P&A Grant Thornton

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Financial Statements and Independent Auditors' Report

Rizal Microbank, Inc. – A Thrift Bank of RCBC

December 31, 2025 and 2024

P&A Grant Thornton

Punongbayan & Araullo
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Report of Independent Auditors

The Board of Directors
Rizal Microbank, Inc. – A Thrift Bank of RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
Andarizal Center, Rizal Street corner Anda Street
Barangay 3-A, Davao City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rizal Microbank, Inc. – A Thrift Bank of RCBC (the Bank), which comprise the statements of financial position as at December 31, 2025 and 2024, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

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

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 20 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR 15-2010 requires the supplementary information to be presented in the notes to financial statements. The supplementary information for the years ended December 31, 2025 and 2024 required by the Bangko Sentral ng Pilipinas (BSP) as disclosed in Note 24 to the financial statements is presented for purposes of additional analysis. Such supplementary information required by the BIR and BSP are the responsibility of management and are not a required part of the basic financial statements prepared in accordance with PFRS Accounting Standards; it is neither a required disclosure under the Revised Securities Regulation Code Rule 68 of the Philippine Securities and Exchange Commission. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 10770756, January 6, 2026, Makati City
SEC Group A Accreditation
Partner - No. 92966-SEC (until financial period 2027)
Firm - No. 0002 (until financial period 2030)
BIR AN 08-002551-021-2025 (until August 6, 2028)
BOA/PRC Cert. of Reg. No. 0002/P-005 (until August. 12, 2027)

February 16, 2026

P&A Grant Thornton

Punongbayan & Araullo
20th Floor, Tower 1
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6766 Ayala Avenue
1200 Makati City
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Supplemental Statement of Independent Auditors

The Board of Directors
Rizal Microbank, Inc. – A Thrift Bank of RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
Andarizal Center, Rizal Street corner Anda Street
Barangay 3-A, Davao City

We have audited the financial statements of Rizal Microbank, Inc. – A Thrift Bank of RCBC (the Bank) for the year ended December 31, 2025, on which we have rendered the attached report dated February 16, 2026.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock as of December 31, 2025, as disclosed in Note 16 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

CPA Reg. No. 0092966
TIN 189-477-563
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February 16, 2026

RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2025 AND 2024
(Amounts in Philippine Pesos)

	Notes	2025	2024
RESOURCES			
CASH	8	**P 20,356,791**	P 19,457,898
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	**101,058,571**	137,733,981
DUE FROM OTHER BANKS	8	**85,854,811**	89,536,204
LOANS ARISING FROM REVERSE REPURCHASE AGREEMENTS	8	**125,000,000**	-
LOANS AND RECEIVABLES - Net	9	**1,370,358,581**	1,098,638,190
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	10	**132,741,301**	120,672,967
NON-CURRENT ASSETS HELD FOR SALE	11	**43,204,678**	71,251,519
OTHER RESOURCES - Net	12	**35,941,206**	36,671,691
TOTAL RESOURCES		**P 1,914,515,939**	P 1,573,962,450
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	13	**P 1,195,897,017**	P 944,632,743
BILLS PAYABLE	15	**50,000,000**	-
ACCRUED INTEREST AND OTHER EXPENSES	14	**25,187,177**	24,094,510
OTHER LIABILITIES	15	**120,578,356**	93,572,210
TOTAL LIABILITIES		**1,391,662,550**	1,062,299,463
EQUITY			
Capital stock	16	**1,126,358,000**	1,126,358,000
General loan loss reserves	16	**10,197,386**	9,269,034
Surplus reserves		**5,461,189**	5,461,189
Revaluation reserves	12, 19	**8,032,546**	13,878,686
Deficit		**(627,195,732)**	(643,303,922)
TOTAL EQUITY		**522,853,389**	511,662,987
TOTAL LIABILITIES AND EQUITY		**P 1,914,515,939**	P 1,573,962,450

See Notes to Financial Statements.

RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
(Amounts in Philippine Pesos)

	Notes	2025	2024
INTEREST INCOME			
Loans and receivables	9	**P 314,585,528**	P 270,052,480
Due from Bangko Sentral ng Pilipinas and other banks	8	**4,242,073**	2,297,430
		318,827,601	272,349,910
INTEREST EXPENSE			
Deposit liabilities	13	**37,531,339**	38,851,911
Others	15, 19	**7,513,047**	5,218,466
		45,044,386	44,070,377
NET INTEREST INCOME		**273,783,215**	228,279,533
IMPAIRMENT LOSSES	9, 11	**(42,110,358)**	(32,066,867)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**231,672,857**	196,212,666
OTHER OPERATING INCOME	17	**56,700,386**	47,917,715
OTHER OPERATING EXPENSES	18	**(264,368,274)**	(234,559,599)
INCOME BEFORE TAX		**24,004,969**	9,570,782
TAX EXPENSE	20	**6,968,427**	5,420,102
NET INCOME		**17,036,542**	4,150,680
OTHER COMPREHENSIVE LOSS			
Items that will not be reclassified subsequently to profit or loss			
Fair value gains on financial assets through other comprehensive income	12, 16	**-**	1,269,452
Remeasurements of retirement benefit plan	16, 19	**(5,846,140)**	(4,131,429)
		(5,846,140)	(2,861,977)
TOTAL COMPREHENSIVE INCOME		**P 11,190,402**	P 1,288,703

See Notes to Financial Statements.

RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
(Amounts in Philippine Pesos)

	Notes	Capital Stock (see Note 16)	Deficit	General Loan Loss Reserves (see Note 16)	Surplus Reserves	Revaluation Reserves (see Note 16)	Total Equity
Balance at January 1, 2025		P 1,126,358,000	(P 643,303,922)	P 9,269,034	P 5,461,189	P 13,878,686	P 511,662,987
General loan loss appropriation	16	-	(928,352)	928,352	-	-	-
Total comprehensive income	12, 19	-	17,036,542	-	-	(5,846,140)	11,190,402
Balance at December 31, 2025		**P 1,126,358,000**	**(P 627,195,732)**	**P 10,197,386**	**P 5,461,189**	**P 8,032,546**	**P 522,853,389**
Balance at January 1, 2024		P 1,126,358,000	(P 647,454,602)	P 9,269,034	P 5,461,189	P 16,740,663	P 510,374,284
Total comprehensive income	12, 19	-	4,150,680	-	-	(2,861,977)	1,288,703
Balance at December 31, 2024		P 1,126,358,000	(P 643,303,922)	P 9,269,034	P 5,461,189	P 13,878,686	P 511,662,987

See Notes to Financial Statements.

RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
(Amounts in Philippine Pesos)

	Notes	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 24,004,969	P 9,570,782
Adjustments for:			
Interest income	8, 9	(318,827,601)	(272,349,910)
Interest received		302,447,651	267,591,756
Interest expense	13, 15, 19	45,044,386	44,070,377
Impairment losses	9, 11	42,110,358	32,066,867
Interest paid		(40,778,716)	(42,327,820)
Depreciation and amortization	10, 12	31,635,787	28,605,417
Gain on sale of assets held for sale	11, 17	(11,418,727)	(4,954,726)
Loss (gain) on sale of bank premises, furniture, fixtures and equipment	10, 17	56,561	(592,286)
Operating profit before working capital changes		74,274,668	61,680,457
Decrease (increase) in loans and receivables		(289,947,437)	114,825,403
Decrease (increase) in non-current assets held for sale		31,962,206	(17,022,565)
Decrease (increase) in other resources		895,001	(441,976)
Increase (decrease) in deposit liabilities		251,264,274	(47,751,071)
Increase in accrued interest and other expenses		1,642,291	9,701,226
Increase (decrease) in other liabilities		1,114,449	(27,486,367)
Cash generated from operations		71,205,452	93,505,107
Cash paid for taxes		(6,923,921)	(7,876,240)
Net Cash From Operating Activities		64,281,531	85,628,867
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of bank premises, furniture, fixtures and equipment	10	(11,936,057)	(11,971,154)
Acquisitions of computer software	12	(1,130,562)	(999,083)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	10	512,520	6,140,061
Net Cash Used in Investing Activities		(12,554,099)	(6,830,176)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments (payments) of bills payable	15	50,000,000	(40,000,000)
Payments of lease liabilities	15	(16,185,342)	(19,278,218)
Net Cash From (Used in) Financing Activities		33,814,658	(59,278,218)
NET INCREASE IN CASH AND CASH EQUIVALENTS		85,542,090	19,520,473
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8		
Cash		19,457,898	13,650,462
Due from Bangko Sentral ng Pilipinas (BSP)		137,733,981	80,981,879
Due from other banks		89,536,204	99,624,130
Loans arising from reverse repurchase agreements		-	32,951,139
		246,728,083	227,207,610
CASH AND CASH EQUIVALENTS AT END OF YEAR	8		
Cash		20,356,791	19,457,898
Due from Bangko Sentral ng Pilipinas (BSP)		101,058,571	137,733,981
Due from other banks		85,854,811	89,536,204
Loans arising from reverse repurchase agreements		125,000,000	-
		P 332,270,173	P 246,728,083

