those available to unrelated parties. The evaluation includes consideration of the business purpose of the transaction, commercial reasonableness, pricing, terms and conditions, supporting documentation, potential risks, and overall impact on the Bank.

For credit accommodations involving related parties, the Bank applies the same credit underwriting standards, documentary requirements, approval hierarchy, collateral evaluation standards, credit monitoring procedures, and collection processes applicable to non-related borrowers. No preferential treatment is granted solely by reason of relationship with the Bank.

Independent review and approval mechanisms are implemented to ensure objectivity and compliance with regulatory requirements.

c. Related Party Transactions

During the year, the Bank maintained certain transactions with related parties arising from its normal business operations and administrative requirements, including lease arrangements involving branch and office premises owned by Directors, stockholders, and officers of the Bank, as well as donations made to the Jose P. Castillo Foundation in support of the Bank's corporate social responsibility initiatives. These transactions were undertaken pursuant to approved agreements and programs and were subjected to the Bank's review, approval, monitoring, and reporting processes.

Specifically, the Bank leased the premises occupied by its Main Branch, Lamut Branch, Alfonso Lista Branch, and Villaverde Branch from individuals who are Directors and stockholders of the Bank. In addition, the Bank leased its Corporate Office from the Vice President of the Bank. The Bank also provided donations to the Jose P. Castillo Foundation, an organization associated with members of the controlling shareholder group, in support of educational and community development programs. Management represents that these transactions were reviewed and evaluated in accordance with the Bank's policies and applicable regulatory requirements.

Material transactions are subject to continuing oversight by Management, the Audit and Risk Management Committee, and the Board of Directors to ensure compliance with approved terms and conditions and to safeguard the interests of the Bank and its stakeholders.



15. REMUNERATION POLICY & STRUCTURE FOR EXECUTIVE AND NON-EXECUTIVE DIRECTORS, AND SENIOR MANAGEMENT

The Bank maintains a Remuneration and Incentive Policy designed to attract, retain, motivate, and reward qualified directors, officers, and employees while promoting the long-term sustainability, safety, and soundness of the institution. The remuneration framework is guided by the principles of regulatory compliance, transparency, fairness, internal equity, external competitiveness, sustainable pay for sustainable performance, and prudent risk-taking. The Board of Directors exercises overall oversight of the remuneration framework and conducts periodic reviews to ensure that compensation practices remain aligned with the Bank's strategic objectives, risk appetite, financial condition, and regulatory requirements. The Management Committee assists the Board by reviewing remuneration practices and providing recommendations regarding remuneration principles, performance criteria, and compensation structures.

a. Executive Directors

The remuneration of Executive Directors is governed by the Bank's By-Laws and approved remuneration policies. In accordance with Article III, Section 10 of the By-Laws, the total compensation of the Board of Directors shall not exceed ten percent (10%) of the preceding year's net income before income tax. Such compensation is apportioned among the directors in a manner determined by the Board acting as a body. Executive Directors may receive fixed remuneration based on industry standards and variable remuneration linked to the financial performance of the Bank. The variable component is primarily determined based on the Bank's net income and is intended to align the interests of directors with the achievement of the Bank's strategic objectives and long-term financial stability.

b. Non-Executive Directors

The remuneration of Non-Executive Directors is likewise governed by the Bank's By-Laws and approved remuneration policies. Total compensation received by the Board remains subject to the limitation prescribed under the By-Laws and applicable regulations. Non-Executive Directors receive remuneration that is primarily linked to the overall financial performance of the Bank, particularly its net income before income tax. The compensation structure recognizes their oversight and governance responsibilities while ensuring that remuneration remains reasonable, transparent, and aligned with the Bank's financial condition and long-term interests.

c. President and Senior Management

The compensation of the President is determined and approved by the Board of Directors, while the compensation of other senior management officers is established in accordance with approved compensation structures and delegated authorities. The remuneration package consists of fixed and variable components. Fixed remuneration is based on position responsibilities, qualifications, experience, internal equity considerations, and prevailing industry practices. Variable remuneration is linked to both the financial performance of the Bank and the results of individual performance evaluations. This approach is intended to promote accountability, reward performance, encourage prudent decision-making, and support the achievement of the Bank's strategic and operational objectives.

In addition to fixed and variable compensation, officers and employees may receive benefits and incentives provided under the Bank's Remuneration and Incentive Policy, including statutory benefits, 13th Month Pay, Anniversary Bonus, Christmas Bonus, service recognition awards, leave monetization privileges, group insurance coverage, financial assistance programs, employee loan facilities, medical reimbursement benefits, uniform allowances, and other benefits approved by the Board of Directors. These benefits are intended to enhance employee welfare, recognize loyalty and performance, and support the Bank's objective of maintaining a motivated and productive workforce.

The Bank's remuneration framework is designed to ensure that compensation practices are consistent with sound corporate governance principles, prudent risk management, regulatory requirements, and the long-term interests of the Bank, its depositors, shareholders, employees, and other stakeholders.



16. SELF-ASSESSMENT FUNCTION

a. Internal Audit and Compliance Functions

The Bank is committed to establishing and maintaining a sound system of internal control for the efficient and effective management of its business operations and to enhance the effectiveness of risk management, control, and governance processes. Internal control comprises all policies, procedures, practices, and activities undertaken by the Board of Directors, Management, and personnel to provide reasonable assurance that the Bank achieves its objectives. The primary objectives of internal control are to ensure the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, compliance with laws, rules, regulations, policies, procedures and contractual obligations, and the attainment of the Bank's strategic and operational objectives.

b. Internal Audit Function

The Internal Audit Function is headed by Ms. Roselyn R. Aluyen, Internal Auditor. The Internal Audit Function provides independent and objective assurance and consulting services designed to evaluate and improve the effectiveness of risk management, internal control, and governance processes. It assists the Board of Directors and Management in protecting the Bank's assets, ensuring compliance with applicable laws and regulations, and promoting operational efficiency and effectiveness.

The Internal Audit Function operates under an Internal Audit Charter approved by the Board of Directors, which defines its purpose, authority, responsibilities, and independence. The Internal Auditor performs audit activities independently and objectively and is free from interference in determining the scope of audit work, performing audit procedures, and communicating audit results. Functionally, the Internal Auditor reports directly to the Board of Directors through the Audit and Risk Management Committee (ARMC).

c. Compliance Function

The Compliance Function is headed by Ms. Everlyn B. Reyes, Chief Compliance Officer. The Compliance Function facilitates the effective management of compliance risk by ensuring adherence to applicable laws, rules, regulations, regulatory expectations, and internal policies. It assists the Board of Directors and Senior Management in promoting a culture of compliance and ethical conduct throughout the organization.

The Compliance Function operates under a Compliance Charter approved by the Board of Directors, which defines its authority, responsibilities, reporting relationships, and independence. The Chief Compliance Officer exercises independent judgment in carrying out compliance responsibilities and is free from undue influence in identifying, monitoring, and reporting compliance risks and issues. Functionally, the Chief Compliance Officer reports directly to the Board of Directors through the Audit and Risk Management Committee (ARMC) and administratively to the President.

d. Authority Granted to Internal Audit and Compliance Functions

To ensure the effective discharge of their respective mandates, the Board of Directors has granted the Internal Audit and Compliance Functions sufficient authority, independence, and unrestricted access to records, systems, personnel, and information necessary in the performance of their duties.

Specifically, the Internal Audit Function is authorized to: (a) have unrestricted access to all books, records, documents, systems, assets, and personnel of the Bank; (b) examine and evaluate all activities, operations, and control processes of the Bank; (c) assess the adequacy and effectiveness of internal controls, risk management systems, and governance processes; (d) require explanations, reports, and supporting documents from officers and employees; (e) communicate audit findings, recommendations, and significant issues directly to the Board of Directors through the ARMC; and (f) conduct follow-up reviews to monitor the implementation of agreed corrective actions.

Likewise, the Compliance Function is authorized to: (a) have unrestricted access to records, reports, systems, personnel, and information relevant to compliance activities; (b) identify, document, assess, monitor, and report compliance risks; (c) require the submission of compliance-related information, reports, certifications, and explanations from concerned units and personnel; (d) investigate potential violations of laws, regulations, and internal policies; (e) recommend corrective actions, policy enhancements, and control improvements; (f) escalate significant compliance issues directly to Senior Management and the Board of Directors through the ARMC; and (g) coordinate and communicate with regulatory authorities, including the Bangko Sentral ng Pilipinas, on matters relating to compliance and regulatory requirements.

e. Review Process Adopted by the Board to Ensure the Effectiveness and Adequacy of the Internal Control System

The Board of Directors, through the Audit and Risk Management Committee (ARMC), exercises oversight responsibility over the adequacy and effectiveness of the Bank's internal control system, risk management framework, and compliance processes. The ARMC reviews and approves the annual risk-based Internal Audit Plan and Compliance Testing Plan, including their scope, objectives, coverage, and resource requirements, to ensure that significant risks and control areas are adequately addressed.

The Board, through the ARMC, ensures that the Internal Audit and Compliance Functions are provided with adequate authority, independence, staffing, training, and resources necessary to effectively perform their respective mandates. The ARMC also ensures that the scope of audit and compliance activities includes the evaluation of governance processes, operational controls, information systems, financial reporting controls, safeguarding of assets, and compliance with applicable laws, regulations, policies, and contractual obligations.

The ARMC regularly reviews reports submitted by the Internal Auditor and Chief Compliance Officer, including audit findings, compliance observations, risk assessments, recommendations, corrective action plans, and the status of implementation of management actions. It likewise reviews reports from external auditors and regulatory examinations, as applicable, to obtain an independent assessment of the Bank's control environment.

The Board periodically assesses the effectiveness of the Bank's internal control system based on the results of audit and compliance reviews, risk assessments, regulatory examinations, external audit findings, and management reports. Internal controls are reviewed and enhanced as necessary to address emerging risks, changes in business operations, regulatory developments, and identified control weaknesses. The Board considers the internal control system effective when it provides reasonable assurance that risks are appropriately managed, assets are safeguarded, financial and operational information is reliable, regulatory requirements are complied with, and the Bank's strategic and operational objectives are achieved.



17. DIVIDEND POLICY

Pursuant to Section 57 of Republic Act No. 8791 (The General Banking Law of 2000) and the applicable provisions of the Manual of Regulations for Banks (MORB), the Bank may declare dividends only out of its unrestricted retained earnings and accumulated net profits after deducting losses, bad debts, and other required adjustments. The Bank ensures that any declaration of dividends is made in accordance with applicable laws, Bangko Sentral ng Pilipinas (BSP) regulations, and sound banking practices.

Prior to any dividend declaration, Management conducts an assessment of the Bank's financial condition and regulatory compliance to determine its eligibility to declare dividends. The assessment includes, among others, verification that the Bank has sufficient unrestricted retained earnings, remains compliant with the minimum capital requirements, risk-based capital adequacy ratio, prudential regulations, and other BSP requirements governing dividend declarations.

The proposed dividend declaration is reviewed by Senior Management and endorsed to the Board of Directors for consideration. The Board evaluates the Bank's financial performance, capital position, asset quality, liquidity condition, future capital requirements, business plans, and regulatory compliance before approving any dividend declaration.

Following Board approval, the Bank ensures compliance with all applicable BSP regulations, reportorial requirements, and conditions governing dividend declarations. Dividend payments are made only after confirming compliance with all applicable BSP regulations and conditions governing dividend declarations.

The Bank recognizes the importance of maintaining adequate capitalization to support its operations, business growth, and risk profile. Accordingly, the declaration of dividends is balanced against the need to preserve sufficient capital, maintain financial stability, and protect the interests of depositors, shareholders, and other stakeholders.

The Board of Directors reviews dividend declarations on a case-to-case basis and does not maintain a fixed dividend payout ratio. The amount and timing of dividend declarations depend on the Bank's profitability, capital position, liquidity, future business requirements, and compliance with applicable laws, rules, and regulations.



18. CONSUMER PROTECTION

The Bank recognizes the value of consumer protection as customers are fundamental to its operations. It is committed to consistently uphold the highest standards of service, fairness, transparency, and accountability in all its dealings with customers to mitigate the risk of financial harm or loss.

a. Role and Responsibility of the Board of Directors and Senior Management

Board of Directors (BOD)
The Board of Directors has the ultimate responsibility for the Bank's level of customer protection risk exposure. Accordingly, it approves the Bank's overall business strategies and significant policies, including those related to consumer protection risk management. The Board ensures that it maintains a sound understanding of customer protection risks through regular reports, compliance updates, internal audit results, and briefings from internal and external experts.

The Board provides clear direction on acceptable levels of consumer protection risk and ensures that Senior Management implements the necessary policies, procedures, and internal controls.

It is responsible for the development and continuous enhancement of the Customer Protection Risk Management System (CPRMS), which is integrated into the Bank's overall governance and risk management framework covering the entire product and service lifecycle.

Each Director is expected to maintain sufficient knowledge and awareness of consumer protection principles through participation in relevant trainings, seminars, and regulatory briefings.

The Board reviews and approves consumer protection policies, including oversight of third-party service providers, and ensures that consumer protection standards are embedded in all business activities and product offerings.

The Board also ensures periodic review of consumer protection risk exposure limits, particularly in relation to new products, services, and significant changes in business strategies.

The Bank also promotes SDG 10 (Reduced Inequalities) through its commitment to financial inclusion and provision of banking services to rural and underserved communities. Through collaboration with educational institutions, local communities, regulators, and other stakeholders in implementing sustainability and community development programs, the Bank contributes to SDG 17 (Partnerships for the Goals).

The Bank remains committed to continuously strengthening its sustainability practices and integrating environmental, social, and governance (ESG) considerations into its governance framework, risk management system, business strategy, and day-to-day operations in support of sustainable and inclusive economic growth.

Furthermore, the Board ensures that consumer protection reports, including complaint trends, audit findings, and compliance assessments, are regularly reviewed and that corrective actions are promptly addressed.

Senior Management
Senior Management is responsible for the implementation of the Board-approved Consumer Protection Program and for ensuring compliance with applicable laws, regulations, and internal policies on a day-to-day basis.

Management ensures that appropriate systems, controls, and accountability structures are in place across all business units, and that employees are adequately trained and guided in implementing consumer protection standards.

Senior Management is also responsible for promoting a strong culture of ethical conduct, customer-centric service, and compliance with consumer protection principles throughout the organization.

b. Board and Senior Management (Joint Responsibilities)
The Board and Senior Management jointly ensure the continuous effectiveness of the Customer Protection Risk Management System (CPRMS) through periodic reviews of policies, audit findings, complaint reports, and compliance assessments.

They ensure that sufficient resources are allocated to consumer protection initiatives and that identified weaknesses are addressed through timely corrective and preventive actions.

They also ensure the adequacy of reporting systems used to monitor consumer protection risks, complaint trends, and service quality indicators.

The Board and Senior Management ensure that employees possess the integrity, competence, and ethical standards required to support a strong consumer protection culture.

They also ensure that the Bank is able to respond to emerging consumer risks arising from changes in the regulatory environment, market conditions, and product innovations.

c. Consumer Protection Risk Management System (CPRMS)

The Financial Consumer Protection (FCP) Framework serves as the Bank's guiding principle in ensuring fair treatment, transparency, honesty, and accountability in all dealings with customers.

The Bank adheres to key consumer protection principles that are embedded in its operations, including:

- Proper education of clients regarding their obligations on loan repayment
- Clear communication of consequences of delinquency and past due accounts
- Full disclosure of principal, interest rates, fees, insurance, and other charges
- Promotion of responsible credit usage, including renewals and partial principal payments
- Encouraging savings behavior through regular deposits and account maintenance
- Ensuring that all banking activities involving client participation are beneficial to both the customer and the Bank

The Bank ensures that these principles are effectively implemented through regular employee orientation, product knowledge training, and continuous policy awareness programs.

The Customer Protection Risk Management System (CPRMS) is the framework used by the Bank to identify, measure, monitor, and control consumer protection risks inherent in its operations. These risks may arise from both the Bank and its customers and are managed throughout the entire product and service lifecycle.

The CPRMS is proportionate to the Bank's size, structure, and complexity and forms part of the overall risk management system. It ensures compliance with consumer protection laws, rules, and regulations and prevents financial harm to customers while safeguarding the Bank from reputational and operational risks.

The Bank has established policies and procedures addressing identified consumer protection risks, which are embedded in manuals, operational procedures, forms, marketing materials, website disclosures, and branch-level postings.

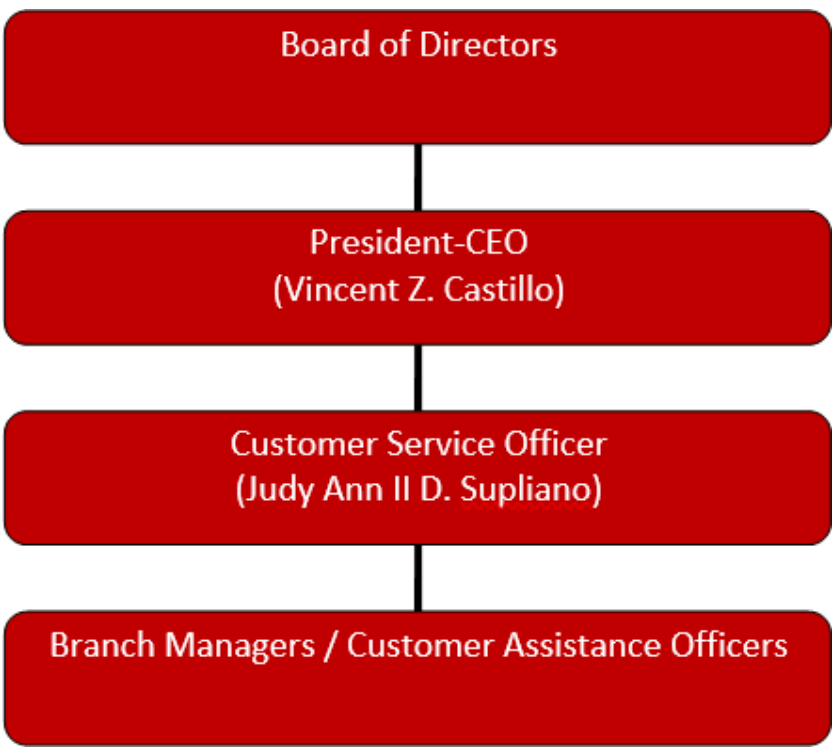
The CPRMS includes regular monitoring and reporting mechanisms such as compliance reviews, internal audit assessments, and management reporting. Results of these reviews are escalated to Senior Management and the Board of Directors for appropriate action, including corrective and preventive measures.

d. Consumer Assistance Management System (CAMS)

Structure

The Bank implements its Consumer Assistance Management System (CAMS) through its existing operational structure. Branch Managers are designated as Customer Assistance Officers (CAOs). They are responsible for handling customer concerns at the branch level.

Customer concerns and complaints are reported through the CAOs and consolidated for submission to Senior Management, which reports significant matters to the Board of Directors for oversight and action.



e. Role of Customer Assistance Officer (CAO)

The Branch Managers designated as CAOs have the following responsibilities:

1. Receive and acknowledge customer concerns and provide a Complaint/Request Form
2. Record complaints in a logbook and encode them in the complaint database
3. Conduct initial review and fact-finding to identify root causes
4. Address concerns immediately or escalate to higher management when necessary
5. Prepare responses for approval by Senior Management before release to customers
6. Obtain customer feedback to assess resolution effectiveness
7. Submit summary reports to the Head of Customer Assistance for consolidation

All complaint records are treated with strict confidentiality and handled in accordance with the Bank's Data Privacy and Information Security policies.

f. Customer Assistance Channels

Customers may lodge concerns through the following channels:

- Walk-in or branch visit
- Letter or email
- Telephone hotline or branch contact numbers
- Suggestion boxes located in branches

Each branch maintains a Customer Assistance Help Desk to ensure accessibility and responsiveness. Suggestion boxes are regularly reviewed by Branch Management, and appropriate actions are taken on submitted concerns.