Supplemental Information on Non-cash Investing and Financing Activity –

The Bank recognized additional right-of-use assets and liabilities amounting to P31.37 million and P27.23 million in 2025, respectively, and P8.20 million and P2.48 million in 2024, respectively (see Notes 10 and 15).

See Notes to Financial Statements.

RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Rizal Microbank, Inc. – A Thrift Bank of RCBC (formerly known as Merchants Savings and Loan Association, Inc.) (the Bank) was incorporated in the Philippines on December 15, 1976. The Bank is licensed and authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a thrift bank and it focuses mainly on providing loans to microenterprise and small business operators as well as value chain players in the agricultural sector. As a thrift bank, the Bank, with prior Monetary Board approval, may also engage in trust, quasi-banking, and money market operations and act as collection agent/official depository for government and commercial entities. The Bank also has the authority to accept foreign currency deposits.

On March 22, 2011, the Bank secured the approval of the BSP to operate under its new trade name, Merchants Savings and Loan Association, Inc. On November 18, 2015, the Board of Directors (BOD) approved the change in corporate name of the Bank from Merchants Savings and Loan Association, Inc. to Rizal Microbank – A Thrift Bank. The BOD subsequently amended and approved the corporate name to Rizal Microbank, Inc. – A Thrift Bank of RCBC on April 27, 2018. The Securities and Exchange Commission (SEC) approved the Amended Articles of Incorporation and Amended By-Laws bearing its new corporate name on June 25, 2019.

The Bank's BOD and stockholders approved on January 27, 2012 and April 27, 2012, respectively, the amendment to the Bank's Articles of Incorporation to include the secondary purpose to sell, solicit or market insurance products and services as an insurance agent or broker especially for microinsurance products issued by life and non-life insurance companies as authorized by the Insurance Commission and in accordance with the rules and regulations of the BSP.

The Bank is a wholly owned subsidiary of Rizal Commercial Banking Corporation (RCBC or the Parent Bank), a publicly-listed company incorporated and domiciled in the Philippines. RCBC is a universal bank engaged in all aspects of banking. RCBC provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury and trust and custodianship services. RCBC is a 33.92% - owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC or the ultimate parent company), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

The Bank's registered office and principal place of business is Andarizal Center, Rizal Street corner Anda Street, Barangay 3-A, Davao City. The registered office of RCBC is located at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City, while PMMIC is located at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

As of December 31, 2025, the Bank has 15 branches (including its head office) in the areas of Agusan del Norte, Batangas, Bukidnon, Cebu, Davao del Norte, Davao del Sur, Metro Manila, Misamis Oriental, Occidental Mindoro, and South Cotabato. Also, as of December 31, 2025, the Bank has 13 branch-lite units in Oriental Mindoro, Sultan Kudarat, Davao de Oro, Davao del Sur, Agusan del Sur, Quezon Province, Laguna, Cotabato, Batangas, Bukidnon, Palawan, and Surigao del Sur.

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

2. MATERIAL ACCOUNTING POLICY INFORMATION

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS Accounting Standards

(a) Effective in 2025 that are Relevant to the Bank

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

(b) Effective Subsequent to 2025 but not Adopted Early

There are new and amendments to existing standards effective for annual periods subsequent to 2025, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

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

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

2.3 Financial Instruments

(a) Financial Assets

(i) Classification, Measurement and Reclassification of Financial Assets

The Bank's financial assets include financial assets at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL).

Financial Assets at Amortized Cost

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash, Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreements, Loans and Other Receivables and as part of Other Resources in respect of rentals and other deposits, petty cash fund and coins on hand which are included in the account.

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

Financial Assets at FVOCI

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVPL. The Bank has designated its equity instrument as at FVOCI. The Bank currently has no debt instruments in its FVOCI financial asset classification.