The Bank also provides priority service lanes for senior citizens, persons with disabilities, pregnant women, and customers with children, in support of fair and inclusive treatment of clients.

Alternative dispute resolution mechanisms such as conciliation, mediation, and arbitration may be applied where appropriate to facilitate amicable settlement of complaints at the branch or Bank level.

g. Complaint Handling Process and Timeline

The Bank ensures that all complaints are handled within defined service standards as follows:

Step	Procedure	Response Time	Responsible Party	Output
1	Receipt of complaint	Immediate (1 min)	CAO	Acknowledgment
2	Completion of complaint form	Within 30 minutes	CAO	Complaint Form
3	Submission to CAO	1–3 minutes	Customer/CAO	Filed complaint
4	Initial referral to Head CAO	Within 1 day	CAO	Endorsement
5	Investigation of complaint	Within 2 days	CAO	Case review
6	Analysis and recommendation	Within 4 days	Head CAO	Recommendation memo
7	Review and approval	Within 7 days	VP/President	Approved resolution
8	Official response to customer	Within 9 days	CAO	Final response letter

All complaint handling activities are subject to monitoring to ensure timely resolution and continuous service improvement.

h. Customer Feedback and Monitoring

The Bank values customer feedback as a key input for service enhancement. Feedback is obtained through complaint handling outcomes, customer interactions, and branch-level engagement.

Consumer protection performance is continuously monitored through complaint trend analysis, internal audit findings, and management reporting. Key issues are escalated to Senior Management and the Board for review and corrective action.

i. Data Privacy and Information Security

The Bank ensures the confidentiality, integrity, and protection of customer information in accordance with applicable Data Privacy laws and BSP regulations. Access to customer data is restricted on a need-to-know basis, and appropriate administrative, technical, and organizational safeguards are implemented to prevent unauthorized access, disclosure, or misuse.

j. Fair Treatment of Financial Consumers

The Bank upholds the principle of fair treatment of financial consumers by ensuring transparency, responsible marketing, clear disclosures, and non-discriminatory service delivery. Customers are provided with complete and understandable information to support informed financial decisions.

Through these measures, the Bank ensures that consumer protection principles are fully embedded in its operations and continuously strengthened in line with BSP regulations, the Financial Consumer Protection Framework, and sound banking practices.

k. Summary of Complaints and Resolutions for the Year 2025

Reference Quarter	Number Of Complaints	Complaints Resolution (Settled/Closed)	Unresolved Complaints
First Quarter, 2025	0	0	0
Second Quarter, 2025	0	0	0
Third Quarter, 2025	0	0	0
Fourth Quarter, 2025	0	0	0





VI. CSR/ SUSTAINABLE FINANCE FRAMEWORK

1. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

The Bank is the sole donor of the Jose P. Castillo Foundation since 2006 that provides financial assistance to public schools in Bagabag and nearby towns where bank's branches are located. Yearly, more than one thousand (1,000) of students were being supported by the Foundation.

Furthermore, the following are the significant features in the bank's Environmental and Social Risk Management Framework:

a. Sustainability Strategic Objectives

To promote corporate accountability and transparency on the impacts of businesses on environment and society and incorporate appropriate risk mitigation measures in overall credit management. The risk appetite of the bank is low since most of the borrowers are from agricultural sector.

b. Overview of the E&S Risk Management System

An ESMS helps the Bank to:

- Identify environmental and social risk associated with clients/investees and understand the potential impact on its portfolio;
- Systematically assess and manage environmental and social risks;
- Implement the necessary steps within its risk management system including documentation and recordkeeping;
- Monitor client/investee compliance with national environmental and social regulations and international best practices and standards;
- Require clients/investees to implement mitigation measures for identified environmental and social risk;
- Identify social and environmental business opportunities; and
- Develop a good reputation among clients/investees, investors and other relevant parties in the financial market.

c. ESRM in the Credit Risk Management System

In defining the credit risk appetite of the bank, the environmental and social (E&S) risk shall be considered. The basis for the evaluation of E&S risks shall be type of loan, location of borrower, project and/or collateral and industry of the borrower.

d. Products/services Aligned with Sustainability Standards and Practices

Agriculture

In the agriculture sector, if a loan application (New/Renewal/Restructuring) involves farming/crop production activities, poultry and dairy, it has to be checked against the exclusion list, if there is any environmentally or socially adverse agricultural practices involved such as use of pesticides, agro-chemicals leading to top soil depletion, groundwater contamination, use of nitrogenous fertilizers instead of organic fertilizers leading to nitrous oxide emissions etc. Agribusiness involving sorting, packaging, distribution and sales will not require completing ESDD checklist.

MSME

In the micro/small enterprise category sector, if the following activities are involved, then a loan application worth above PhP 500 thousand will be subject to due diligence using generic ESDD checklist, in addition to the exclusion list, even if the loan amount is less:

- Washing, dyeing and finishing units of RMG sector (water, chemical pollution)
- Small steel re-rolling mills (operational health and safety, thermal, air pollution)
- Brick kilns (air pollution, child labor, burning of fossil fuel)
- Units for tanning, dressing and dyeing of leather and fur (water, chemical, air pollution)
- Pesticides, agrochemical and nitrogen manufacturing units (land contamination, water, air pollution)
- Chemicals and chemical products manufacturing units (safety, pollution)
- Rubber and plastic products manufacturing units (pollution)
- Batteries and accumulators manufacturing units (chemical pollution)

All loan applications (New/Renewal/Rescheduling/Restructuring) in the medium enterprise sector will have to undergo E&S due diligence as per the generic or sector specific ESDD checklist.

Trade, Retail, and Microfinance

For all trade, retail and microfinance only the exclusion list will have to be consulted. Any transaction in the Exclusion List will have to be terminated.

e. Breakdown of E&S risk exposures of the bank per industry or sector

Environmental issues may present themselves as temporary or permanent changes to the atmosphere, water, and land due to human activities, which can result in impacts that may be either reversible or irreversible. The following are the types of risks that may arise due to client's business operation. The intensity and degree of risks will vary as per the type of industry, scale and location, manufacturing processes adopted, etc.

Environmental

- Air emissions and ambient air quality
- Energy use and conservation
- Wastewater and water quality
- Water use and conservation
- Hazardous Material Use
- Land contamination
- Biodiversity and natural resources

Social

Social issues may emerge in the workplace and may also impact surrounding communities. Performance in the areas listed below can represent social risks to the client's operation:

- Labour and working conditions
- Occupational health and safety
- Community health, safety, and security
- Land acquisition and involuntary resettlement
- Indigenous peoples
- Cultural heritage

f. Information on the Existing and Emerging E&S Risk and Impact to the Bank

E&S Risks on the Operational Management System

E&S risks events can cause severe disruption to the bank's operations. For example, severe weather events could adversely impact business continuity, offices, processes, and staff that could lead to financial losses. On the other hand, social risk concerns such as public health issues, labor issues, and human rights violations can result to vacancies, absenteeism or affect personnel morale which can adversely impact operations.

g. Other Initiatives to Promote Adherence to Internationally Recognized Sustainability Standards and Practices

E&S Due Diligence

- Review the project's compliance with applicable national environmental and social regulations;
- Review the project's track record on environmental and social issues, in terms of potential non-compliance with national regulations or negative publicity;
- Review the project's compliance against international standards or industry best practice regarding environmental and social issues; and
- Documenting all required information. Every loan file should have a fully completed E&S checklist, copies of all permits, clearances (DENR clearance certificate, BFP clearances, ESAP, E&S Covenants in loan agreement and after disbursement subsequent supervision reports.

h. Progress of Implementation of Initiatives Undertaken to Integrate Sustainability Principles to Governance Framework, Risk Management System, Business Strategy, and Operations

The Bank approved the Environmental and Social Risk Management Framework last July 23, 2020, as per B.R. No. 22, S. 2020. On January 14, 2022, the transition plan was approved as a guide for the attainment of the desired objective. Moreover, the existing Environmental and Social Risk Management Framework was amended to promote corporate accountability and transparency on the impacts of businesses on environment and society and incorporate appropriate risk mitigation measures in overall credit management.

Even before the mandate from BSP, the bank is compliant with the solid waste management system and an advocate of protecting the environmment. As a matter of fact, most of the Internal reports are printedon the back of used bond papers to help minimize the cutting of trees for paper production. Transactions outside the bank that require transport were also trimmed down and on a scheduled basis to minimize greenhouse gases that is currently damaging the environment.

i. Alignment with the United Nations Sustainable Development Goals (SDGs)

The Bank recognizes the importance of supporting the United Nations Sustainable Development Goals (SDGs) through its business operations, governance framework, environmental stewardship initiatives, employee welfare programs, and community development activities. Through the Jose P. Castillo Foundation, which has provided educational assistance to more than one thousand (1,000) students annually since 2006, the Bank contributes to SDG 4 (Quality Education) by promoting access to education and human capital development within its service areas.

The Bank's lending activities, particularly to agricultural borrowers, support SDG 1 (No Poverty), SDG 2 (Zero Hunger), and SDG 8 (Decent Work and Economic Growth) by providing financial resources that help improve agricultural productivity, support livelihood generation, and strengthen rural economic development. Through its Environmental and Social Risk Management Framework, the Bank integrates sustainability considerations into its credit risk management process, thereby supporting SDG 9 (Industry, Innovation and Infrastructure), SDG 12 (Responsible Consumption and Production), SDG 13 (Climate Action), SDG 15 (Life on Land), and SDG 16 (Peace, Justice and Strong Institutions).

The Bank likewise promotes employee welfare through the provision of medical reimbursement assistance of up to ₱5,000 per employee and insurance coverage under the Alalay sa Buhay Program, contributing to SDG 3 (Good Health and Well-Being). The acceptance of on-the-job trainees (OJTs) and interns supports SDG 4 (Quality Education) and SDG 8 (Decent Work and Economic Growth) by providing practical workplace learning opportunities for students and future professionals.

As part of its environmental sustainability initiatives, the Bank has installed solar energy facilities in its Main Branch/Head Office, supporting SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action). The Bank further promotes environmental responsibility through proper waste segregation, digitization of records, reduced paper consumption, utilization of the reverse side of used bond papers for internal reports, scheduled transportation activities to reduce fuel consumption, early shutdown of air-conditioning units before the close of business hours, and strict implementation of energy conservation practices such as turning off unused lights and equipment. These initiatives contribute to SDG 11 (Sustainable Cities and Communities), SDG 12 (Responsible Consumption and Production), SDG 13 (Climate Action), SDG 14 (Life Below Water), and SDG 15 (Life on Land).

The Bank also promotes SDG 10 (Reduced Inequalities) through its commitment to financial inclusion and provision of banking services to rural and underserved communities. Through collaboration with educational institutions, local communities, regulators, and other stakeholders in implementing sustainability and community development programs, the Bank contributes to SDG 17 (Partnerships for the Goals).

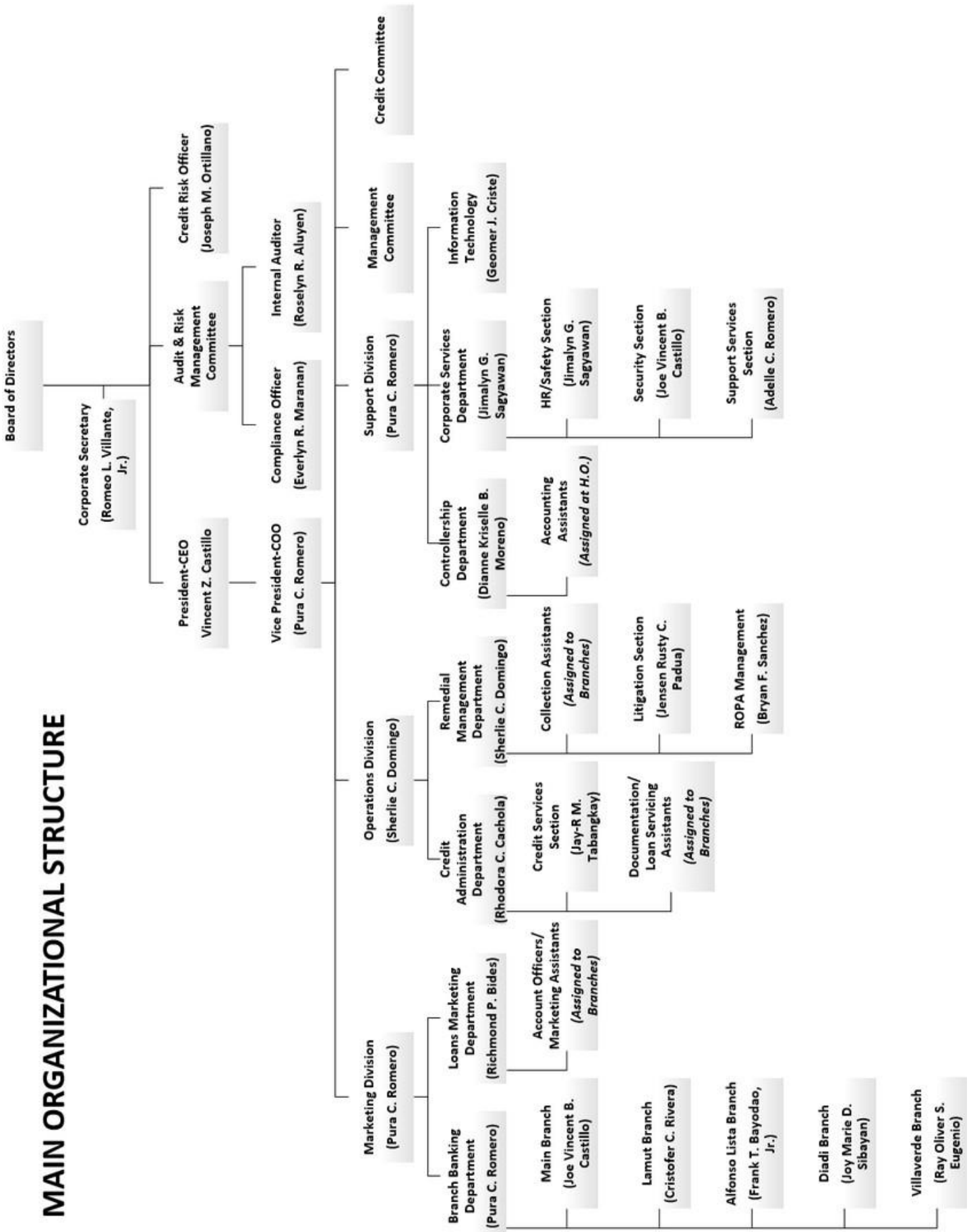
The Bank remains committed to continuously strengthening its sustainability practices and integrating environmental, social, and governance (ESG) considerations into its governance framework, risk management system, business strategy, and day-to-day operations in support of sustainable and inclusive economic growth.





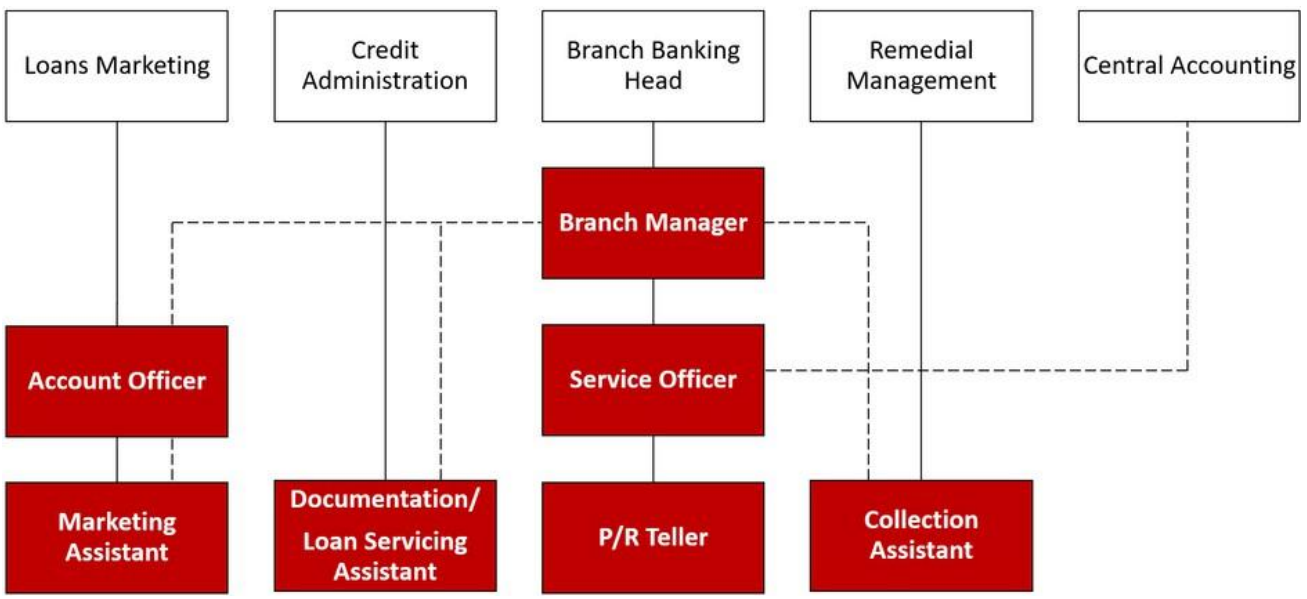
VII. CORPORATE INFORMATION

1. ORGANIZATIONAL STRUCTURE



Expanded Organizational Structure of Branch Operations

The following diagram provides a detailed view of the reporting and functional relationships among personnel involved in branch banking, lending, credit administration, remedial management, and accounting support functions.



At the branch level, the Branch Manager serves as the overall head of branch operations and reports to the Branch Banking Head. The Branch Manager is responsible for the implementation of the bank's policies, achievement of business objectives, supervision of personnel, and delivery of quality customer service within the branch.

Supporting branch operations is the Service Officer, who oversees deposit and cash operations, customer service activities, and compliance with internal control procedures. Reporting to the Service Officer are the Paying/Receiving (P/R) Tellers, who handle daily cash transactions and frontline banking services.

Account Officers and/or Marketing Assistants, Documentation/Loan Servicing Assistants, and Collection Assistants report administratively to the Branch Managers. Meanwhile, Central Accounting provides accounting oversight and support to branch operations, ensuring the timely recording, reconciliation, and reporting of financial transactions in accordance with applicable accounting standards and regulatory requirements.

2. LIST OF STOCKHOLDERS AND STOCKHOLDINGS

Name of Stockholder	Nationality	% of Stockholdings	Voting Status
1. Douglas Z. Castillo	Filipino	24.76	In person
2. Pura C. Romero	Filipino	9.91	In person
3. Adelle C. Romero	Filipino	7.43	In person
4. Camille R. Cueto	Filipino	7.43	Via proxy
5. Victor Z. Castillo	Filipino	6.19	In person
6. Joe Vincent B. Castillo	Filipino	6.19	In person
7. Jeffrey Patrick B. Castillo	Filipino	6.19	In person
8. Jennifer Magdalena C. Pingul	Filipino	6.19	In person
9. Vincent Z. Castillo	Filipino	4.95	In person
10. Veronica G. Castillo	Filipino	4.95	Via proxy
11. Valerie G. Castillo	Filipino	4.95	Via proxy
12. Regina Joelle G. Castillo	Filipino	4.95	Via proxy
13. Genevieve Isabelle G. Castillo	Filipino	4.95	Via proxy
14. Teresita I. Hernaez	Filipino	0.72	In person
15. Lorna P. Bugayong	Filipino	0.23	In person

Name of Stockholder	Nationality	% of Stockholdings	Voting Status
16. Marlyne R. Galapon	Filipino	0.000103	In person
17. Johnson D. Saquing	Filipino	0.000103	In person
18. Allan Anthony D. Cadang	Filipino	0.000103	In person



3. PRODUCTS AND SERVICES

The Bank offers a range of deposit and loan products designed to meet the savings, financing, and investment needs of its clients, while promoting financial inclusion and supporting local economic development.