Financial Assets at FVTPL

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

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

(ii) Effective Interest Rate Method and Interest Income

Interest income on financial assets measured at amortized cost and all interest-bearing debt financial assets classified as at FVTPL, or at FVOCI, is recognized using the effective interest rate method.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income. The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and/or are purchased or originated credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

(iii) Impairment of Financial Assets

The Bank's Expected Credit Loss (ECL) model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets and definition of default for purposes of determining ECL are further discussed in Note 4.1.

ECL is a function of the probability of default (PD), loss given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Note 4.1.

The Bank calculates ECL either on an individual or a collective basis. For agricultural, microfinance and regular loans which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, credit risk rating, collateral type, product type, historical net charge-offs, industry type, and geographical locations of the borrowers or counterparties. The Bank calculates ECL for corporate loans, sales contract receivables and investment securities at amortized cost on an individual basis.

The Bank applies a simplified ECL approach for its accounts receivables and other risk assets wherein the Bank uses a provision matrix that considers historical changes in the behaviour of the portfolio of credit exposures based on internally collected data to predict conditions over the span of a given observation period. These receivables include claims from various counterparties, which are not originated through the Bank's lending activities. For these instruments, the Bank measures the loss allowance at an amount equal to lifetime ECL.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account. With respect to investments in debt securities that are measured at FVOCI, the related loss allowance account is recognized in other comprehensive income and accumulated in the Revaluation Reserves account and does not reduce the carrying amount of the financial asset in the statement of financial position.

(iv) Modification

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

In making such assessment, the Bank considers, among others:

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

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a new asset at fair value and recalculates a "new" effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized in profit or loss as either gain or loss on derecognition of financial assets.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss.

(b) Financial Liabilities

Financial liabilities include deposit liabilities, accrued interest and other expenses, bills payable, and other liabilities (except for tax-related payables and post-employment defined benefit obligation).

2.4 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment, except land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land held for use in operation or administration is stated at cost less any impairment losses.

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

Buildings	10 to 25 years
Furniture, fixtures and office equipment	3 to 10 years
Transportation equipment	5 years

Leasehold improvements are amortized over the estimated useful lives of the improvements of ten years or the terms of the related leases, whichever is shorter.

2.5 Non-current Assets Classified as Held for Sale

Non-current assets held for sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell.

2.6 Intangible Assets

Intangible assets include computer software used in operations which are accounted for under the cost model and reported under Other Resources account in the statements of financial position. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over the estimated useful lives (ranging from two to five years) as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 3.2(f).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software.

2.7 Other Income and Expense Recognition

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

For revenues arising from various services which are to be accounted for under PFRS 15, *Revenue from Contracts from Customers*, it provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies such as *Service charges, fees and Commissions* – these income arising from loans, deposits, and other banking transactions are recognized as income based on agreed terms and conditions with customers, which are generally when the services have been performed.

For other income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

(a) *Gain or loss from assets sold or exchanged* – Income or loss from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income or Other Operating Expenses in the statement of comprehensive income.

(b) *Recovery on charged-off assets* – Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery. This is included in profit or loss as part of Other Operating Income in the statement of comprehensive income.

2.8 Leases

(a) *Bank as Lessee*

Subsequent to initial measurement, the lease liability will be reduced for payments made and increased for interest. The Bank depreciates the right-of-use asset on a straight line basis from the lease commencement date to the earlier of the end of the useful life or the end of the lease term which is from 2 to 10 years.

The Bank has elected to account for any short-term leases (less than 12 months) using the practical expedient. Instead of recognizing a right-of-use asset and lease liability, the lease payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The corresponding right-of-use assets and lease liabilities are presented as part of Bank Premises, Furniture, Fixtures and Equipment, and Other Liabilities, respectively, in the statement of financial position.

(b) *Bank as Lessor*

As a lessor, the Bank classifies its leases as either finance or operating leases.

Leases which transfer to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented at an amount equal to the Bank's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Bank's net investment outstanding in respect of the finance lease and is included as part of Interest Income on loans and receivables.

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

2.9 Employee Benefits

The Bank provides retirement benefits to employees through a defined benefit plan and defined contribution plan, as well as other benefits.

The Bank's defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management 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:

(a) Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI

The Bank uses the general approach to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts. The allowance for impairment is based on the ECL associated with the PD of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

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

(b) Evaluation of Business Model Applied and Testing the Cash Flow Characteristics of Financial Assets in Managing Financial Instruments

The Bank manages its financial assets based on a business model that maintains adequate level of financial assets to match its expected cash outflows, largely in relation to its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, and to manage its working capital.