Deposit Accounts

Regular Savings Account
The Regular Savings Account is a basic deposit product that allows clients to safely deposit and withdraw funds while earning interest on their balances. It is designed to support everyday banking needs with ease of access and convenience. To earn interest, a minimum maintaining balance of ₱500 is required. This product promotes savings mobilization and financial discipline among depositors.

Certificate of Time Deposit
The Certificate of Time Deposit is an interest-bearing deposit account with a fixed term that generally offers higher interest rates than regular savings accounts. The deposit is intended to be held until maturity. However, pre-termination or withdrawal prior to the agreed maturity date may be allowed, subject to the Bank's existing policies, including applicable penalties and/or adjustments to accrued interest.

Loan Products

Agrarian Reform Loan
The Agrarian Reform Loan is a credit facility extended to agrarian reform beneficiaries to support land acquisition, farm development, and agricultural productivity. It is designed to promote rural development and enhance the productivity and income of farmers engaged in agrarian reform programs.

Agricultural Loan
The Agricultural Loan is intended for farmers, fisherfolk, and agribusiness operators engaged in crop production, livestock raising, aquaculture, and related agricultural activities. The loan supports the financing of farm inputs, equipment, and other production requirements aligned with the agricultural cycle.

Auto Loan

The Auto Loan is a financing facility granted to qualified borrowers for the acquisition of brand-new or second-hand motor vehicles. The loan is payable in installment terms and is structured to provide clients with accessible financing options for transportation and business-related mobility needs.

Back-to-Back Loan

The Back-to-Back Loan is a secured credit facility where the borrower's existing deposit, typically a time deposit, serves as collateral. This product provides clients with liquidity while maintaining the security of deposit-backed lending for the Bank.

Housing Loan

The Housing Loan is a long-term credit facility intended for the purchase, construction, renovation, or improvement of residential properties. It supports clients in acquiring or enhancing their housing needs through structured repayment terms.

Microenterprise Loan

The Microenterprise Loan is designed to provide financial assistance to microentrepreneurs for working capital, inventory acquisition, and small business expansion. It aims to support income-generating activities at the grassroots level and promote entrepreneurship.

Micro and Medium Enterprise Loan

The Micro and Medium Enterprise Loan is a financing product intended for micro and medium-scale businesses to support operational needs, business expansion, equipment acquisition, and working capital requirements. It plays a key role in supporting local economic development and enterprise growth.

Motorcycle Loan

The Motorcycle Loan is a financing facility that enables clients to purchase motorcycles for personal use, business operations, or transportation purposes. The loan is payable in installments and is structured to provide affordable mobility financing solutions.

Consumer Loan

The Consumer Loan is a personal financing product granted to individuals for personal or household needs, including education, medical expenses, appliances, and other consumption purposes. It provides flexible financial support to meet short-term funding requirements.

Small and Medium Enterprise Loan

The Small and Medium Enterprise Loan is a business financing facility designed to support the growth and expansion of small and medium enterprises. It may be used for working capital, capital expenditures, and operational improvements to strengthen business sustainability and competitiveness.

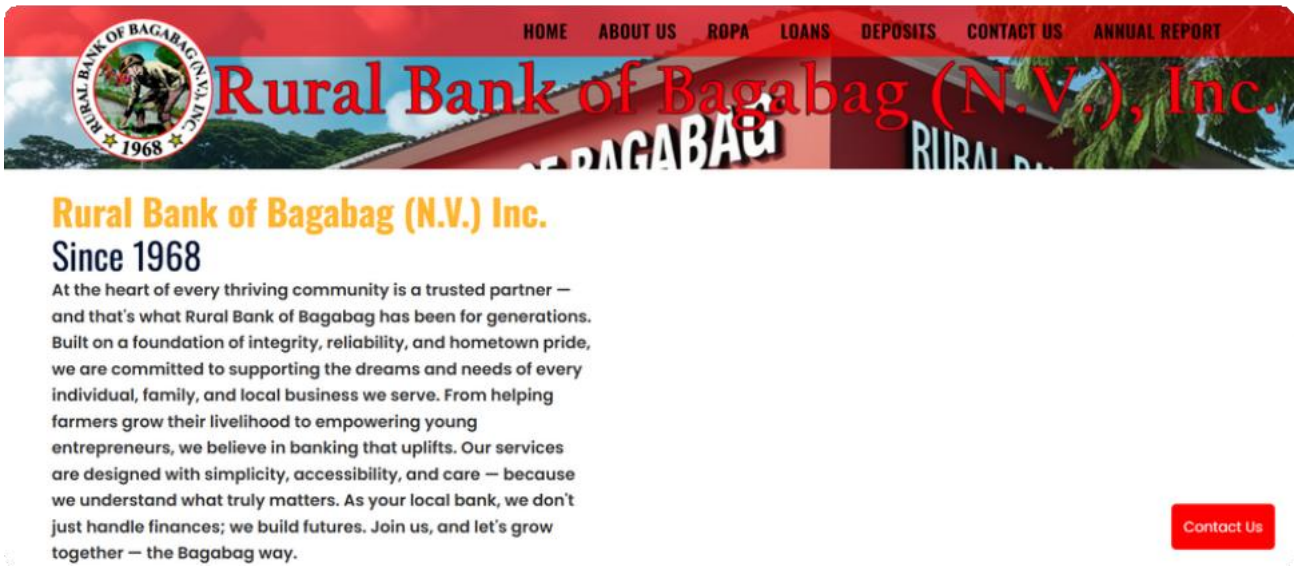


4. OFFICIAL WEBSITE

Address

rbbagabag-live.vercel.app

Homepage



As part of its digital transformation initiatives, the Bank has established its official website to serve as an online source of information for customers, stockholders, and other stakeholders. The website currently provides essential information regarding the Bank's products and services, corporate profile, branch locations, and contact details.

Management is continuously enhancing the website by expanding its content, improving user accessibility, and incorporating additional features that will strengthen stakeholder engagement, support financial consumer protection objectives, and improve the delivery of corporate disclosures. The website remains a work in progress and forms part of the Bank's broader efforts to strengthen its digital presence and customer service capabilities.

5. LIST OF BANKING OFFICES



MAIN BRANCH
Branch Manager: Joe Vincent B. Castillo
Address: 65-A, National Hwy, San Pedro, Bagabag, Nueva Vizcaya
Contact Numbers: (078)332-2013 / (0932)891-0271
Email: rbbagabag@rbap.org



LAMUT BRANCH
Branch Manager: Cristofer C. Rivera
Address: National Hwy, Poblacion West, Lamut, Ifugao
Contact Number: (0936) 579-1463



ALFONSO LISTA BRANCH
Branch Manager: Frank T. Bayodao, Jr.
Address: Lista-Paracelis Road, Santa Maria, Alfonso Lista, Ifugao
Contact Number: (0905) 742-5059



DIADI BRANCH
Branch Manager: Joy Marie D. Sibayan
Address: National Hwy, Poblacion, Diadi, N.V.
Contact Number: (0935)847-0604



VILLAVERDE BRANCH
Branch Manager: Ray Oliver S. Eugenio
Address: Bintawan Provincial Road, Ibung, Villaverde, NV
Contact Number: (0935) 305-8241



VIII. CAPITAL ADEQUACY RATIO

1. CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO

Item	Nature of Item	Amount
A.	**Calculation of Qualifying Capital**	
	Tier 1 Capital (Sum of A.2 and A.3)	185,110,588.40
	Common Equity Tier 1 Capital	185,110,588.40
	Additional Tier 1 Capital	0.00
	Tier 2 Capital	2,520,201.57
	Total Qualifying Capital *[Sum of A.1 and A.4]*	187,630,789.97
B.	**Calculation of Risk-Weighted Assets**	
	Total Credit Risk-Weighted Assets [*B.1(d) minus B.1(h)*]	576,266,906.87
	Total Operational Risk-Weighted Assets	107,303,144.52
	Total Risk-Weighted Assets [*Sum of B.1, B.2 and B.3*]	683,570,051.39
C.	**Minimum Capital Ratios**	
	RISK-BASED CAPITAL ADEQUACY RATIO [A.5 divided by B.4 multiply by 100]	**27.45**
	Common Equity Tier 1 Ratio [A.2 divided by B.4 multiply by 100]	**27.08**
	Capital Conservation Buffer [C.2 minus 6]	**25.46**
	Tier 1 Capital Ratio [A.1 divided by B.4 multiply by 100]	**27.08**

2. QUALIFYING CAPITAL

Item	Nature of Item	Amount	
A.	**Tier 1 Capital**		
	Common Equity Tier 1 (CET1) Capital [Sum of A.1(1) to A.1 (8)]		205,362,484.00
	Paid up common stock	96,807,300.00	
	Retained earnings	126,771,731.00	
	Undivided profits	(18,216,547.00)	
	Deductions from CET1 Capital [Sum of A.2(1) to A.2(17)]		20,251,895.60
	Deferred tax asset, net	26,252,421.60	
	Other intangible assets, net	12,561.00	
	Defined benefit pension fund assets (liabilities) 5/	(6,013,087.00)	
	Total CET1 Capital		185,110,588.40
	Additional Tier 1 (AT1) Capital		0.00
	Total AT1 Capital		0.00
	Total Tier 1 Capital		185,110,588.40
B.	**Tier 2 Capital**		
	Tier 2 Capital		2,520,201.57
	General loan loss provision	2,520,201.57	
	Total Tier 2 Capital	2,520,201.57	
C.	**Total Qualifying Capital**		187,630,789.97

3. RISK-WEIGHTED ON-BALANCE SHEET ASSETS

Item	Nature of Item	Net Carrying Amount (1)	Risk Weight (in %) (2)	Risk Weighted Amount (3) = (1) * (2)
A.	0% Risk Weight –			
	Cash on hand (including foreign currency notes and coins on hand acceptable as international reserves)	14,824,794.85		
	Peso denominated claims on or portions of claims guaranteed by or collateralized by peso-denominated securities issued by the Philippine National Government and the BSP			
	(a) Due from BSP	12,393,487.10		
	(e) Debt Securities at Amortized Cost	17,221,036.28		
	Sub-total	44,439,318.23	0	0.00
B.	20% Risk Weight -			
	Checks and other cash items (including foreign currency checks and other cash items denominated in currencies acceptable as international	1,501,924.39		
	Sub-total [Sum of B (1) to B (9)]	1,501,924.39	20	300,384.88
C.	50% Risk Weight -			
	Loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower, which are not classified as non-performing	97,816,717.81		
	Sub-total [Sum of C(1) to C(2)]	97,816,717.81	50	48,908,358.91
D.	75% Risk Weight –			
E.	100% Risk Weight –			
	Non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower.	24,382,416.58	100	24,382,416.58
F.	150% Risk Weight –			
	Real and other properties acquired and Non-current assets held for sale, net of allowance for losses	57,858,863.09		
	Sub-total [Sum of F(1) to F(2)]	57,858,863.09	150	86,788,294.64
G.	100 % Risk Weight –			
	Other Assets			
	Total Assets per Balance Sheet	659,618,386.00		
	General Loan Loss Provisions per Balance Sheet 3/	2,520,201.57		
	Total Exposures excluding Other Assets [Sum of A(12), B(10), C(3), D(1), E(1), and F(3)]	225,999,240.10		
	Sub-total	436,139,347.47		
	Deductions from Other Assets			
	Deferred tax asset, net of deferred tax liability [Refer to Part II Item A.2.6]	26,252,421.60		
	Other intangible assets, net [Refer to Part II Item A.2.8]	12,561.00		
	Defined benefit pension fund assets (liabilities) [Refer to Part II Item A.2.9]	(6,013,087.00)		
	Total Deductions *[Sum of G(2)(a) to G(2)(s)]*	20,251,895.60		
	Net Other Assets *[G (1)(d) minus G (2)(t)]*	415,887,451.87	100	415,887,451.87
H.	TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS			576,266,906.87

4. OPERATIONAL RISK-WEIGHTED ASSETS

Item	Nature of Item	Gross Income			
		Year 3	Year 2	Last Year	Average
A. Net interest income					
A.1	Interest Income	73,320,580.24	70,086,375.87	69,619,868.55	
A.2	Interest Expense	5,064,507.78	5,251,340.00	4,882,578.43	
A.3	Sub-total *(A.1 minus A.2)*	68,256,072.46	64,835,035.87	64,737,290.12	
B. Other non-interest income					
B.2	Fees and Commissions Income	6,096,410.77	5,093,981.26	3,741,595.72	
B.6	Other Income	369,446.09	762,069.74	714,387.01	
B.7	Sub-total (Sum of B.1 to B.6)	6,465,856.86	5,856,051.00	4,455,982.73	
C. Gross Income *(Sum of A.3 and B.7)*		74,721,929.32	70,691,086.87	69,193,272.85	71,535,429.68
D. Capital Charge *[C (average) multiply by Capital*					8,584,251.56
E. Adjusted Capital Charge *(D multiply by 125%)*					10,730,314.45
F. TOTAL OPERATIONAL RISK-WEIGHTED ASSETS *(E multiply by 10)*					107,303,144.52



IX. AUDITED FINANCIAL STATEMENTS

Alas Oplas & Co., CPAs

Alas Oplas & Co., CPAs
7/F Philippine AXA Life Centre, 1286 Sen. Gil Puyat Avenue, Makati City Philippines 1200
Phone No.: (632) 7116-4366 | Email: aocheadoffice@alasoplas.com | www.alasoplascpas.com

Offices:
Makati Alabang Cavite Ortigas Paranaque Bulacan Isabela Nueva Ecija Bacolod Iloilo Bohol Legazpi

BKR INTERNATIONAL | INDEPENDENT MEMBER

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **RURAL BANK OF BAGABAG (N.V.), INC.** (the "Bank"), is responsible for the preparation and fair presentation of financial statements including the schedules attached therein, for the years ended December 31, 2025 and 2024, in accordance with the prescribed financial reporting framework indicated therein, and such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

Alas, Oplas & Co., CPAs, the independent auditor appointed by the stockholders for the years ended December 31, 2025 and 2024, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

MARLYNE R. GALAPON
Chairman of the Board

JOHNSON D. SAQUING
President

JOE VINCENT B. CASTILLO
Treasurer

Signed this 8th day of April, 2026.

65-A, National Hwy, San Pedro, Bagabag, Nueva Vizcaya, 3711 – (078) 332-2013 – (0906) 304-0312 – rbbagabag@rbap.org

Alas Oplas & Co., CPAs

INDEPENDENT AUDITORS' REPORT

7/F Philippine AXA Life Centre
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Offices:
Makati Alabang Ortigas Paranaque Cavite
Bulacan Isabela Nueva Ecija Bacolod Iloilo
Legazpi La Union Laguna Quezon Province FCIE

To the Stockholders and the Board of Directors
RURAL BANK OF BAGABAG (N.V.), INC.
65A National Highway, San Pedro
Bagabag, Nueva Vizcaya

Qualified Opinion

We have audited the financial statements of **RURAL BANK OF BAGABAG (N.V.), INC.** (the "Bank") which comprise the statements of financial position as of December 31, 2025 and 2024, and the related statements of comprehensive income (loss), statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policies and other explanatory information.

In our opinion, except for the effect on the financial statements of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standard (PFRS) Accounting Standards.

Basis for Qualified Opinion

As discussed in Note 4 to the financial statements, the Bank adopted PFRS 9, Financial Instruments on January 1, 2025, except for the impairment requirements of the new standard. PFRS 9 introduces a forward-looking expected credit loss (ECL) model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts.

Following the guidance of Circular 1011 and Appendix 100 of the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas in adopting PFRS 9 impairment requirements, the Bank adopted Appendix 15 of the MORB in assessing and measuring impairment for its credit exposures. As of December 31, 2025 and 2024, the Bank's total allowance on credit losses amounted to ₱143.28 million and ₱96.33 million, as disclosed in Note 12. As the Bank has not implemented the ECL requirements of PFRS 9, any adjustments to the amounts of surplus, allowance for credit losses and related deferred tax assets as of December 31, 2025 and 2024 have not been determined.

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 audits of the financial statements of public interest entities in the Philippines, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

BKR INTERNATIONAL | INDEPENDENT MEMBER

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

Management is responsible for the preparation of the financial statements in accordance with PFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 accordance with PFRS.

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

Alas Oplas & Co., CPAs

The Supplementary Information Required under Banko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulation No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 31 and Revenue Regulations Nos. 15-2010 on taxes, duties and license fees paid or accrued during the taxable year in Note 30 to the financial statements are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of **RURAL BANK OF BAGABAG (N.V.), INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from February 19, 2025, to February 18, 2028
BIR A.N. 08-001026-000-2024, issued on January 5, 2024; effective until January 4, 2027
BSP A.N. (Firm) 0190-BSP, Group B, issued on August 17, 2021; valid for 2021 to 2025 audit period
SEC A.N. (Firm) 0190-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period
TIN 002-013-406-000

By:

DANILO T. ALAS
Partner
CPA License No. 0027120
BOA Registration No. 0190/P-001, valid from February 19, 2025, to February 18, 2028
BIR A.N. 08-001026-001-2024, issued on January 5, 2024; effective until January 4, 2027
BSP A.N. (Individual) 27120-BSP, Group B, issued on August 17, 2021; valid for 2021 to 2025 audit period
SEC A.N. (Individual) 27120-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period
TIN 132-466-021-000
PTR No. 10767234, issued on January 5, 2026, Makati City

April 8, 2026
Makati City, Philippines

RURAL BANK OF BAGABAG (N.V.), INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2025 AND 2024
In Philippine Peso

	Notes	2025	2024
ASSETS			
Cash and other cash items	8	**16,326,719**	16,838,140
Due from Bangko Sentral ng Pilipinas	9	**12,393,487**	12,523,698
Due from other banks	10	**222,794,423**	110,961,339
Investment securities at amortized cost	11	**17,221,036**	–
Held-to-maturity financial assets	11	**–**	17,221,036
Loans and other receivables – net	12	**294,808,380**	456,250,048
Bank premises, furniture, fixtures and equipment – net	13	**10,228,993**	12,988,073
Intangible assets – net	14	**12,561**	12,561
Investment properties – net	15	**57,858,863**	36,209,425
Deferred tax asset	22	**26,252,421**	14,691,487
Other assets – net	16	**1,721,503**	1,016,441
TOTAL ASSETS		**659,618,386**	678,712,248
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	17	**439,769,727**	434,066,595
Income tax payable		**–**	3,609,456
Other liabilities	18	**14,486,174**	17,457,166
Total Liabilities		**454,255,901**	455,133,217
EQUITY			
Common stock	19	**96,807,300**	96,807,300
Surplus reserves	19	**148,000**	148,000
Surplus free	19	**108,407,185**	126,623,731
Total Equity		**205,362,485**	223,579,031
TOTAL LIABILITIES AND EQUITY		**659,618,386**	678,712,248

See Notes to Financial Statements.

RURAL BANK OF BAGABAG (N.V.), INC.
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
In Philippine Peso

	Notes	2025	2024
INTEREST INCOME			
Due from other banks	10	**2,251,603**	916,734
Investment securities at amortized cost	11	**725,556**	–
Held-to-maturity financial assets	11	**–**	1,662,133
Loans and other receivables	12	**62,658,608**	68,614,278
		65,635,767	71,193,145
INTEREST EXPENSE			
Deposit liabilities	17	**(4,877,344)**	(4,882,579)
NET INTEREST INCOME		**60,758,423**	66,310,566
OTHER INCOME	20	**21,190,545**	16,189,928
TOTAL OPERATING INCOME		**81,948,968**	82,500,494
OPERATING EXPENSES	21	**(45,583,483)**	(44,337,976)
NET OPERATING INCOME BEFORE PROVISION		**36,365,485**	38,162,518
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	25	**(61,220,296)**	(15,429,238)
PROFIT (LOSS) BEFORE TAX		**(24,854,811)**	22,733,280
INCOME TAX BENEFIT (EXPENSE)	22	**6,638,265**	(5,382,756)
PROFIT (LOSS)		**(18,216,546)**	17,350,524
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME (LOSS)		**(18,216,546)**	17,350,524

See Notes to Financial Statements.

RURAL BANK OF BAGABAG (N.V.), INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
In Philippine Peso

	Capital Stock (Note 19)	Surplus Reserves (Note 19)	Surplus Free (Note 19)	Total
Balance at December 31, 2023	96,807,300	148,000	109,273,207	206,228,507
Comprehensive income:				
Profit	–	–	17,350,524	17,350,524
Balance at December 31, 2024	96,807,300	148,000	126,623,731	223,579,031
Comprehensive loss:				
Loss	–	–	(18,216,546)	(18,216,546)
Balance at December 31, 2025	**96,807,300**	**148,000**	**108,407,185**	**205,362,485**

See Notes to Financial Statements.

RURAL BANK OF BAGABAG (N.V.), INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
In Philippine Peso

	Notes	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before tax		**(24,854,811)**	22,733,280
Adjustments for:			
Interest income	10,11	**(2,977,159)**	(2,578,867)
Amortization	14	**–**	24,311
Interest expense – lease liabilities	18	**187,486**	261,563
Income from assets acquired	20	**(5,398,303)**	(12,206,623)
Gain on lease modification	20	**–**	(51,165)
Depreciation	21	**4,177,472**	5,412,820
Provision for credit and impairment losses	25	**61,220,296**	15,429,238
Operating cash flows before working capital changes		**32,354,981**	29,024,557
Decrease (increase) in operating assets:			
Loans and other receivables		**71,414,421**	(70,095,989)
Other assets		**335,037**	1,294,776
Increase (decrease) in operating liabilities:			
Deposit liabilities		**5,703,132**	16,764,874
Other liabilities		**97,688**	(4,847,095)
Cash generated from (used in) operations		**109,905,259**	(27,858,877)
Income tax paid		**(9,572,224)**	(8,941,708)
Interest received		**3,572,857**	1,983,168
Net cash generated from (used in) operating activities		**103,905,892**	(34,817,417)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from redeemed held-to-maturity financial assets	11	**–**	20,000,000
Acquisition of bank premises, furniture, fixtures and equipment	13	**(582,431)**	(794,800)
Proceeds from disposal of investment properties	15	**9,874,157**	19,189,419
Net cash generated from investing activities		**9,291,726**	38,394,619
CASH FLOWS FROM FINANCING ACTIVITY			
Payment of lease liabilities – principal and interest	18	**(2,006,166)**	(1,914,050)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**111,191,452**	1,663,152
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**16,838,140**	15,394,060
Due from Bangko Sentral ng Pilipinas		**12,523,698**	12,647,836
Due from other banks		**110,961,339**	110,618,129
		140,323,177	138,660,025
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	8	**16,326,719**	16,838,140
Due from Bangko Sentral ng Pilipinas	9	**12,393,487**	12,523,698
Due from other banks	10	**222,794,423**	110,961,339
		251,514,629	140,323,177

See Notes to Financial Statements.

1. CORPORATE INFORMATION

The **RURAL BANK OF BAGABAG (N.V.), INC.** (the "Bank"), was registered with the Philippine Securities and Exchange Commission (SEC) with Registration No. 35902 on July 29, 1968. On August 19, 1968, the Bank was authorized by the Bangko Sentral ng Pilipinas (BSP) to engage in rural banking business.

The Bank was formed to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises, to have and exercise all authority and power, to do and perform all acts, and to transact all business which may legally be had or done by rural banks organized under and in accordance with the Rural Banks' Act, as it exists or may be amended; and to do all other things incident thereto and necessary and proper in connection with said purpose within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

The Bank's principal office is located at 65A National Highway, San Pedro, Bagabag, Nueva Vizcaya and is domiciled in the Philippines. The Bank has five (5) branches as follows:

Branches	Address
Alfonso Lista	Alfonso Lista, Bagabag, Nueva Vizcaya
Bagabag	Bagabag, Nueva Vizcaya
Diadi	Diadi, Nueva Vizcaya
Lamut	Lamut, Ifugao
Villaverde	Villaverde, Nueva Vizcaya

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.01 Statement of Compliance

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

PFRS Accounting Standards include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the Philippine Interpretations Committee – IFRIC as approved by the FSRSC and adopted by the SEC. All provisions and requirements of PFRSs are applied by the Bank in preparation of financial statements except for the following standards:

PFRS 9 Financial Instruments – for classification and measurement, the Bank retained the requirements set under PAS 39, Financial Instruments: Recognition and Measurement while for impairment, the Bank adopted Appendix 15 of the Manual of Regulations for Banks (MORB) that provides arbitrary rate for provisioning based on number of days past due, collateral and type of loan, which are inconsistent with the requirements of the new standard.

2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI).

2.03 Presentation and Functional Currency

Items included in the financial statements of the Bank are measured using Philippine Peso, the currency of the primary economic environment in which the Bank operates (the "functional currency"). All presented financial information has been rounded to the nearest Peso, except when otherwise specified.

2.04 Use of Judgments and Estimates

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the Bank's financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of the Bank's significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an on-going basis. These are based on management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.05 Going Concern Assumption

The Bank is not aware of any significant uncertainties that may cast doubts upon the Bank's ability to continue as a going concern.

3. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

3.01 New Standard Adopted by the Bank

3.01.01 PFRS 9, Financial Instruments
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. It introduces new requirements for classification and measurement, impairment, and hedge accounting.

Classification and Measurement
PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value through profit or loss or through other comprehensive income (OCI), depending on their classification by reference to the business model within which these are held and its contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at FVTPL that is attributable to changes in the credit risk of that liability is recognized in OCI (rather than in statements of comprehensive income), unless this creates an accounting mismatch.

Transition to PFRS 9
As permitted by transitional provisions of PFRS 9, the Bank elected not to restate comparative figures. The Bank adopted PFRS 9 on January 1, 2025 and the comparative information for 2024 financial instruments in scope of PFRS 9 was not restated and was reported under PAS 39, thus not comparable with the information presented for 2025.

The adoption of PFRS 9 has resulted in changes mainly in the Bank's accounting policies for recognition, classification and measurement of financial assets. There were no changes in the classification of financial liabilities. PFRS 9 also significantly amends other standards dealing with financial instruments such as PFRS 7, *Financial Instruments: Disclosures*.

The adoption of PFRS 9 did not result to any adjustment in the account balances as of January 1, 2025

Set out below are disclosures relating to the impact of the adoption of PFRS 9 on the Bank:

Classification and measurement of financial assets

The measurement category and the carrying amount of financial assets in accordance with PAS 39 and PFRS 9 at January 1, 2025 are as follows:

	December 31, 2024 (PAS 39)		January 1, 2025 (PFRS 9)	
Financial assets	**Measurement category**	**Carrying amount**	**Measurement category**	**Carrying amount**
Cash and other cash items	Loans and receivables	16,838,140	Amortized cost	16,838,140
Due from Bangko Sentral ng Pilipinas	Loans and receivables	12,523,698	Amortized cost	12,523,698
Due from other banks	Loans and receivables	110,961,339	Amortized cost	110,961,339
Held-to-maturity investments	Held-to-maturity (HTM)	17,221,036	Amortized cost	17,221,036
Loans receivable – net	Loans and receivables	456,250,048	Amortized cost	456,250,048
Other financial assets	Loans and receivables	3,468,414	Amortized cost	3,468,414

3.02 New and Amended Standards and Interpretations Effective on January 1, 2025

3.02.01 Lack of Exchangeability (Amendments to PAS 21)
The amendments specify how to determine whether a currency is exchangeable into another currency, and which spot exchange rate to use when it is not.

The amendment is effective for reporting periods beginning on or after January 1, 2025.

Accordingly, this amendment had no impact on the Bank's financial statements as of the reporting date.

3.03 Standards Issued but Not Yet Effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

3.03.01 Standard Adopted by FRSC and Approved by the BOA

Insurance Contracts (PFRS 17 and its Amendments)
PFRS 17 sets out the requirements for the recognition, measurement, presentation, and disclosure of insurance contracts issued and reinsurance contracts held. The standard introduces a new measurement model based on fulfilment cash flows and a contractual service margin, separates insurance service results from financial results, and requires insurance revenue to be recognized as insurance coverage is provided rather than when premiums are received. Investment components are excluded from insurance revenue and presented as settlements of liabilities.

Amendments to PFRS 17, adopted by the FSRSC on August 19, 2020, provide clarifications on specific areas of the standard, including the treatment of insurance acquisition cash flows related to renewals outside the contract boundary, accounting for reinsurance contracts held in relation to onerous contracts and contracts with direct participation features, and the recognition of the contractual service margin in profit or loss under the general model.

Amendment to PFRS 17, Initial Application of PFRS 17 and PFRS 9 – Comparative Information introduces a transition relief option to reduce temporary accounting mismatches between insurance contract liabilities and related financial assets presented in comparative periods upon initial adoption.

On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. On February 14, 2025, the FSRSC approved the amendment to PFRS 17 that further defers the date of Initial application by an additional two (2) years, to annual periods beginning on or after January 1, 2027. This will provide more time for the insurance industry to fully prepare and assess the impact of adopting the said standard. All Mutual Benefits Associations (MBAs) doing business in the Philippines shall adopt PFRS 17 starting 1 January 2030. Early adoption is permitted, subject to the adoption of PFRS 9 and PFRS 15.

The Bank does not expect these amendments to have a material impact on its operations or financial statements.

Amendments to the Classification and Measurement of Financial Instruments (Amendments to PFRS 9 and 7)
Targeted amendments were issued by the IASB to address recent questions arising in practice, and to include new requirements not only for financial institutions but also for corporate entities. These amendments:

- clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
- clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
- add new disclosures for certain instruments with contractual terms that can change cash flows (such as some financial instruments with features linked to the achievement of environment, social and governance targets); and
- update the disclosures for equity instruments designated at fair value through other comprehensive income (FVOCI).

The amendments will be effective for annual reporting periods beginning on or after January 1, 2026. Early adoption is permitted but will need to be disclosed. The Bank does not expect these amendments to have a material impact on its operations or financial statements.

Annual Improvements to PFRS Accounting Standards – Volume 11
The IASB has issued proposed narrow-scope amendments to the PFRS Accounting Standards, along with accompanying guidance, as part of the regular maintenance and updating of the standards. A summary of improvements is set out below:

- PFRS 1 'First-time Adoption of PFRS Financial Reporting Standards' – Hedge accounting by a first-time adopter
- PFRS 7 'Financial Instruments: Disclosures' – Gain or loss on derecognition
- PFRS 7 'Financial Instruments: Disclosures' Implementation Guidance – Disclosure of differences between the fair value and the transaction price and disclosures on credit risk
- PFRS 9 'Financial Instruments' – Transaction price and lessee derecognition of lease liabilities
- PFRS 10 'Consolidated Financial Statements' – Determination of a 'de facto agent'
- PAS 7 'Statement of Cash Flows' – Cost method

The amendments will be effective for annual reporting periods beginning on or after January 1, 2026. Early application is permitted but will need to be disclosed. The Bank does not expect these amendments to have a material impact on its operations or financial statements.

Contracts Referencing Nature-dependent Electricity (Amendments to PFRS 9 and PFRS 7)
The amendments in Contracts Referencing Nature-dependent Electricity (Amendments to PFRS 9 and PFRS 7) are:

Amendments to PFRS 9 Financial Instruments

- the own-use requirements in PFRS 9 are amended to include the factors an entity is required to consider when applying PFRS 9:2.4 to contracts to buy and take delivery of renewable electricity for which the source of production of the electricity is nature-dependent; and
- the hedge accounting requirements in PFRS 9 are amended to permit an entity using a contract for nature-dependent renewable electricity with specified characteristics as a hedging instrument:
    - to designate a variable volume of forecast electricity transactions as the hedged item if specified criteria are met; and
    - to measure the hedged item using the same volume assumptions as those used for the hedging instrument.

Amendments to PFRS 7 Financial Instruments: Disclosures and PFRS 19 Subsidiaries without Public Accountability: Disclosures

PFRS 7 and PFRS 19 were amended to introduce disclosure requirements about contracts for nature-dependent electricity with specified characteristics.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026. Early application is permitted. The amendments shall be applied retrospectively; prior periods need not be restated to reflect the application of the amendments.

The Bank does not expect these amendments to have a material impact on its operations or financial statements.

Presentation and Disclosure in Financial Statements (PFRS 18)
PFRS 18 will replace PAS 1, *Presentation of Financial Statements*, introducing new requirements that will help to achieve comparability of the financial performance of similar entities and provide more relevant information and transparency to users. Even though PFRS 18 will not impact the recognition or measurement of items in the financial statements, its impacts on presentation and disclosure are expected to be pervasive, in particular those related to the statements of financial performance and providing management-defined performance measures within the financial statements.

Retrospective application is required in both annual and interim financial statements. Early application permitted.

The Bank will apply the new standard from its mandatory effective date of January 1, 2027.

Management is currently assessing the detailed implications of applying the new standard on the Bank's financial statements.

Subsidiaries without Public Accountability: Disclosures (PFRS 19)
PFRS 19 allows for certain eligible subsidiaries of parent entities that report under PFRSs to apply reduced disclosure requirements.

PFRS 19 will become effective for reporting periods beginning on or after January 1, 2027, with early application permitted. The Bank does not expect the standard to have a material impact on its operations or financial statements.

3.03.02 Deferred

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28)
The amendments clarify the accounting for the sale or contribution of assets between an investor and its associate or joint venture. Gains or losses are recognized in full when the transferred assets constitute a business, and only to the extent of the share of unrelated investors when the assets do not constitute a business.

On January 13, 2016, the FSRSC decided to postpone the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

4. MATERIAL ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Bank in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

4.01 Financial Assets

Policies applicable beginning January 1, 2025 (PFRS 9)

4.01.01 Initial Recognition and Measurement
Financial assets are recognized initially at fair value, which is the fair value of the consideration given. The initial measurement of financial assets, except for those designated at FVTPL, includes transaction cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets that are carried at FVTPL are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets at FVOCI and financial assets at FVTPL are subsequently carried at fair value. Financial assets at amortized cost are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at FVTPL' category are recognized in profit or loss in the period in which they arise. Dividend income from financial assets at FVTPL is recognized in profit or loss when the Bank's right to receive payments is established.

4.01.02 'Day 1' Difference

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

The Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statements of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

4.01.03 Business Model Assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- the expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking the "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations. The Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

4.01.04 Classification of Financial Assets

The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at amortized cost, (b) financial assets at FVOCI, and (c) financial assets at FVTPL. The classification of a financial asset at initial recognition largely depends on the Bank's business model for managing the asset and its contractual cash flow characteristics.

Financial Assets at Amortized Cost

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

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in statements of comprehensive income when the financial assets are derecognized and through amortization process.

As of December 31, 2025 and 2024, the Bank's cash and other cash items, due from BSP, due from other banks, loans and other receivables, investment securities at amortized cost, and other financial assets are classified under this category as disclosed in Notes 8, 9, 10, 11, and 16.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, checks and other cash items, amounts due from BSP and from other banks. Due from other banks earn interest as indicated in the instrument. These are unrestricted as to withdrawal and are recorded at face amount.

If a bank holding the funds of the Bank is in bankruptcy or financial difficulty, cash should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount. Once a depository bank is placed under receivership, the related cash balance is reclassified to 'Other Assets' to reflect the change in the nature of the asset from a liquid deposit to a claim for recovery.

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

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

Other receivables include sales contract receivable, accounts receivable, and accrued interest receivable.

- Sales contract receivable refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price. This shall be recorded initially at the present value of the installment receivable discounted at the imputed rate of interest.

  Discount shall be accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale

- Accounts receivable consists mainly of various claims and advances made by the Bank in the ordinary course of business.

- Accrued interest receivable represents interest earned on loans and other interest-bearing financial assets that have not yet been collected. Interest accrual is suspended for loans classified as non-performing in accordance with BSP regulations.

Other financial assets
This includes petty cash fund.

Financial assets at FVOCI
Financial assets at FVOCI include debt and equity securities.

Debt Instruments at FVOCI
For debt instruments that are not designated at FVTPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met: (1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (2) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment gains or losses of debt instruments measured at FVOCI are recognized directly in statements of comprehensive income. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to statements of comprehensive income as a reclassification adjustment.

As of December 31, 2025 and 2024, the Bank does not have debt instruments at FVOCI.

Equity Instruments at FVOCI
For equity instruments that are not held for trading, the Bank may irrevocably designate, at initial recognition, a financial asset to be measured at FVOCI when it meets the definition of equity instrument under PAS 32, *Financial Instruments: Presentation*. This option is available and made on an instrument-by-instrument basis.

Dividends from equity instruments held at FVOCI are recognized in statements of comprehensive income when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to statements of comprehensive income in subsequent periods, instead, these are transferred directly to retained earnings. Equity securities at FVOCI are not subject to impairment assessment.

As of December 31, 2025 and 2024, the Bank does not have equity instruments at FVOCI.

Financial Assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVTPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVTPL, or (c) mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

This category includes debt instruments whose cash flows, based on the assessment at initial recognition of the assets, are not “solely for payment of principal and interest”, and which are not held within a business model whose objective is either to collect contractual cash flows or to both collect contractual cash flows and sell. The Bank may, at initial recognition, designate a debt instrument meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset at FVTPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets.

This category also includes equity instruments which the Bank had not irrevocably elected to classify at FVOCI at initial recognition.

After initial recognition, financial assets at FVTPL are subsequently measured at fair value. Gains or losses arising from the fair valuation of financial assets at FVTPL are recognized in statements of comprehensive income.

As of December 31, 2025 and 2024, the Bank has no financial assets at FVTPL.

4.01.05 Reclassifications

The Bank reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVTPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in statements of comprehensive income.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVTPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to statements of comprehensive income over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to statements of comprehensive income.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in statements of comprehensive income when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to statements of comprehensive income.

For a financial asset reclassified out of the financial assets at FVTPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVTPL, the cumulative gain or loss previously recognized in OCI is reclassified from equity to statements of comprehensive income as a reclassification adjustment at the reclassification date.

4.01.06 Derecognition

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

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

When the Bank has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Bank's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Bank could be required to repay.

Policies applicable prior to January 1, 2025 (PAS 39)

The Bank recognizes financial assets when the Bank becomes a party to the contractual provision of the financial instruments.

4.01.07 Classification of Financial Assets
Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets, held-to-maturity (HTM) financial assets and 'loans and receivables'. The classification depends on the nature and purpose for which the financial assets were acquired and is determined at the time of initial recognition.

As of December 31, 2025 and 2024, the Bank has not designated any financial asset as at FVTPL and AFS.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank's loans and receivables comprise cash and cash equivalents and loans and other receivables.

  a) *Cash and Other Cash Items*

     In the statements of cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and due from other banks with original maturities of three months or less from dates of placement and that are subject to insignificant risk of changes in value.

     Cash and cash equivalents are valued at face value. If a bank holding the funds of the Bank is in bankruptcy or financial difficulty, cash and cash equivalents should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount.

     The Bank recognizes each item of cash and cash equivalents as a current asset when the cash is not restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

  b) *Loans and Other Receivables*

     Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes loans receivable, sales contract receivable and accrued interest receivable.