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

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

Furthermore, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding.

The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

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

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

(c) Distinction Between Investment Properties and Owner-occupied Properties

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease) then these portions can be accounted for separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in operations or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. As of the end of the reporting period, the Bank has no property comprising a portion that is held for rental or for capital appreciation and with other portions held for use in operation or for administrative purposes.

(d) Determination of the Classification of Asset under Assets Held-for-Sale

The Bank classifies an asset as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In determining whether reclassification is in order, the asset must be available for immediate sale in its present condition subject to usual terms and the same must be highly probable, evidenced by a commitment to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except if a delay will be caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

(e) Classification and Determination of Fair Value of Acquired Properties

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

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 7.4.

(f) Determination of Lease Term of Contracts with Renewal and Termination Options

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

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

The Bank did not include renewal options as part of the lease term as the terms are renewable upon mutual agreement.

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

(g) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are presented in Note 22.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and outside counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its dealing in these proceedings will have material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

3.2 Key Sources of Estimation Uncertainty

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

(a) *Estimation of Allowance for ECL on Loans and Receivables*

The Bank aligned its ECL methodology with the Parent Bank's ECL model in 2024. This was approved by the Board of Directors last October 27, 2022. To further strengthen the components and approach used in the model refresh, the model was validated during the first quarter of 2024 by an external validation team. The structure of model validation was influenced by the availability of the information and how it is best used for risk assessment.

The results of the validation have been reviewed by RCBC ECL Technical Working Group (TWG) prior to presentation to, concurrence and approval on April 24, 2024 by the RMB Risk Oversight Committee and BOD, respectively.

This framework measures credit impairment of loan receivables in accordance with the provisions of PFRS 9 which considers past events, current conditions and forecasts of future economic conditions.

The ECL model integrates results of granular assessment of loan accounts which takes into consideration both the qualitative and quantitative factors in determining the significant increase in credit risk. Further, this assessment is classified based on the five colors depending on the severity of credit risk of the accounts.

Under this framework, accounts are assessed and classified using color codes that were initially designed to match the Parent Bank's COVID-19 Assistance and Recovery Enhancement (CARE) colors; however, in 2024, the Parent Bank reverted to using Standard and Poor Rating (S&P) as their internal credit risk rating system. The Bank opted to keep color coding because it graphically emphasizes the extent of credit risk within portfolio categories.

Color coding of accounts has been adopted only in 2021 which limits the required historical information to three years. Although PFRS 9 has no specific guidance nor explicit as to number of years of data requirement when computing ECL, careful assessment was made by the Bank in terms of the use of available historical data primarily for the consideration of the following: average lending period over which the Bank is exposed to credit risk, data quality, changes in economic conditions, and risk assessments. On the other hand, when measuring allowance for ECL for loans and receivables, management applies judgment in defining the criteria in assessing whether a financial asset has experienced significant increase in credit risk (SICR) since initial recognition, estimation of the contractual cash flows due from borrower, and those that the Bank would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behaviour of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses).

Significant factors affecting the estimates on the ECL model include:

- default history of group of accounts which determines the PD to be assigned to a specific portfolio of loans and receivables;
- criteria for assessing if there has been an SICR and when a financial asset will be transferred between the three stages;
- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis; and,
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties.

The explanation of inputs, assumptions and estimation techniques used in measuring ECL and the analysis of the allowance for ECL on loans and receivables is further discussed in Note 4.1.

(b) Fair Value Measurement for Financial Assets at FVOCI

The Bank carries financial asset at fair value which requires judgment and use of accounting estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriate valuation techniques (see Note 7).

The amount of changes in fair value would differ if the Bank had utilized different valuation methods and assumptions. Any change in fair value of the financial asset would affect other comprehensive income.

The carrying values of the Bank's financial asset at FVOCI and the amount of fair value changes recognized are disclosed in Notes 7.2 and 12.1.

(c) Determination of Appropriate Discount Rate in Measuring Lease Liabilities

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract.

The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate.

In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(d) Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, and Intangible Asset

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment (except for land), and intangible asset based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment, and intangible asset are analyzed in Notes 10 and 12.2, respectively. Based on management's assessment as of December 31, 2025 and 2024, there is no change in the estimated useful lives of these assets in both years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Determining Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. As of December 31, 2025 and 2024, deferred tax assets were not recognized in the Bank's financial statements since management believes that those deferred tax assets will not be realized in the future (see Note 20).