     Loans Receivable
     Loans and other receivable are recognized when cash is advanced to the borrowers. These are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

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

Unearned discount is amortized using the effective interest method of amortization and any unamortized loan discount is deducted from the outstanding balance to arrive at the amortized cost of the account.

Loans are classified as non-accruing when the principal becomes non-performing, or when, in the opinion of management, collection of interest and principal is already doubtful. Interest income on these loans is recognized only to the extent of actual collections. Loans are not classified as accruing until interest and principal payments are brought to current status or the loan is restructured in accordance with existing BSP regulations and future collections appear assured.

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

Sales Contract Receivable (SCR)
This refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price. This shall be recorded initially at the present value of the installment receivable discounted at the imputed rate of interest. Discount is accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets are realized in profit or loss in the period of disposal.

All SCR shall have a minimum of 20% down payment upon execution of the contract to sell. SCR with at least one payment in arrear shall be considered as non-performing. SCR with less than 20% down payment shall also be considered as non-performing.

- Held-to-maturity financial assets

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

After initial measurement, these are subsequently measured at amortized costs using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any premium or discount upon acquisition and fees integral as part of the effective interest rate. The amortization of premium or discount is included as "Interest income" in profit or loss.

Gains and losses are recognized in income when the HTM financial assets are derecognized and impaired, as well as through the amortization process. Impairment loss, which is the difference between the carrying value and the present value of estimated cash flows of the financial asset, is recognized when there is objective evidence that the financial asset has been impaired. The losses arising from the impairment of such financial asset are recognized in profit or loss.

4.01.08 Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

4.01.09 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. The effective interest rate is the rate that exactly discounts estimated future cash receipts including all fees on 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis.

4.01.10 Impairment of Financial Assets

At the end of the reporting period, the Bank assess its expected credit losses (ECL). The Bank recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. The Bank being categorized as having simple and non-complex operations adopted the basic guidelines in setting up of allowance for credit losses provided for in the Appendix 15 of the Manual of Regulations for Banks (MORB) in recognizing expected credit losses (ECL) for its loans and other receivables.

The Bank considers a financial asset in default when contractual payments, i.e. last amortization paid are more than 30 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Bank's ECL measurement, as determined by the management, is disclosed in Note 6.01.05.

As of December 31, 2025 and 2024, the Bank did not assess the impact of ECL model that is in accordance with PFRS 9 due to certain limitations.

4.01.11 Derecognition

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.

4.02 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are measured at historical cost less any accumulated depreciation and impairment losses. Historical cost consists of purchase price and costs directly attributable in bringing the asset to its working condition for its intended use.

Subsequent expenditures relating to an item of bank premises, furniture, fixtures and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Bank. The carrying amount of replaced parts is derecognized. All other subsequent expenditures are recognized as expense in the period in which those are incurred.

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

Building	–	10 to 15 years
Transportation equipment	–	3 to 10 years
Information technology equipment	–	2 to 10 years
Furniture, fixtures and equipment	–	2 to 10 years

Land is not depreciated. Leasehold improvements are depreciated over the shorter between the improvements' useful life of 10 years or the lease term. Right-of-use assets are depreciated over the lease terms of the lease ranging from 10 to 25 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When revalued assets are sold, the amounts included in other reserves are transferred to surplus free.

Fully depreciated assets still in use are retained in the financial statements. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the financial statements and any resulting gain or loss is credited or charged to profit or loss. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

4.03 Investment Properties

Properties that are held either to earn rental income or for capital appreciation or both, and are not significantly occupied by the Bank, are classified as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed using straight-line method based on the estimated useful lives of the assets of 10 years. Land is not depreciated. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher between the property's fair value less cost to sell and value in use.

Investment properties are derecognized by the Bank upon disposal or when the investment property is permanently withdrawn from use and no future benefit is expected to arise from the continued use of the asset. Any gain or loss on derecognition of an investment property, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statements of comprehensive income in the period in which the property is derecognized.

Transfers are made to investment properties when there is a change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Transfers to and from investment property do not result in gain or loss.

4.04 Other Assets

Other assets not classified as financial assets, includes prepayments and stationeries, and supplies on hand and the likes. These other assets qualifying into the definition of assets under PAS 1 Presentation of Financial Statements are resources controlled by the Bank as a result of past events and from which future economic benefits are expected to flow to the entity. Other assets are recognized on an accrual basis of accounting.

4.05 Impairment of Non-financial Assets

At the end of each reporting date, the Bank assesses whether there is any indication that any non-financial assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of these assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense.

4.06 Financial Liabilities and Equity Instruments

4.06.01 Classification as Financial Liability or Equity Instrument
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

4.06.02 Financial Liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial Liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and PAS 39, Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the statements of comprehensive income.

As of December 31, 2025 and 2024, the Bank has no outstanding financial liabilities at FVTPL.

4.06.03 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.

- Common stock
  Common stock is classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

- Surplus free
  Surplus free represents all current and prior period results of operations as reported in the profit or loss section of the statements of comprehensive income, reduced by the amounts of dividend declared, if any.

- Surplus reserves
  Surplus reserves pertain to reserve set aside by Bank for contingencies.

4.07 Related Party Relationships and Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (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 retirement fund.

In considering each possible related party relationships, attention is directed to the substance of the relationship and not merely on the legal form.

Further, Section 131 of the MORB states that related parties shall cover the BSFI's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the BSFI exerts direct/indirect control over or that exerts direct/indirect control over the BSFI; the BSFI's DOSRI, and their close family members, as well as corresponding persons in affiliated companies. These shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the BSFI, hence, is identified as a related party.

The above definition shall also include direct or indirect linkages to a BSFI identified as follows:

(1) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;
(2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
(3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the BSFI and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or
(4) Permanent proxy or voting trusts in favor of the BSFI constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

Related party transactions (RPTs) shall refer to transactions or dealings with related parties of the BSFI, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:

(1) On- and off-balance sheet credit exposures and claims and write-offs;
(2) Investments and/or subscriptions for debt/equity issuances;
(3) Consulting, professional, agency and other service arrangements/contracts;
(4) Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
(5) Construction arrangements/contracts;
(6) Lease arrangements/contracts;
(7) Trading and derivative transactions;
(8) Borrowings, commitments, fund transfers and guarantees;
(9) Sale, purchase or supply of any goods or materials; and
(10) Establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

4.08 Revenue Recognition

4.08.01 Revenue Recognition for Revenues within the scope of PFRS 15
Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has assessed that it is acting as principal in all arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Fees and Commissions
The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and credit-related fees. Service fees are collected from borrowers to cover direct and indirect expenses in processing credit applications.

Other Income
Other income arises from gain on sale of financial and non-financial assets, bank fees and charges, bank commissions and miscellaneous income. Other income is recognized upon completion of the earning process and the collectibility is reasonably assured.

4.08.02 Revenue Recognition for Revenues outside the scope of PFRS 15
For revenues outside the scope of PFRS 15, the following specific recognition criteria must also be met before revenue is recognized:

Interest on Loans
Interest income on loans and discount with and without advanced interest are recognized periodically using the effective interest method of amortization.

The Bank does not accrue interest income on non-performing loans in compliance with BSP regulations.

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

Interest Income on Bank Deposits and Held-to-Maturity Financial Assets
Interest on bank deposits and held-to-maturity financial assets are recognized in profit or loss using the effective interest method.

4.09 Cost and Expense Recognition

Cost and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized in profit or loss in the following manner:

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

4.10 Leases

4.10.01 The Bank as Lessee
For any new contracts entered into on or after January 1, 2022, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Bank assesses whether the contract meets three (3) key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Recognition and Initial Measurement
At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

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

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

Useful life considered in depreciating the right-of-use assets is the life of the asset or remaining term of the lease, whichever is shorter. Right-of-use assets are depreciated over the lease terms of the lease ranging from 10 to 25 years.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

4.11 Employee Benefits

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

4.11.01 Short-term Employee Benefits
The Bank recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses, non-monetary benefits, and other short-term benefits.

4.11.02 Retirement Benefit
The Bank has made its own estimate of retirement benefits obligation. The Bank recognizes its retirement benefit obligation using the accrual approach. Under the accrual approach, the accrued benefit to be recognized is equivalent to the basic monthly salary for every year of service to all qualified employees.

4.12 Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

4.12.01 Current Income Tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

4.12.02 Deferred Income Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, carry-forward of unused tax credits from excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carry-Over (NOLCO), to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized.

Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction that affects neither the accounting profit nor taxable profit or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

4.13 Fair Value Measurement

The Bank measures financial instruments at fair value at each reporting date.

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:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal and the most advantageous market must be accessible to 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 non-financial 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, maximising the use of relevant observable inputs and minimising 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.

As of December 31, 2025 and 2024, there were no transfers between Level 1 and Level 2 fair value measurements.

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 re-assessing 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.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

4.14 Provisions, Contingent Liabilities and Contingent Assets

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

4.14.02 Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

4.15 Events After the Reporting Date

The Bank identifies events after the reporting date as events that occurred after the reporting date but before the date the financial statements were authorized for issue. Any event that provides additional information about the Bank's financial position at the reporting date is reflected in the financial statements. Non-adjusting events are disclosed in the notes to the financial statements when material.

5. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS USED

The preparation of the financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

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

5.01 Critical Judgments in Applying Accounting Policies

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

5.01.01 Determining whether or not a contract contains a lease
At inception of a contract, the Bank assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Identified asset
An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

Substantive substitution rights
Even if the asset is specified, the Bank does not have the right to use an identified asset, if, at inception of the contract, a supplier has the substantive right to a substitute the asset throughout the period of use (i.e., the total period of time that an asset is used to fulfil a contract with the Bank, including the sum of any non-consecutive periods of time). A supplier's right to substitute an asset is substantive when both of the following conditions are met:

- The supplier has the practical ability to substitute alternative assets throughout the period of use (e.g., the Bank cannot prevent the supplier from substituting an asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and
- The supplier would benefit economically from the exercise of its right to substitute the asset (i.e., the economic benefits associated with substituting the asset is expected to exceed the costs associated with substituting the asset).

The Bank's evaluation of whether a supplier's substitution right is substantive is based on facts and circumstances at inception of the contract. At inception of the contract, the Bank does not consider future events that are not likely to occur.

Right to obtain substantially all of the economic benefits from use of the identified asset
To control the use of an identified asset, the Bank is required to have the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use (e.g., by having exclusive use of the asset throughout that period).

When assessing whether the Bank has the right to obtain substantially all of the economic benefits from the use of an asset, the Bank considers the economic benefits that result from use of the asset within the defined scope of the customer's right to use the asset. A right that solely protects the supplier's interest in the underlying asset (e.g., limits on the number of miles a customer can drive a supplier's vehicle) does not, in and of itself, prevent the Bank from obtaining substantially all of the economic benefits from use of the asset and, therefore, are not considered when assessing whether the Bank has the right to obtain substantially all of the economic benefits.

If a contract requires the Bank to pay the supplier or another party a portion of the cash flows derived from the use of an asset as consideration (e.g., a percentage of sales from the use of retail space), those cash flows are considered to be economic benefits that the Bank derives from the use of the asset.

Right to direct the use of the identified asset

The Bank has the right to direct the use of an identified asset throughout the period of use when either the Bank has the right to direct how and for what purpose the asset is used throughout the period of use. The Bank has the right to direct the use of an identified asset whenever it has the right to direct how and for what purpose the asset is used throughout the period of use (i.e., it can change how and for what purpose the asset is used throughout the period of use). When evaluating whether the Bank has the right to change how and for what purpose the asset is used throughout the period of use, its focus is on whether the Bank has the decision-making rights that will most affect the economic benefits that will be derived from the use of the asset. The decision-making rights that are most relevant are likely to depend on the nature of the asset and the terms and conditions of the contract.

5.01.02 Determining Provisions and Contingencies

The Bank is currently involved in various legal proceedings. The estimate of probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential result. The Bank currently does not believe that these proceedings will have a material adverse effect on its financial condition. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

5.01.03 Classification of Financial Assets

The Bank follows the guidance of PFRS 9 starting January 1, 2025 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through statements of comprehensive income.

Prior to January 1, 2025, the Bank followed the guidance of PAS 39 in classifying its financial assets. Key judgment was applied particularly in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity at amortized cost. In making this judgment, the Bank has assessed its intention and ability to hold such investments to maturity.

5.01.04 Determining Fair Value of Financial Instruments

The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models was taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

5.01.05 Determining Fair Value of Acquired Assets classified as Investment Properties
The Bank determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

The fair value of investment properties is disclosed in Note 15.

5.01.06 Classifying Real and Other Properties Acquired (ROPA)
The Bank acquires properties in settlement of loans through foreclosure or dation in payment. These properties are recognized in accordance with Section 382 of the MORB, as follows:

1. Land and buildings shall be accounted for using the cost model under PAS 40 "Investment Property";
2. Other non-financial assets shall be accounted for using the cost model under PAS 16 "Property Plant and Equipment", provided that these are held for use in the production or supply of goods or services, or for administrative purposes; and
3. PFRS 5 "Non-Current Assets Held for Sale" when the properties comply with the provisions of the standard.

Notwithstanding the above provisions, it is a regulatory expectation for the Bank to dispose these properties immediately.

5.02 Key Sources of Estimation Uncertainty

5.02.01 Impairment Losses on Financial Assets (Loans Receivable and Investment Securities at Amortized Cost)
The Bank reviews its loans and other receivable and held-to-maturity investment portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statements of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditioned that correlate with defaults on assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amount of changes in fair value would differ if the Bank utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity. As of December 31, 2025 and 2024, the management believes that the allowance provided by the Bank is sufficient to cover BSP requirements.

As of December 31, 2025 and 2024, loans and other receivables amounted to ₱294,808,380 and ₱456,250,048, respectively, net of allowance for credit losses, as disclosed in Note 12. Investment securities at amortized cost (previously classified as held-to-maturity financial assets) amounted to ₱17,221,036 for both 2025 and 2024, as disclosed in Note 11.

5.02.02 Estimating Useful Lives of Assets

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimate useful lives of bank premises, furniture, fixtures and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of bank premises, furniture, fixtures and equipment and investment properties is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results operations could be materially affected by changes in estimates brought about by changes in factors and circumstances. A reduction in the estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties would increase recorded operating expenses and decrease non-current assets.

The Bank has bank premises, furniture, fixtures and equipment stated at carrying value of ₱10,228,993 and ₱12,988,073 as of December 31, 2025 and 2024, respectively, as disclosed in Note 13. Investment properties amounted to ₱57,858,863 and ₱36,209,425 as of December 31, 2025 and 2024, respectively, as disclosed in Note 15.

5.02.03 Determining Asset Impairment

The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of bank premises, furniture, fixtures and equipment, investments, assets held for sale and intangible assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that property and equipment, investments and intangible assets associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations. The preparation of the estimated future cash flows involves significant judgment and estimations. While the Bank believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under generally accepted accounting principles in the Philippines.

Management has determined that the Bank's premises, furniture, fixtures and equipment, are not impaired, hence, no impairment loss were recognized in both 2025 and 2024.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

6.01 General Risk Management Principles

The Bank's financial instruments comprise cash, investment securities at amortized cost, loans and receivables, other assets, and other financial liabilities such as deposit liabilities, and other liabilities to finance the Bank's operations.

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

	Notes	2025	2024
Financial assets at cost/amortized cost:			
Cash and other cash items	8	₱ **16,326,719**	₱ 16,838,140
Due from Bangko Sentral ng Pilipinas	9	**12,393,487**	12,523,698
Due from other banks	10	**222,794,423**	110,961,339
Investment securities at amortized cost	11	**17,221,036**	–
Held-to-maturity financial assets	11	–	17,221,036
Loans and other receivables – net	12	**294,808,380**	456,250,048
Other assets*	16	**303,300**	1,012,140
		₱ **563,847,345**	₱ 614,806,401
Financial liabilities at cost/amortized cost:			
Deposit liabilities	17	₱ **439,769,727**	₱ 434,066,595
Other liabilities**	18	**6,908,920**	9,957,521
		₱ **446,678,647**	₱ 444,024,116

**excluding non-financial assets amounting to ₱1,418,203 and ₱4,301 as of December 31, 2025 and 2024, respectively, and net of allowance for credit losses amounting to ₱2,047,191 and ₱2,456,274 in 2025 and 2024, respectively.*

***excluding non-financial liabilities amounting to ₱7,577,254 and ₱7,499,645 as of December 31, 2025 and 2024, respectively.*

6.01.01 Credit Risk and Concentration of Assets and Liabilities and Off-balance Sheet Items

Credit risk is the risk to earnings or capital arising from a counterparty failure to perform and meet the terms of its contract with the Bank subjecting the latter to a financial loss. Credit risk may last for the entire tenor and may approximate to the full amount of a transaction and in some cases may exceed the original principal exposure.

Credit risk inherent in the lending activities and the Bank manages it in accordance with a credit risk management framework that spans for identification, measurement, control, monitoring and reporting.

To manage credit risk, the Bank conducts credit investigation and background checking and follows written manuals and procedures for loan disbursements, monitoring and collection. Policies of loan diversification like maximum loan size, types of loans, loan structures are instituted to avoid concentration in a particular sector or area to lessen portfolio risk.

The Management closely monitors the overall credit operations and acts on the identified existing and potential risks appropriately for reporting during regular meetings of the BOD.

6.01.02 Maximum Exposure to Credit Risk before Collateral Held or Other Credit Enhancements

An analysis of the maximum exposure to credit risk relating to on-balance sheet assets without taking into account of any collateral held or other credit enhancements is shown below:

	Notes	2025	2024
Due from Banko Sentral ng Pilipinas	9	₱ **12,393,487**	₱ 12,523,698
Due from other banks	10	**222,794,423**	110,961,339
Investment securities at amortized cost	11	**17,221,036**	–
Held-to-maturity financial assets	11	**–**	17,221,036
Loans and other receivables*	12	**438,090,651**	552,576,965
Other assets**	16	**2,350,491**	3,468,414
		₱ **692,850,088**	₱ 696,751,452

**gross of allowance for credit losses amounting to ₱143,282,271 and ₱96,326,917 as of December 31, 2025 and 2024, respectively, and net of unamortized discount of ₱7,001,673 and ₱8,981,493 as of December 31, 2025 and 2024, respectively.*

***excluding non-financial assets amounting to ₱1,418,203 and ₱4,301 as of December 31, 2025 and 2024, respectively, and gross of allowance for credit losses amounting to ₱2,047,191 and ₱2,456,274 in 2025 and 2024.*

Where financial instruments are recorded at fair value, the amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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

6.01.03 Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets as of December 31, 2025 and 2024:

2025	**Neither Past Due nor Impaired**	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and other cash items	16,326,719	–	–	16,326,719
Due from Bangko Sentral ng Pilipinas	12,393,487	–	–	12,393,487
Due from other banks	222,794,423	–	–	222,794,423
Investment securities at amortized cost	17,221,036	–	–	17,221,036
Loans and other receivables*	190,314,888	186,635,526	61,140,237	438,090,651
Other assets**	2,350,491	–	–	2,350,491
	461,401,044	**186,635,526**	**61,140,237**	**709,176,807**

**gross of allowance for credit losses amounting to ₱143,282,271 and net of unamortized discount of ₱7,001,673.*
***excluding non-financial assets amounting to ₱1,418,203 and gross of allowance for credit losses of ₱2,047,191.*

2024	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
Cash and other cash items	16,838,140	–	–	16,838,140
Due from Bangko Sentral ng Pilipinas	12,523,698	–	–	12,523,698
Due from other banks	110,961,339	–	–	110,961,339
Held-to-maturity financial assets	17,221,036	–	–	17,221,036
Loans and other receivables*	321,187,706	193,037,777	38,351,482	552,576,965
Other assets**	3,468,414	–	–	3,468,414
	482,200,333	193,037,777	38,351,482	713,589,592

**gross of allowance for credit losses amounting to ₱96,326,917 and net of unamortized discount of ₱8,981,493.*
***excluding non-financial assets amounting to ₱4,301 and gross of allowance for credit losses of ₱2,456,274.*

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

Past due but not impaired loans and receivables and investment securities are loans and receivables and investment securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available or status of collection of amounts owed to the Bank.

Loans with negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. In respect of some of these loans, the Bank has made concessions that it would not otherwise consider.

Impaired loans and receivables and investment securities are loans and receivables and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory notes and securities agreements. Loans and receivables that have been provided with 100% allowance for credit losses and those under litigation are considered impaired.

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

6.01.04 Aging Analysis

An aging analysis of the Bank's gross loans and other receivables as of December 31, 2025 and 2024 are as follows:

		2025		2024
Outstanding receivables:				
Current accounts	₱	**190,314,888**	₱	321,187,706
Past due accounts:				
1 – 30 days past due		**46,595,111**		21,562,409
31 – 90 days past due		**16,869,945**		30,076,073
91 – 180 days past due		**15,734,754**		29,173,335
over 180 days past due		**168,575,953**		150,577,442
	₱	**438,090,651**	₱	552,576,965

**amounts gross of allowance for credit losses but net of unamortized discount.*

6.01.05 Measurement of Allowance for Credit Losses

Banks with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or where practices fell short of expected standards shall, at a minimum be subject to the following guidelines:

Individually Assessed Loans and Other Credit Exposures

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

For unsecured loans and other credit exposures:

No. of days unpaid/with missed payments	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (underperforming)	10%	2
91 – 120 days	Substandard (non-performing)	25%	3
121 – 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

For secured loans and other credit exposures:

No. of days unpaid/with missed payments	Classification	Minimum ACL	Stage
31 – 90 days*	Substandard (underperforming)	10%	2
91 – 180 days*	Substandard (non-performing)	10%	3
181 – 365 days	Substandard (non-performing)	25%	3
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3

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

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

2. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Sec. 143 (Credit Classification and Provisioning) shall be provided with ACL, as follows:

Classification	Minimum ACL	Stage
Especially mentioned	5%	2
Substandard – secured	10%	2 or 3
Substandard – unsecured	25%	2 or 3
Doubtful	50%	3
Loss	100%	3

3. Unsecured loans and other credit accommodations classified as "Substandard" in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of collection, shall be downgraded to "Doubtful" classification and provided with a fifty percent (50%) allowance for credit losses.

4. Loans and other credit accommodations under litigation which have been classified as "Pass" prior to the litigation process shall be classified as "Substandard" and provided with twenty-five percent (25%) allowance for credit losses.

5. Loans and other credit accommodations that were previously classified as "Pass" but were subsequently restructured shall have a minimum classification of EM and provided with a five percent (5%) allowance for credit losses, except for loans which are considered non-risk under existing laws, rules and regulations.

6. Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

Collectively Assessed Loans and Other Credit Exposure

1. Current "Pass" loans and other credit accommodations should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions.

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

   For unsecured loans and other credit exposures:

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

**PAR for microfinance loans.*

   For secured loans and other credit exposures:

No. of days unpaid/with missed payments*	Classification	ACL (%)		Stage
		Other types of collateral	Secured by real estate	
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

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

6.02 Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Bank's objective is to maintain a balance between continuity of funding and flexibility through the use of generated funds. The Bank manages this risk through periodic monitoring of cash flows in consideration of future payment due dates and daily collection amounts. The Bank also ensures that there are sufficient, available and approved working capital lines that it can draw from anytime to meet short-term funding and regulatory requirements.

The maturity grouping of financial instruments is based on the remaining period from the end of the financial reporting period to the contractual maturity date. For financial liabilities, when the counterparty has a choice of when the amount is to be paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

As of December 31, 2025 and 2024, minimum liquidity ratio of the Bank is 78.18% and 44.09%, respectively.

The table below summarizes maturity profile of the Bank's financial assets and liabilities as of December 31, 2025 and 2024 based on undiscounted contractual cash flows:

2025	On Demand	Due Within 1 Year	Due Beyond 1 Year but Not More Than 5 Years	Due Beyond 5 Years	Total
Financial assets:					
Cash and other cash items	16,326,719	–	–	–	16,326,719
Due from Banko Sentral ng Pilipinas	12,393,487	–	–	–	12,393,487
Due from other banks	193,615,726	28,178,697	1,000,000	–	222,794,423
Investment securities at amortized cost	–	–	17,221,036	–	17,221,036
Loans and other receivables*	191,368,916	67,165,032	179,556,703	–	438,090,651
Other assets**	2,350,491	–	–	–	2,350,491
	416,055,339	**95,343,729**	**197,777,739**	**–**	**709,176,807**

**gross of allowance for credit losses amounting to ₱143,282,271 and net of unamortized discount of ₱7,001,673.*
***excluding non-financial assets amounting to ₱1,418,203 and gross of allowance for credit losses of ₱2,047,191.*

Financial Liabilities:					
Deposit liabilities	314,941,033	124,828,694	–	–	439,769,727
Other liabilities***	3,689,769	1,996,825	676,993	545,333	6,908,920
	318,630,802	**126,825,519**	**676,993**	**545,333**	**446,678,647**

****excluding non-financial liabilities amounting to ₱7,577,254.*

2024	On Demand	Due Within 1 Year	Due Beyond 1 Year but Not More Than 5 Years	Due Beyond 5 Years	Total
Financial assets:					
Cash and other cash items	16,838,140	–	–	–	16,838,140
Due from Banko Sentral ng Pilipinas	12,523,698	–	–	–	12,523,698
Due from other banks	81,073,182	28,888,157	1,000,000	–	110,961,339
Held-to-maturity financial assets	–	–	–	17,221,036	17,221,036
Loans and other receivables*	114,502,903	185,029,557	120,646,892	132,397,613	552,576,965
Other assets**	3,468,414	–	–	–	3,468,414
	228,406,337	213,917,714	121,646,892	149,618,649	713,589,592

**gross of allowance for credit losses amounting to ₱96,326,917 and net of unamortized discount of ₱8,981,493.*
***excluding non-financial assets amounting to ₱4,301, and gross of allowance for credit losses of ₱2,456,274.*

Financial Liabilities:					
Deposit liabilities	352,904,232	80,662,363	500,000	–	434,066,595
Other liabilities***	4,919,690	1,818,680	2,481,967	737,184	9,957,521
	357,823,922	82,481,043	2,981,967	737,184	444,024,116

****excluding non-financial liabilities amounting to ₱7,499,645.*

6.03 Market risk

Market risk is the potential loss that may arise from decrease in earnings due to decline in price or present value of cash flows of a financial instrument. The value of the financial instruments may change as a result of changes in interest rates, foreign exchange rates and other market changes. As of December 31, 2025 and 2024, the Bank has not engaged in trading financial instruments.

Investment, asset and liability portfolios are affected by market risks because the revenues derived from the activities such as interest income and expense are sensitive to changes in interest.

The Bank faces market risk in the form of interest rate risk and currency risk. Market risk would be controlled in a monthly risk control and compliance which functions independently from the banking units.

6.03.01 Interest Rate Risk
Interest rate risk is the risk to the earning or capital resulting from adverse movements in the interest rates. The Bank closely monitors the movements of interest rates in the market and reviews its asset and liability structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits. The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The Bank is not exposed to interest rate risk since its financial assets and financial liabilities have fixed rates.

6.04 Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table presents a comparison by category of carrying amounts and estimate fair value of the Bank's financial instruments as of December 31, 2025 and 2024:

	Carrying Value	Fair Value			
2025		**Quoted (Unadjusted) Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
ASSETS					
Investment securities at amortized cost	17,221,036	–	17,221,036	–	17,221,036
Loans and other receivables – net	294,808,380	–	294,808,380	–	294,808,380
	312,029,416	**–**	**312,029,416**	**–**	**312,029,416**
LIABILITIES					
Deposit liabilities	**439,769,727**	**–**	**439,769,727**	**–**	**439,769,727**

	Carrying Value	Fair Value			
2024		Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
ASSETS					
Held-to-maturity financial assets	17,221,036	–	17,221,036	–	17,221,036
Loans and other receivables – net	456,250,048	–	456,250,048	–	456,250,048
	473,471,084	–	473,471,084	–	473,471,084
LIABILITIES					
Deposit liabilities	434,066,595	–	434,066,595	–	434,066,595

Cash and other cash items, Due from BSP, Due from other banks, Other assets and Other liabilities
The carrying values of these financial assets and liabilities approximate their fair values due to the relatively short-term maturities of these financial assets and liabilities.

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

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

Fair Value Hierarchy

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

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

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

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For financial assets with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

There were neither transfer between Levels 1 and 2 instruments in both years.

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

Fair Value Measurement for Non-financial Assets

The fair value of the Bank's land and building classified under Investment Properties account, as disclosed in Note 15, is determined on the basis of the appraisals performed by an appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

The Bank carried out a review of the recoverable amounts of its investment properties. The Bank has determined that there is an indication that an impairment loss has occurred on its investment properties. The fair value of investment properties as of December 31, 2025 and 2024 amounted to ₱148,808,720 and ₱84,448,481, respectively, is currently categorized within Level 2. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets.

8. CASH AND OTHER CASH ITEMS

This account is composed of the following:

		2025		2024
Cash on hand	₱	**14,824,795**	₱	11,045,612
Checks and other cash items		**1,501,924**		5,792,528
	₱	**16,326,719**	₱	16,838,140

Checks and other cash items pertain to checks awaiting for deposit.

9. DUE FROM BANGKO SENTRAL NG PILIPINAS

		2025		2024
Due from Bangko Sentral ng Pilipinas	₱	**12,393,487**	₱	12,523,698

On June 23, 2023, BSP issued Circular No. 1175 amending Section 251 of the MORB, decreasing the reserve requirement from 2% to 1% effective reserve week of June 30, 2023. On September 20, 2024, BSP issued Circular No. 1201, decreasing the reserve requirement from 1% to 0% effective reserve week of October 25, 2024. For December 31, 2025 and 2024, the Bank is compliant with the reserve requirement as set by the BSP.

10. DUE FROM OTHER BANKS

		2025		2024
Banco De Oro	₱	**55,859,996**	₱	18,920,449
Land Bank of the Philippines		**65,732,339**		11,850,543
Producers Bank		**31,796,737**		42,103,813
Metro Bank and Trust Co.		**29,994,679**		2,794,588
Rizal Commercial Banking Corporation		**8,448,685**		6,897,078
Bank of the Philippine Islands		**7,828,147**		2,627,252
Philippine Business Bank		**6,576,034**		849,714
China Banking Corporation		**5,982,297**		3,320,415
Philippine National Bank		**4,569,149**		3,891,404
Rural Bank of San Mateo (Isa.) Inc.		**2,927,688**		5,590,368
Eastwest Bank		**1,822,832**		1,022,239
Allied Banking Corp.		**852,388**		596,434
Common Wealth Rural Bank		**403,452**		401,409
Fico Bank		–		8,201,131
Agribank		–		1,605,390
Rural Bank of Solano		–		289,112
	₱	**222,794,423**	₱	110,961,339

Due from other banks earns interest at the prevailing bank deposit rates. Interest earned amounted to ₱2,251,603 and ₱916,734 for the years ended December 31, 2025 and 2024, respectively.

Due from other banks comprise of savings and time deposits having interest rates of 1.5% to 5.5% for both 2025 and 2024.

11. INVESTMENT SECURITIES AT AMORTIZED COST

This account consists of retail treasury bonds previously classified as held-to-maturity financial assets.

2025

Issuer	Particulars	Yield Rate	Date Issued	Date Maturity	Face Value	Book Value
LBP	RTB	3.5000%	09/20/2016	09/20/2026	5,000,000	5,000,000
LBP	RTB	4.6250%	12/02/2021	06/02/2027	5,000,000	5,000,000
BPI	RTB	3.5000%	09/20/2016	09/20/2026	5,000,000	5,000,000
MBT	RTB	5.8750%	03/01/2012	03/01/2032	1,109,993	1,109,993
MBT	RTB	5.8750%	03/01/2012	03/01/2032	1,111,043	1,111,043
					17,221,036	**17,221,036**

2024

Issuer	Particulars	Yield Rate	Date Issued	Date Maturity	Face Value	Book Value
LBP	RTB	3.5000%	09/20/2016	09/20/2026	5,000,000	5,000,000
LBP	RTB	4.6250%	12/02/2021	06/02/2027	5,000,000	5,000,000
BPI	RTB	3.5000%	09/20/2016	09/20/2026	5,000,000	5,000,000
MBT	RTB	5.8750%	03/01/2012	03/01/2032	1,109,993	1,109,993
MBT	RTB	5.8750%	03/01/2012	03/01/2032	1,111,043	1,111,043
					17,221,036	17,221,036

Movements in the account are disclosed below:

		2025		2024
Balance at January 1	**₱**	**17,221,036**	₱	37,221,036
Matured/redeemed during the year		**–**		(20,000,000)
Balance, December 31	**₱**	**17,221,036**	₱	17,221,036

The Bank assesses at each financial reporting date whether there is an indication that an investment may be impaired and believes that there is no such indication as of December 31, 2025 and 2024.

No impairment was recognized as of and for the years ended December 31, 2025 and 2024.

Interest earned amounted to ₱725,556 and ₱1,662,133 for the years ended December 31, 2025 and 2024, respectively.

12. LOANS AND OTHER RECEIVABLES – net

The account consists of the following:

	2025	2024
Current loans	₱ **233,350,713**	₱ 324,015,144
Past due loans	**179,834,525**	224,623,080
Under litigation	**29,911,939**	6,766,179
Loans receivables	**443,097,177**	555,404,403
Unamortized discount – loans	**(7,001,673)**	(8,981,493)
Loans receivables, net of discount	**436,095,504**	546,422,910
Sales contract receivable	**–**	2,100,000
Accrued interest receivable	**1,995,147**	4,054,055
	438,090,651	552,576,965
Allowance for credit losses – loans (Note 25)	**(143,282,271)**	(96,326,917)
	₱ **294,808,380**	₱ 456,250,048

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

Loans receivable bears annual interest rates ranging from 6% to 28% for both 2025 and 2024. Interest earned amounted to ₱62,658,608 and ₱68,614,278 for the years ended December 31, 2025 and 2024, respectively.

Sales contract receivable refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on instalment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

The Bank's sales contract receivable are currently performing, with no indications of impairment and no allowance for credit losses.

The breakdown of allowance for credit losses is as follows:

	2025	2024
Specific loan loss provision	₱ **140,762,069**	₱ 93,806,715
General loan loss provision	**2,520,202**	2,520,202
Total allowance for credit losses	₱ **143,282,271**	₱ 96,326,917

The allowance for credit losses which includes both specific and general loan loss reserves, represents management estimates of probable loss inherent in the portfolio, after consideration of the prevailing and anticipated economic conditions, prior to loss experience, estimated recoverable value based on fair market values of underlying collateral and prospects of support from guarantors, subsequent collections and evaluations made by BSP Supervision and Examination Sector.

With the foregoing level of allowance for credit losses, management believes that the Bank has sufficient allowance to manage any risk from non-collection or non-collateral of the Bank's loans and other receivables.

12.01 Past Due Loans

Past due loans of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at maturity.

BSP Manual of Regulations for Banks, Section 304 defined the classification of past due loans as follows:

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or instalment due, or portions thereof, are not paid at their contractual date, in which case, the total outstanding balance thereof shall be considered past due.

Instalment refers to principal and/or interest amortizations that are due on several dates as indicated in the loan documents. The allowance for loan losses is the estimated amount of losses in the Bank's loan portfolio, based on evaluation of the collectability of loans and prior loss experience.

Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates to be present in the portfolio of loans and advances are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

The allowance is increased by provisions charged to expenses and reduced by write-offs and reversals.

As of December 31, 2025 and 2024, NPLs not fully covered by allowance for credit losses are as follows:

		2025		2024
Total non-performing loans	₱	**206,418,419**	₱	204,598,557
Less: Non-performing loans covered by allowance for credit losses		**140,761,299**		81,977,477
	₱	**65,657,120**	₱	122,621,080

Section 304 of the MORB defined non-performing loans (NPLs) as follows:

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

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

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

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

	2025	2024
Ratio of gross NPLs to gross TLP (%)	**47.33%**	37.44%
Ratio of net NPLs to gross TLP (%)	**15.06%**	22.44%
Ratio of total allowance for credit losses to gross NPLs (%)	**69.41%**	47.08%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	**68.19%**	45.85%

13. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT (BPFFE) – net

A reconciliation of the carrying amounts at the beginning and end of years 2025 and 2024, and the gross carrying amounts and accumulated depreciation of bank premises, furniture, fixtures and equipment are shown below:

2025	Building	Furniture, fixtures and equipment	Right-of-use asset	Total
Cost:				
Balance, January 1	₱ 18,182,131	₱ 22,670,152	₱ 9,541,057	₱ 50,393,340
Additions	116,433	465,998	–	582,431
Balance, December 31	**18,298,564**	**23,136,150**	**9,541,057**	**50,975,771**
Accumulated depreciation:				
Balance, January 1	12,056,225	20,212,622	5,136,420	37,405,267
Depreciation (Note 21)	836,570	792,801	1,712,140	3,341,511
Balance, December 31	**12,892,795**	**21,005,423**	**6,848,560**	**40,746,778**
Carrying amount	**₱ 5,405,769**	**₱ 2,130,727**	**₱ 2,692,497**	**₱ 10,228,993**

2024	Building	Furniture, fixtures and equipment	Right-of-use asset	Total
Cost:				
Balance, January 1	₱ 18,008,772	₱ 21,938,711	₱ 9,733,896	₱ 49,681,379
Additions	–	794,800	–	794,800
Reclassification	173,359	(63,359)	–	110,000
Modification of lease	–	–	(192,839)	(192,839)
Balance, December 31	18,182,131	22,670,152	9,541,057	50,393,340
Accumulated depreciation:				
Balance, January 1	11,100,356	19,454,386	3,448,530	34,003,272
Depreciation (Note 21)	882,253	792,159	1,712,140	3,386,552
Reclassification	73,616	(33,923)	–	39,693
Modification of lease	–	–	(24,250)	(24,250)
Balance, December 31	12,056,225	20,212,622	5,136,420	37,405,267
Carrying amount	₱ 6,125,906	₱ 2,457,530	₱ 4,404,637	₱ 12,988,073

All additions were paid in cash.

The Bank assesses at each financial reporting date whether there is an indication that an item of bank premises, furniture, fixtures and equipment may be impaired, and believes that there is no such indication as of December 31, 2025 and 2024.

No bank premises, furniture, fixtures and equipment were used as collateral for liabilities as at December 31, 2025 and 2024.

As of December 31, 2025 and 2024, the Bank has no commitment to purchase bank premises, furniture, fixtures and equipment.

Fully depreciated assets still in use are retained in the financial statements amounting to ₱27,139,457 and ₱27,163,614 as of December 31, 2025 and 2024, respectively.

In 2024, the Bank recognized an adjustment arising from lease contract modifications related to its Diadi branch. The right-of-use asset and the corresponding accumulated depreciation amounted to ₱192,839 and ₱24,250, respectively, resulting in a gain on lease modification of ₱51,165, as disclosed in Note 20.

Section 109 of the MORB states that the total investment of a bank in real estate and improvements thereon, including bank equipment, shall not exceed fifty percent (50%) of the bank's net worth. As of December 31, 2025 and 2024, the Bank is compliant with such regulation.

The following are the lease agreements entered into by the Bank and outstanding as of December 31, 2025 and 2024 that qualify for the assessment for PFRS 16.