(f) Estimation of Impairment Losses of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, intangible assets (recognized under Other Resources account), non-current assets classified as held for sale, and other non-financial assets are subject to impairment testing.

Except for intangible assets with indefinite useful lives, PFRS Accounting Standards requires that an impairment review be performed when certain impairment indications are present.

The Bank assesses impairment on these non-financial assets and considers the following important indicators:

- significant changes in asset usage;
- significant decline in assets' market value;
- obsolescence or physical damage of an asset;
- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the manner of usage of the acquired assets or the strategy for the Bank's overall business; and,
- significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(g) Valuation of Defined Benefit Retirement Obligation

The determination of the Bank's obligation and cost of retirement benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or loss and the carrying amount of the retirement obligation in the next reporting period.

The amounts of post-employment benefit obligation and related income or expense, and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 19.2.

(h) Determination of Recoverable Amount of Non-Current Assets Held for Sale

In determining the recoverable amount of assets the Bank's non-current assets held-for-sale, the estimated fair value less cost to sell are determined by an independent appraiser or internal appraiser based on current appraised values of the properties or similar properties in the same location and condition.

The amount of assets classified as held-for sale by the Bank, its impairment and recovery are presented in Notes\ 11.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of financial risks in relation to holding financial instruments. The Bank's risk management process is coordinated with the Parent Bank, in close cooperation with the BOD, and focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed to are credit risk, liquidity risk and market risk as described below and in the succeeding pages.

4.1 Credit Risk Management Practices

Credit risk is the risk that the counterparty in a transaction may default, which arises from lending and other activities undertaken by the Bank.

The Bank manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The Risk Oversight Committee is responsible for the development and oversight of the Bank's risk management program. It defines the risk appetite and reviews the risk profile of the Bank to ensure that the risk is not higher than the risk appetite determined by the BOD. The Credit Risk Management Unit (CRMU), on the other hand, is responsible for: (a) the development of credit policies relating to account management; and, (b) the credit risk evaluation of group of borrowers in different segments of the Bank's loan portfolio. The CRMU also conducts regular credit risk evaluation and monitoring of individual borrowers that involve specific asset quality review depending on certain materiality threshold that will reasonably capture the credit risk exposures of the Bank to a certain borrower.

At the loan origination stage of the lending process, exposure to credit risk for individual borrower is managed via adherence to a set of policies, the most notable features of which, in this context are: (a) credit approving authority that is not exercised by a single individual but rather, through a hierarchy of limits that is effectively exercised collectively; (b) retail lending officers have limited approval authority only within a certain credit exposure; and, (c) borrower credit analysis is performed at origination and at least annually thereafter or co-terminus with the renewal of the credit line.

Integral to the Bank's management of credit risk is ensuring a monitored level of exposures arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions, which is capable of generating losses large enough to jeopardize an institution's solvency. The Bank monitors concentrations of credit risk by sector.

An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 24(c).

4.1.1 Credit Risk Assessment and Measurement

Loans, regardless of whether the accounts have been fully paid, extended or renewed in subsequent period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions affecting the credit behaviour of the Bank's borrowers, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, LGD, and EAD, for purposes of measuring ECL.

Unlike previous years where credit risk assessment is performed based on per product segment of loan portfolio: regular and microfinance loans, the revised ECL methodology performs credit risk assessment on a granular basis for all credit accommodations. The process requires the use of color coding parameters to ensure all pertinent information are captured. This information includes the assessment of the following:

- impact on business operations (pandemic, calamities and etc.)
- shift in business activities
- business operations (full or downsized)
- sales and purchase level
- customer relationship
- level of supply and manpower
- status of payables and receivables
- business profitability

- source of payment
- loan servicing
- loan relief measures

With the implementation of the revised ECL model, the Bank also maintains the individual assessment of accounts for other information source of loan impairment. In assessing accounts subject to individual assessment, the Bank has established a materiality threshold of P2.0 million for all exposures. Such threshold shall be regularly reviewed at the end of reporting period to ensure that it appropriately captures what the Bank considers as material items of loan for individual assessment. The provision for ECL shall reflect consideration of the facts and circumstances gathered during the conduct of quality review and color coding assessment that affect the repayment of each individual loan as of evaluation date.