Location of leased property	Leased Property	Lease Term		Lease Payment	Escalation Clause
		Start of term	End of term		
San Pedro, Bagabag,Nueva Vizcaya	Land and building	01/01/2017	12/31/2026	80,813	5% increase every year
Poblacion West, Lamut, Ifugao	Land and building	01/01/2017	12/31/2026	28,733	5% increase every year
Sta. Maria, Alfonso Lista, Ifugao	Land and building	01/01/2017	12/31/2026	21,550	5% increase every year
Ibung, Villaverde, Nueva Vizcaya	Land and building	03/01/2009	12/31/2034	8,145	5% increase every year
Poblacion, Diadi, Nueva Vizcaya	Land and building	01/01/2007	12/31/2032	5,445	10% increase every 5 years

The lease contracts are renewable upon such terms and conditions mutually agreed by both parties prior to expiration. The leased assets are being depreciated based on the useful life of the leased asset or remaining lease term, whichever is shorter.

14. INTANGIBLE ASSETS – net

A reconciliation of the carrying amounts at the beginning and end of years 2025 and 2024, and the gross carrying amounts and accumulated amortization of software is shown below:

		2025		2024
Cost:				
Balance, January 1	₱	**1,427,440**	₱	1,537,440
Reclassification		**–**		(110,000)
Balance, December 31		**1,427,440**		1,427,440
Accumulated Amortization:				
Balance, January 1		**1,414,879**		1,430,261
Amortization (Note 21)		**–**		24,311
Reclassification		**–**		(39,693)
Balance, December 31		**1,414,879**		1,414,879
Carrying Amount	₱	**12,561**	₱	12,561

The Bank assesses at each financial reporting date whether there is an indication that an item of intangible assets may be impaired, and believes that there is no such indication as of December 31, 2025 and 2024.

No intangible assets were used as collateral for liabilities as at December 31, 2025 and 2024.

As of December 31, 2025 and 2024, the Bank has no commitment to purchase intangible assets.

15. INVESTMENT PROPERTIES – net

This account pertains to real properties, such as land and building, foreclosed by the Bank and held for capital appreciation.

2025	Notes	Land	Building	Total
Cost:				
Balance, January 1		₱ 29,641,781	₱ 9,013,353	₱ 38,655,134
Additions		26,961,253	–	26,961,253
Reclassification		324,419	(324,419)	–
Disposal		(4,475,854)	–	(4,475,854)
Balance, December 31		**52,451,599**	**8,688,934**	**61,140,533**
Accumulated depreciation:				
Balance, January 1		–	2,139,477	2,139,477
Depreciation	21	–	835,961	835,961
Balance, December 31		**–**	**2,975,438**	**2,975,438**
Allowance for impairment losses:				
Balance, December 31	25	**306,232**	–	**306,232**
Carrying amount		**₱ 52,145,367**	**₱ 5,713,496**	**₱ 57,858,863**

2024	Notes	Land	Building	Total
Cost:				
Balance, January 1		₱ 42,350,000	₱ 324,419	₱ 42,674,419
Additions		6,313,511	–	6,313,511
Reclassification		(8,688,934)	8,688,934	–
Disposal		(10,332,796)	–	(10,332,796)
Balance, December 31		29,641,781	9,013,353	38,655,134
Accumulated depreciation:				
Balance, January 1		–	113,209	113,209
Depreciation	21	–	2,026,268	2,026,268
Balance, December 31		–	2,139,477	2,139,477
Allowance for impairment losses:				
Balance, December 31	25	306,232	–	306,232
Carrying amount		₱ 29,335,549	₱ 6,873,876	₱ 36,209,425

The Bank acquired its investment from foreclosure of properties. In 2025 and 2024, transaction costs amounting to ₱5,862,751 and ₱2,421,007, respectively, were incurred in relation to foreclosure of properties.

In 2025, the Bank disposed certain investment properties with carrying amount of ₱4,475,854 for cash proceeds of ₱9,874,157, realizing a gain on sale of ₱5,398,303 as disclosed in Note 20.

In 2024, the Bank disposed certain investment properties with carrying amount of ₱8,342,746 for cash proceeds of ₱18,289,419, realizing a gain on sale of ₱9,946,673 as disclosed in Note 20. Also, certain investment properties with carrying amount of ₱1,990,050, were sold through sales contract at selling price of ₱ 3,000,000, realizing a gain of ₱1,009,950, as disclosed in Note 20. Sales contract receivable amounting ₱900,000 were collected in 2024. The deferred income on sales contract receivable in 2023 amounting to ₱1,250,000 was recognized as income in 2024.

Fair value is determined on the basis of the appraisals performed by an appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

The Bank carried out a review of the recoverable amounts of its investment properties. The Bank has determined that there is an indication that an impairment loss has occurred on its investment properties. The fair value of investment property as of December 31, 2025 and 2024 amounted to ₱148,808,720 and ₱84,448,481, respectively, is currently categorized within Level 2. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets.

No amount of investment property of the Bank has been pledged to secure general banking facilities granted to the Bank.

16. OTHER ASSETS – net

The account consists of the following:

		2025		2024
Accounts receivable	₱	**2,302,491**	₱	3,420,414
Prepaid income tax		**1,040,099**		–
Stationeries and supplies on hand		**375,769**		–
Liquidity pool fund		**40,000**		40,000
Petty cash fund		**7,000**		7,000
Prepayments		**2,335**		4,301
Others		**1,000**		1,000
	₱	**3,768,694**	₱	3,472,715
Allowance for credit losses (Note 25)		**(2,047,191)**		(2,456,274)
	₱	**1,721,503**	₱	1,016,441

17. DEPOSIT LIABILITIES

This account consists of the following:

		2025		2024
Savings deposits	₱	**314,941,034**	₱	322,859,110
Time deposits		**124,828,693**		111,207,485
	₱	**439,769,727**	₱	434,066,595

Savings earn annual interest rate of 0.5% while time deposits earn annual interest rate ranging from 1.75% to 3.50% in 2025 and 2024.

Total interest expense on deposit liabilities amounted to ₱4,877,344 and ₱4,882,579 for the years ended December 31, 2025 and 2024, respectively.

Under existing BSP regulations, demand deposits, savings deposits, and time deposits of the Bank are subject to statutory reserve. As of December 31, 2025 and 2024, the Bank is in compliance with such regulations.

18. OTHER LIABILITIES

The details of the account are disclosed below:

	Note	2025	2024
Retirement benefit obligation	24	₱ **6,013,087**	₱ 6,209,083
Lease liability		**3,219,151**	5,037,831
Accounts payable		**1,651,196**	2,559,829
Government contributions and payables		**1,564,167**	1,290,562
Accrued interest payable		**1,289,294**	1,593,914
Insurance payable		**43,375**	134,662
Accrued other expenses payable		**705,904**	631,285
		₱ **14,486,174**	₱ 17,457,166

Accounts payable pertains to deposit for redemption of real and other properties acquired.

Movements of lease liabilities are as follows:

	Note	2025	2024
At January 1		₱ **5,037,831**	₱ 6,910,073
Interest	21	**187,486**	261,563
Modification		**–**	(219,755)
Payments		**(2,006,166)**	(1,914,050)
At December 31		₱ **3,219,151**	₱ 5,037,831

The breakdown of lease liabilities as to current and non-current is as follows:

	2025	2024
Current	₱ **1,996,825**	₱ 1,818,680
Non-current	**1,222,326**	3,219,151
Total	₱ **3,219,151**	₱ 5,037,831

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

	Lease Payments	Finance Charges	Net Present Values
Within 1 year	₱ 2,102,874	₱ 106,049	₱ 1,996,825
1 – 2 years	203,802	56,124	147,678
2 – 3 years	210,042	48,661	161,381
3 – 4 years	216,593	40,509	176,084
4 – 5 years	223,469	31,619	191,850
5 – 10 years	586,337	41,004	545,333
Total	₱ **3,543,117**	₱ **323,966**	₱ **3,219,151**

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

	Lease Payments	Finance Charges	Net Present Values
Within 1 year	₱ 2,006,166	₱ 187,486	₱ 1,818,680
1 – 2 years	2,102,874	106,049	1,996,825
2 – 3 years	203,801	56,124	147,677
3 – 4 years	210,042	48,661	161,381
4 – 5 years	216,593	40,509	176,084
5 – 10 years	809,807	72,623	737,184
Total	₱ 5,549,283	₱ 511,452	₱ 5,037,831

19. CAPITAL STOCK

19.01 Preferred Stock

Shown below are the details on preferred stocks:

	2025		2024	
	Stocks	**Amount**	Stocks	Amount
Authorized capital 4,000 shares at ₱100 par value	**4,000**	**₱ 400,000**	4,000	₱ 400,000

Below are the features of the preferred stock:

(i) Preferred stock shall be issued against government investment in capital stock of the Bank. Preferred stock so issued shall have preference over common stock in the assets of the corporation in the event of liquidation, as provided hereunder.
(ii) Preferred stock shall be non-voting, but in case of sale by the government of its preferred stock to private shareholders, such stock automatically become common stock with voting rights, thereby reducing the number of outstanding preferred share and increase the number of common shares.
(iii) Preferred shares shall adhere in dividend distribution at two (2%) per centum.

As soon as the Bank has resources available for the purpose, the equity investment of the government, as evidence by outstanding preferred shares, shall be reduced by retirement of such stock at its par value and its sale to private inventors, in the manner provided for in section 7 of R.A. 720, as amended (Rural Banks Act), and implement rules and regulations.

As of December 31, 2025 and 2024, no amount of preferred stock was issued and outstanding.

19.02 Common Stock

Shown below are the details on common stocks;

	2025		2024	
	Stocks	**Amount**	Stocks	Amount
Authorized capital 996,000 shares at ₱100 par value	**996,000**	**₱ 99,600,000**	996,000	₱ 99,600,000
Issued and fully paid at ₱100 par value				
Balance, January 1	**968,073**	**₱ 96,807,300**	968,073	₱ 96,807,300
Balance, December 31	**968,073**	**₱ 96,807,300**	968,073	₱ 96,807,300

Common stocks carry one (1) vote per share and a right to dividends.

19.03 Cash Dividends Declared

Under Section 124 of the MORB, the liability for dividends shall be taken up in the books upon receipt of BSP approval thereof, or if no approval is received, after thirty (30) business days from the date the required report on dividend declaration was received by the appropriate supervising and examining department of the BSP, whichever comes earlier.

In 2025 and 2024, no declaration of dividends was made to the stockholders.

The dividend declaration and payment were approved by the BSP 30 days after the receipt of report on dividend declaration.

19.04 Stock Dividends Distributable

In 2025 and 2024, no declaration of stock dividends was made to the stockholders.

Through joint regular meeting held on October 30, 2017, the Bank signified its intent to increase its authorized shares from 1,000,000 to 1,500,000 valued at ₱100 par value per share. As of December 31, 2025 and 2024, the Bank has yet to submit the necessary documents for application to BSP and SEC.

19.05 Surplus Reserves

Surplus reserves pertain to reserves for contingencies and building construction for bank's premises amounting to ₱148,000 for the years ended December 31, 2025 and 2024.

19.06 Surplus Free

The movements in the balance of surplus free are shown below.

		2025		2024
At January 1	₱	**126,623,731**	₱	109,273,207
Profit (Loss)		**(18,216,546)**		17,350,524
At December 31	₱	**108,407,185**	₱	126,623,731

19.07 Capital Management Objectives, Policies, and Procedures

The primary objective of the Bank's capital management is to ensure that it complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure, which composed of paid-up capital and surplus reserve, and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities.

Appendix 62 of the MORB, as amended by BSP Circular Nos. 1079 and 1084, discusses the guidelines implementing the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks.

The minimum capital ratios shall be expressed as a percentage of capital to risk-weighted assets as shown below:

Minimum Capital Ratio	Capital	% of Risk-Weighted Assets
Common Equity Tier 1 (CET1) Ratio	CET1	at least 6.0%
Tier 1 Ratio	Tier 1	at least 7.5%
Capital Adequacy Ratio (CAR)	Qualifying Capital	at least 10.0%

A capital conservation buffer (CCB) of two and a half percent (2.5%), comprised of CET1 capital, shall likewise be imposed.

The minimum capital ratios based on the new compositions and the CCB shall take effect starting January 1, 2023.

Qualifying capital consists of the following elements, net of required deductions:

a) Tier 1 Capital, which is composed of:
   i. CET1 Capital
b) Tier 2 Capital

CET1 Capital consists of:
a) Paid-up common stock
b) Surplus

Subject to deductions/regulatory adjustments for:
i. Defined benefit pension fund assets (liabilities)
ii. Intangible assets
iii. Deferred tax asset, net of allowance for impairment and associated tax liability. Any excess of deferred tax liability over deferred tax assets shall not be added to CET 1 Capital

Tier 2 Capital consists of:
a) Paid-up perpetual and cumulative preferred stock
b) General loan loss provision

Additionally, CCB is meant to promote the conservation of capital and build-up of adequate cushion above the minimum level that can be drawn down by banks to absorb losses during periods of financial and economic stress. The buffer is on top of the minimum capital requirements. The capital must first be used to meet the minimum CET1 ratio before the remainder can contribute to the CCB.

Where a bank does not have positive earnings, has CET1 ratio of lower than eight and a half percent (8.5%) [CET1 ratio of six percent (6%) plus conservation buffer of two and a half percent (2.5%)], and has not complied with other minimum capital ratios, the Bank would then be restricted from making distribution of earnings.

Information regarding the Bank's qualifying capital as of December 31, 2025 and 2024 is shown below:

	2025	2024
CET1 Capital	₱ 185,110,590	₱ 215,084,066
AT1 Capital	–	–
Tier 1 Capital	185,110,590	215,084,066
Tier 2 Capital	2,520,202	2,520,202
Qualifying capital	₱ 187,630,792	₱ 217,604,268
Total risk-weighted assets	₱ 683,570,051	₱ 735,888,097
CET1 Ratio	27.08%	29.23%
CCB	21.08%	23.23%
Tier 1 capital	27.08%	29.23%
Total CAR	27.45%	29.57%

The Bank's leverage ratio, computed as total shareholders' equity over total assets, is 27.15% and 30.78%, as of December 31,2025 and 2024, respectively.

On August 24, 2022, the BSP issued Circular No. 1151, Amendments to Minimum Capitalization of Rural Banks, increasing the minimum capitalization requirement to ₱50 million for rural banks with up to 5 branches, which must be satisfied within five years from the date of effectivity of the circular. Banks which comply with the new capital levels must submit to the BSP a certification to this effect, within 10 banking days from the date of effectivity of this circular. Banks availing of the capital build-up track shall submit to the BSP within six months from the date of effectivity of this circular. On September 27, 2022, the Bank submitted its certificate of compliance with the said circular.

20. OTHER INCOME

This account consists of the following:

	Note	2025	2024
Recovery on charged-off assets		₱ 13,411,657	₱ –
Income from assets acquired	15	5,398,303	12,206,623
Service charges/fees		1,722,962	3,523,353
Bank commissions		201,912	218,904
Gain on lease modification		–	51,165
Miscellaneous income		455,711	189,883
		₱ 21,190,545	₱ 16,189,928

Recovery on charged-off assets pertains to the collections of accounts or recovery from impairment of items previously written-off/provided with allowance for credit losses. In 2025, recovery on charged-off assets relates solely to the reversal of ACL based on Bank's reassessment and does not represent actual recoveries or collections from written-off accounts.

21. OPERATING EXPENSES

Details of operating expenses are shown below:

	Notes	2025	2024
Personnel costs		₱ **20,146,199**	₱ 18,164,523
Litigation expenses		**5,862,751**	2,421,007
Taxes and licenses		**4,737,843**	5,457,824
Depreciation		**4,177,472**	5,412,820
Security, clerical and janitorial services		**4,078,910**	3,793,703
Insurance – PDIC		**889,778**	850,346
Documentary stamps		**743,141**	595,313
Information technology expenses		**640,351**	920,378
Power, light and water		**535,727**	547,927
Donations and charitable contributions		**533,423**	731,815
Management and other professional fees		**475,886**	1,588,800
Insurance – others		**464,181**	448,593
Fuel and lubricants		**398,873**	427,618
Postage, telephone and telegram		**305,201**	306,954
Repairs and maintenance		**274,938**	315,981
Interest expense – lease liabilities	18	**187,486**	261,563
Representation and entertainment		**181,205**	356,959
Advertising and publicity		**157,800**	353,050
Supervision fees		**129,011**	122,188
Stationery and supplies		**109,934**	327,393
Travel expenses		**93,313**	233,738
Fees and commissions expense		**42,740**	178,320
Trainings and seminars		**38,784**	170,815
Membership fees and dues		**25,160**	20,060
Fines, penalties and other charges		**1,200**	–
Amortization	14	–	24,311
Periodicals and magazines		–	400
Miscellaneous		**352,176**	305,577
		₱ **45,583,483**	₱ 44,337,976

Personnel costs include:

	Note	2025	2024
Salaries and wages		₱ **14,829,843**	₱ 12,041,654
Government contributions		**1,649,860**	1,472,689
Director's fee		**1,600,000**	1,098,000
Short term benefits		**1,131,492**	1,753,077
Retirement benefit expense	24	**935,004**	1,799,103
		₱ **20,146,199**	₱ 18,164,523

Depreciation expense is composed of:

	Notes	2025	2024
Bank premises, furniture, fixtures and equipment	13	₱ **3,341,511**	₱ 3,386,552
Investment properties	15	**835,961**	2,026,268
		₱ **4,177,472**	₱ 5,412,820

22. INCOME TAX

Under Philippine tax laws, the bank is subject to percentage and other taxes (included in taxes and licenses in the comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax. The Bank's liability will be based on regulations to be issued by tax authorities.

Income taxes include the corporate income tax, discussed below, and final tax paid which represents the final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as provision for income tax in the statements of income.

Under current tax regulations, the applicable income tax rate is thirty percent (30%). Interest allowed as a deductible expense is reduced by an amount equivalent to thirty three percent (33%) of interest income subjected to final tax. Also, entertainment, amusement and recreation (EAR) expense is limited to one percent (1%) of net revenues, as defined, for sellers of services beginning September 1, 2002. The current regulations also provide for MCIT of 2% on modified gross income and allow a three-year NOLCO. Any excess of the MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability while NOLCO can be applied against taxable income, both in the next three years from the year of occurrence.

The Bank's liability for income tax is based on existing tax laws and BIR regulations. However, income tax expense as shown on the statements of position comprehensive income is determined under the provision of PAS 12 *Income Taxes*. Under PAS 12, income tax expense is the sum of current tax expense computed under tax laws and deferred tax expense determined through the use of balance sheet liability method.

Deferred tax expense is the sum of changes in deferred tax asset and deferred tax liability. The balance sheet liability method focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statements of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

22.01 Income Tax Recognized in Profit or Loss

Components of income tax expense benefit are as follows:

		2025		2024
Income tax expense – current	₱	**4,922,669**	₱	9,515,941
Income tax benefit – deferred		**(11,560,934)**		(4,133,185)
		(6,638,265)		5,382,756

A numerical reconciliation between tax expense (benefit) and the product of accounting profit (loss) multiplied by the tax rate in 2025 and 2024 is as follows:

		2025		2024
Accounting profit (loss)	₱	**(24,854,811)**		22,733,280
Tax expense (benefit) at 25%		**(6,213,703)**		5,683,320
Tax effects of:				
Income subject to final tax		**(744,290)**		(644,717)
Interest expense limitation		**186,072**		161,180
Penalties and donations		**133,656**		182,954
Unutilized Deferred tax asset		**–**		19
	₱	**(6,638,265)**	₱	5,382,756

22.02 Net Operating Loss Carry Over (NOLCO)

Under Section 34(D)(3) of the National Internal Revenue Code (NIRC) of 1997, as amended, the net operating loss of the business or enterprise for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income shall be carried over as a deduction from gross income for the next three (3) consecutive taxable years immediately following the year of such loss.

As of December 31, 2025 and 2024, the Bank has no NOLCO which can be claimed as deductions against future taxable income.

22.03 Minimum Corporate Income Tax (MCIT)

Section 27(E) of the National Internal Revenue Code (NIRC) of 1997, as amended, provides that an MCIT of two percent (2%) of the gross income as of the end of the taxable year is imposed on a taxable corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operation, when the MCIT is greater than RCIT for the taxable year. The Bank was incorporated in July 29, 1968; thus, the Bank is subject to MCIT.

As of December 31, 2025 and 2024, the Bank has no available MCIT that can be claimed as deduction from future taxable income.

22.04 Deferred Tax Assets

22.04.01 Recognized Deferred Taxes

The Bank's deferred tax assets (DTA) as of December 31, 2025 and 2024 are as follows:

	DTA on Allowance for credit losses	DTA on Retirement benefit obligation	DTA on excess lease liability over ROU	Total Deferred tax assets	Impact on profit/loss
Balance, December 31, 2023	₱ 9,542,958	₱ 859,167	₱ 156,177	₱ 10,558,302	
Recognition in profit or loss					
Origination	3,857,310	449,776	14,913	4,321,999	₱ 4,321,999
Reversal	–	(176,003)	–	(176,003)	(176,003)
Adjustments	(19)	–	(12,792)	(12,811)	(12,811)
Balance, December 31, 2024	13,400,249	1,132,940	158,298	14,691,487	4,133,185
Recognition in profit or loss					
Origination	15,305,074	233,751	(26,635)	15,512,190	15,512,190
Reversal	(3,668,506)	(282,750)	–	(3,951,256)	(3,951,256)
Balance, December 31, 2025	**₱ 25,036,817**	**₱ 1,083,941**	**₱ 131,663**	**₱ 26,252,421**	**₱ 11,560,934**

22.04.02 Unrecognized Deferred Tax Assets

In previous years, the Bank did not fully recognize deferred tax assets on allowance for credit losses, retirement benefit obligation, and allowance for impairment as the management believes that it is not probable that sufficient income will be available against which deferred tax asset may be utilized.

Details of the Bank's unrecognized deferred tax assets as of December 31, 2025 and 2024 are as follows:

2025	Tax base	Tax effect	Recognized deferred tax asset	Unrecognized deferred tax asset
Allowance for credit and impairment losses	₱ 145,635,694	₱ 36,408,924	₱ 25,036,817	₱ 11,372,107
Retirement benefit obligation	6,013,087	1,503,272	1,083,941	419,331
Total unrecognized DTA	**₱ 151,648,781**	**₱ 37,912,196**	**₱ 26,120,758**	**₱ 11,791,438**

2024	Tax base	Tax effect	Recognized deferred tax asset	Unrecognized deferred tax asset
Allowance for credit and impairment losses	₱ 99,089,423	₱ 24,772,356	₱ 13,400,249	₱ 11,372,107
Retirement benefit obligation	6,209,083	1,552,271	1,132,940	419,331
Total unrecognized DTA	₱ 105,298,506	₱ 26,324,627	₱ 14,533,189	₱ 11,791,438

22.05 Revenue Regulations (RR) No. 34-2020 – Related Party Transaction (RPT) Form and Transfer Pricing Documentation

The Bureau of Internal Revenue, in its Revenue Regulation No. 34-2020, requires taxpayers to submit BIR Form No. 1709 (RPT Form) to allow the BIR to verify that taxpayers are reporting their related party transactions at arm's length prices. It is also intended to improve and strengthen the Bureau's transfer pricing risk assessment and audit functions. Most importantly, the information that will be gathered from the RPT Form and its attachments will be used by the BIR during the transfer pricing risk assessment to determine whether or not to conduct a thorough review/audit of a particular entity or transaction.

Under the said RR, the following are required to file and submit the RPT Form, together with the Annual Income Tax Return (AITR):

1. Large taxpayers;
2. Taxpayers enjoying tax incentives, i.e. Board of Investments (BOI)-registered and economic zone enterprises, those enjoying Income Tax Holiday (ITH) or subject to preferential income tax rate;
3. Taxpayers reporting net operating losses for the current taxable year and the immediately preceding two (2) consecutive taxable years; and
4. A related party, as defined under Section 3 of RR No. 19-2020, which has transactions with (1), (2) or (3) above. For this purpose, key management personnel (KMP), as defined under Section 3(7) of RR No. 19-2020, shall no longer be required to file and submit the RPT Form, nor shall there be any requirement to report any transaction between KMP and the reporting entity/parent company of the latter in the RPT Form.

In addition, the preparation and submission of Transfer Pricing Documentation (TPD) under RR No. 02-2013, otherwise known as "Transfer Pricing Guidelines" and all other relevant issuances, shall be mandatory for taxpayers enumerated above who meet the following materiality thresholds:

a. Annual gross sales/revenue for the subject taxable period exceeds ₱150 million and the total amount of related party transactions with foreign and domestic related parties exceeds ₱90 million;
b. Related party transactions meeting the following materiality threshold:
   i. If it involves sale of tangible goods in the aggregate amount exceeding ₱60 million within the taxable year;
   ii. If it involves service transaction, payment of interest, utilization of intangible goods or other related party transaction in the aggregate amount exceeding ₱15 million within the taxable year; or
   iii. If TPD was required to be prepared during the immediately preceding taxable period for exceeding either (a) or (b) above.

As it does not belong to taxpayers who are required to file and submit the RPT Form under Section 2 of RR 34-2020, the Bank is not covered by the requirements and procedures for related party transactions under the said RR.

22.06 Republic Act No. 11534, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE)" Act

On February 03, 2021, the final provisions of Senate Bill No. 1357 and House Bill No. 4157 or the CREATE Bill, which seeks to reform corporate income taxes and incentives in the country, had been ratified by the Senate and the House of Representatives of the Philippines.

Under the bill, the regular corporate income tax (RCIT) will be reduced from the current 30% to 20% for domestic corporations with total assets not exceeding ₱100 million, excluding land, and total net taxable income of not more than ₱5 million. The corporate income tax of all other corporations, meanwhile, will be lowered to 25%.

23. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loans and other transactions with certain directors, officers, stakeholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the terms as with other individuals and businesses of comparable risks.

23.01 Directors, Officers, Stakeholders and Related Interests (DOSRI) Loans

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

The individual ceiling for credit accommodations of a bank to each of its directors, officers and related interests shall be equivalent to his outstanding deposits and book value of his paid-in capital in the lending bank. The unsecured credit accommodations to each of the Bank's directors and officers shall not exceed 30% of his total credit accommodations.

The aggregate ceiling for credit accommodations, whether direct or indirect, to directors and officers of a bank shall not exceed 15% of the total loan portfolio of the Bank or its combined capital accounts net of deferred income tax, unbooked valuation reserves and other capital adjustments required by the BSP, whichever is lower. The total unsecured direct and indirect borrowings of directors and officers shall not exceed 30% of the aggregate ceiling or the outstanding direct/indirect credit accommodations thereto, whichever is lower.

As of December 31, 2025 and 2024, the Bank has no DOSRI and other related party loans.

23.02 DOSRI Deposits

Deposits from DOSRI are shown below:

	2025	2024
Savings deposit	₱ **6,990,159**	₱ 9,309,806
Time deposit	**32,331,429**	25,695,796
	₱ **39,321,588**	₱ 35,005,602

23.03 Real estate transactions with DOSRI

The Bank leases its head office and branches from its Vice President and Board of Directors with term of 25-year contract for a monthly rental ranging from ₱8,145 to ₱80,813 with escalation clause as determined by both parties.

23.04 Remuneration of Key Management Personnel

The key management compensation as of December 31, 2025 and 2024 is composed of the following:

	2025	2024
Short-term employee benefits	₱ **3,716,356**	₱ 4,663,969
Post-employment benefits	**935,004**	1,131,000
	₱ **4,651,360**	₱ 5,794,969

The key management compensation is shown as part of compensation and fringe benefits under other operating expenses account in the statements of comprehensive income.

24. RETIREMENT BENEFIT OBLIGATION

Republic Act (RA) No. 7641 (New Retirement Law) took effect on January 17, 1993. Under the new law, the Bank is required to provide minimum retirement benefits to qualified retiring employees.

The Bank has made its own estimate of retirement benefits obligation. Management believes that the effect on the financial statements of the difference between the retirement costs determined under the current method used by the Bank and the acceptable actuarial valuation is not material.

As of December 31, 2025 and 2024, the accumulated balance of retirement benefit obligation amounted to ₱6,013,087 and ₱6,209,083, as disclosed in Note 18 which is funded by retirement fund separately held from the assets of the Bank. There is no remeasurement in the liability and asset.

Net retirement benefit obligation is as follows:

	2025	2024
Retirement benefit obligation	₱ **11,666,655**	₱ 11,665,380
Plan assets	**(5,653,568)**	(5,456,297)
	₱ **6,013,087**	₱ 6,209,083

Movement of retirement benefit obligation is as follows:

	Note	2025	2024
Beginning balance		₱ **11,665,380**	₱ 10,712,303
Retirement expense	21	**935,004**	1,799,103
Adjustment		**197,271**	(142,016)
Payments		**(1,131,000)**	(704,010)
		₱ **11,666,655**	₱ 11,665,380

Movement of off-books retirement fund is as follows:

	2025	2024
Beginning balance	₱ **5,456,297**	₱ 5,598,313
Interest income	**197,271**	394,066
Withdrawal	**–**	(536,082)
	₱ **5,653,568**	₱ 5,456,297

25. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

The table below summarizes the movement of the account:

	Loans (Note 12)	Investment properties (Note 15)	Other assets (Note 16)	Total
Balance, December 31, 2023	80,897,752	306,232	2,456,274	83,660,258
Provision	15,429,238	–	–	15,429,238
Adjustments	(73)	–	–	(73)
Balance, December 31, 2024	96,326,917	306,232	2,456,274	99,089,423
Provision	61,220,296	–	–	61,220,296
Write-off	(1,241,315)	–	(21,053)	(1,262,368)
Reversal	(13,023,627)	–	(388,030)	(13,411,657)
Balance, December 31, 2025	**143,282,271**	**306,232**	**2,047,191**	**145,635,694**

26. NOTES TO STATEMENTS OF CASH FLOWS – RECONCILIATION OF CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table shows the reconciliation analysis of liabilities arising from financing activities for the years ended December 31, 2025 and 2024.

			Non-cash changes		
2025	**January 1**	**Cash flows**	**Interest expense**	**Others**	**December 31**
Lease liability	**₱ 5,037,831**	**₱ (2,006,166)**	**₱ 187,486**	**₱ –**	**₱ 3,219,151**

			Non-cash changes		
2024	January 1	Cash flows	Interest expense	Others	December 31
Lease liability	₱ 6,910,073	₱ (1,914,050)	₱ 261,563	₱ (219,755)	₱ 5,037,831

In 2025, Cash flow for lease liabilities pertains to the payment of principal portion. Total payment for lease liabilities amounted to ₱2,006,166 inclusive of interest amounting to ₱187,486 as disclosed in Note 18.

In 2024, Cash flow for lease liabilities pertains to the payment of principal portion. Total payment for lease liabilities amounted to ₱1,914,050 inclusive of interest amounting to ₱261,563 as disclosed in Note 18.

27. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

a) The Bank is a plaintiff to various cases arising from the collection suits pending in courts for claims against its delinquent borrowers. The amount of loans and receivables under litigation amounted to ₱29,911,939 and ₱6,766,179 as of December 31, 2025 and 2024, respectively, as disclosed in Note 12.
b) The Bank has no pending legal cases arising from its normal operation that will put the Bank as defendant as a result of violation of transactions against its clients/ depositors.
c) The Bank had no outstanding issuances of bank guarantee and other similar credit instruments that will put the Bank into obligation in case of non-compliance by the buyer.
d) The Bank had no outstanding outward and inward bills for collection at the end of the year.

Aside from stated above, the Bank has no other contingent accounts as of December 31, 2025 and 2024.

28. EVENTS AFTER THE END OF THE REPORTING PERIOD

No events after the end of the reporting date were identified in these financial statements that provide evidence of conditions that existed at the reporting date (adjusting events after reporting date), and that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 8, 2026.

30. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATION 15-2010

Revenue Regulation (RR) No. 21-2002 prescribing additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR 15-2010. The amendment that became effective on December 28, 2010 requires the inclusion in the notes to financial statements, information on taxes and license fees paid or accrued during the year in addition to what is required under the Philippine Financial Reporting Standards (PFRS) Accounting Standards and such other standards and/or conventions.

Below are the additional information required by RR No. 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

30.01 Gross Receipts Tax

		2025		2024
Gross receipts tax paid	₱	**3,192,482**	₱	4,053,912
Gross receipts tax payable		**1,001,967**		694,498
	₱	**4,194,449**	₱	4,748,410

30.02 All Other National and Local Taxes

All other local and national taxes paid by the Bank and presented as part of operating expenses for the periods ended December 31, 2025 and 2024 consist of:

		2025		2024
National tax:				
Gross receipts tax	₱	**4,194,449**	₱	4,748,410
Local taxes:				
Business permit		**468,005**		443,111
Real property taxes		**47,003**		237,034
Others		**28,386**		29,269
	₱	**4,737,843**	₱	5,457,824

30.03 Withholding Taxes

Withholding taxes paid or accrued for the years ended December 31, 2025 and 2024 consist of:

2025		**Paid**		**Accrued**		**Total**
Expanded withholding tax	₱	20,892	₱	223,316	₱	244,208
Withholding tax on compensation		303,156		17,532		320,688
Final withholding tax		784,390		200,625		985,015
	₱	**1,108,438**	₱	**441,473**	₱	**1,549,911**

2024		Paid		Accrued		Total
Expanded withholding tax	₱	19,497	₱	180,694	₱	200,191
Withholding tax on compensation		123,208		15,006		138,214
Final withholding tax		644,839		215,584		860,423
	₱	787,544	₱	411,284	₱	1,198,828

30.04 Tax Assessments

The Bank has no outstanding tax assessments as of December 31, 2025 and 2024.

30.05 Tax Cases

The Bank has no outstanding tax cases in any other court or bodies outside of the BIR as of December 31, 2025 and 2024.

31. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR NO. 1074

On January 8, 2020, the Monetary Board of the Bangko Sentral ng Pilipinas issued BSP Circular 1074, Amendments to the Regulation on the Financial Audits of Banks, which requires Banks to include the following additional information:

31.01 Basic Quantitative Indicators of Financial Performance

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

	2025	2024
Return on average equity (ROE)	**(8.49%)**	8.07%
Return on average assets (ROA)	**(2.72%)**	2.61%
Net interest margin	**8.98%**	10.15%

31.02 Capital Instruments Issued

Description of capital instrument issued by the Bank is disclosed in Note 19.

31.03 Significant Credit Exposures

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

	2025			2024		
	Amount	**% to industry**	**% to Tier 1**	Amount	% to industry	% to Tier 1
Real estate activities	**177,914,315**	**40.80%**	**96.11%**	195,696,534	35.81%	90.99%
Agriculture, forestry and fishing	**130,809,706**	**30.00%**	**70.67%**	153,780,113	28.14%	71.50%
Activities of household as employers and undifferentiated goods-and-services-producing activities of households for own use	**64,952,971**	**14.89%**	**35.09%**	22,855,056	4.18%	10.63%
Wholesale and retail trade, repair of motor vehicles and motorcycles	**35,415,874**	**8.12%**	**19.13%**	77,157,796	14.12%	35.87%
Accommodation and food service activities	**13,983,832**	**3.21%**	**7.55%**	17,466,254	3.20%	8.12%
Construction	**7,946,044**	**1.82%**	**4.29%**	47,465,669	8.69%	22.07%
Electricity, gas, steam and air-conditioning supply	**1,451,176**	**0.33%**	**0.78%**	1,791,594	0.33%	0.83%
Manufacturing	**561,162**	**0.13%**	**0.30%**	2,476,387	0.45%	1.15%
Financial and Insurance Activities	**490,000**	**0.11%**	**0.26%**	–	–	–
Administrative and Support Service Activities	**348,419**	**0.08%**	**0.19%**	–	–	–
Human Health and Social Work Activities	**65,582**	**0.02%**	**0.04%**	–	–	–
Transportation and storage	**48,925**	**0.01%**	**0.03%**	1,501,198	0.27%	0.70%
Other service activities	**2,107,498**	**0.48%**	**1.14%**	26,232,309	4.80%	12.20%
Total	**436,095,504**	**100.00%**		546,422,910	100.00%	

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio or 10% of Tier 1 Capital which is equivalent to ₱18,511,059 and ₱21,508,407 as of December 31, 2025 and 2024, respectively.

In 2025, the Bank is exposed to credit risk concentration on real estate activities amounting to more than 30% of the total loan portfolio. The Bank is also exposed to credit risk concentration on: real estate activities; agriculture forestry and fishing; activities of household as employers and undifferentiated goods-and-services-producing activities of households for own use; and, wholesale and retail trade, repair of motor vehicles and motorcycles amounting to more than 10% of Tier 1 Capital.

In 2024, the Bank is exposed to credit risk concentration on real estate activities amounting to more than 30% of the total loan portfolio. The Bank is also exposed to credit risk concentration on: real estate activities; agriculture forestry and fishing; activities of household as employers and undifferentiated goods-and-services-producing activities of households for own use; wholesale and retail trade, repair of motor vehicles and motorcycles; construction; and other service activities amounting to more than 10% of Tier 1 Capital.

31.04 Breakdown of Total Loans

31.04.01 As to Security

As to security, loans are classified into (net of unamortized discount):

		2025	%		2024	%
Secured loans:						
Real estate mortgage	₱	**373,807,108**	**85.72%**	₱	476,119,358	87.13%
Chattel and other collateral		**186,302**	**0.04%**		225,198	0.04%
Total secured		**373,993,410**	**85.76%**		476,344,556	87.17%
Unsecured		**62,102,094**	**14.24%**		70,078,354	12.83%
Total loans	₱	**436,095,504**	**100.00%**	₱	546,422,910	100.00%

31.04.02 As to Status

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

2025		Performing		Non-performing		Total
Housing purposes	₱	90,971,426	₱	74,803,831	₱	165,775,257
Other agricultural credit loan		75,572,010		53,513,694		129,085,704
Small and medium enterprise loans		23,888,217		45,083,707		68,971,924
Motor vehicle loan		9,118,959		6,655,085		15,774,044
Salary-based		12,513,052		510,536		13,023,588
Agrarian reform loans		3,784,805		3,876,025		7,660,830
Other purposes		13,828,616		21,975,541		35,804,157
	₱	**229,677,085**	₱	**206,418,419**	₱	**436,095,504**

2024	Performing	Non-performing	Total
Housing purposes	₱ 140,055,174	₱ 75,355,786	₱ 215,410,960
Other agricultural credit loans	102,828,714	41,206,048	144,034,762
Small and medium enterprise loans	45,613,339	56,176,127	101,789,466
Motor vehicle loan	8,617,893	7,721,155	16,339,048
Salary-based	12,511,872	551,535	13,063,407
Agrarian reform loans	5,653,924	6,293,938	11,947,862
Other purposes	26,543,437	17,293,968	43,837,405
	₱ 341,824,353	₱ 204,598,557	₱ 546,422,910

31.05 Information on Related Party Loans

Information on related party loans is disclosed in Note 23.

31.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2025 and 2024, there were no assets pledged as security to any liability.

31.07 Contingencies and Commitments Arising from Off-balance Sheet Items

As of December 31, 2025 and 2024, the Bank has no contingencies and commitments arising from off-balance sheet items as described in Circular No. 1074.

RURAL BANK OF BAGABAG (N.V.), INC.
Bagabag, Nueva Vizcaya

ANNUAL REPORT ASSESSMENT CHECKLIST (Appendix to Section 175 of the MORB)
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