4.1.2 Assessment of Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both the quantitative and qualitative information that is reasonable and supportable, including historical experience as appropriate.

The Bank ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

(i) Stage 1 – comprises all credit exposures that are considered 'performing' and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL.

(ii) Stage 2 – comprises all financial instruments assessed to have SICR since initial recognition based on the Bank's quantitative and qualitative criteria, though not yet deemed to be credit-impaired. Stage 2 includes credit exposures that are considered 'under-performing' in which credit risk assessment falls under the Especially Mentioned classification. Stage 2 financial instruments may also include those facilities where the credit risk has improved and have been reclassified from Stage 3 subject to the Bank's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

(iii) Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Bank as 'non-performing', which is assessed consistently with the Bank's definition of default. Generally, this includes accounts classified as Substandard, Doubtful and Loss. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

Financial assets that are credit-impaired on initial recognition, if any, are classified as Purchased or Originated Credit Impaired (POCI) assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Significant increase in credit risk is holistically assessed by relying on the results of color coding as well as the number of days past due and collateral status of the borrower. Color coding transitions are being monitored on a timely basis so as to reflect the accurate condition of the credit exposures which further subject to the remedial measures by concerned lending units.

In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Bank's definition of curing period.

In identifying the color code of each account, careful assessment was made by the Bank's CRMU to ensure the results of quantitative and qualitative assessment are properly accounted for and is aligned with the definition of staging and classification of accounts set by the standards.

This staging and classification matrix also incorporated the comments and suggestions of the Parent Bank's technical working group handling ECL Model enhancements.

Staging and Classification Matrix:

Color Code	Status	Stage	Classification
GREEN	Current	1	Pass
	Past due performing [(1)]	2	Especially Mentioned
YELLOW	Current	1	Pass
	Past due performing	2	Especially Mentioned
	Past due non-performing	3	Substandard
AMBER	Current [(2)]	1	Pass
	Past due performing [(3)]	2	Especially Mentioned
	Past due non-performing	3	Doubtful
ORANGE	Current	2	Especially Mentioned
	Past due performing	3	Substandard
	Past due non-performing	3	Doubtful
RED	Past due non-performing	3	Doubtful
			Loss

Notes:

[(1)] *Technical past due accounts - Stage1/Pass*
[(2)] *Stage 2/EM if account is unmodified, no relief action program/plan availed*
[(3)] *Stage 3/Substandard if under bucket 61-90 days PD*

For Modified Accounts under Loan Relief Moratorium (LRM), repackage, and restructured programs.

1. Accounts which are *"Current"* upon repackaging/restructuring shall be initially classified to Stage 2 - Especially Mentioned. These accounts may improve to Stage 1 – Pass after maintaining its current status in the next six months, relative to the color classification.

2. Repackaged and restructured accounts with principal maturing at the end of the loan term (Balloon Modified Accounts).

   - Those accounts repackaged and/or restructured only once shall have its ceiling of Stage 2 – Especially mentioned,

   - Those accounts repackaged and/or restructured more than once shall have its ceiling of Stage 3 – Substandard.

3. Asset Quality Review

   Asset Quality Review (AQR) is an additional assessment tool conducted by the CRMU with the purpose of identifying potential credit risk that may arise from the business conditions of the client, collateral valuation and documentations, and compliance to conditions set during the credit evaluation.

   Accounts subject to AQR are those that are considered "current" with exposures amounting to P2.0 million and above, and "past due" with exposures amounting to P1.0 million and above.

   The results of the AQR will be mapped to determine the final staging and account classification following the matrix (refer to the table above).

The Bank assigns loans based on classification into stages of impairment as follows:

Classification	**Stages**
Unclassified	1
Especially Mentioned	2
Defaulted	3

For purposes of the information disclosed for credit risk exposures, 'defaulted' accounts include those which are classified as Substandard, Doubtful, and Loss.

4.1.3 Definition of Default

The Bank defines a loan instrument as in default, which is aligned with the definition of credit-impaired, based on quantitative information on number of days past due per definition of default and non-performing loans under BSP Manual of Regulations for Banks (MORB) Section 304.

As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances and factors that may indicate unlikeliness of the borrower to pay, which may include (a) significant financial difficulty of the borrower; (b) the restructuring of a loan by the Bank, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Bank would not consider otherwise; or, (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Bank carefully considers whether the event should result in treating the customer as in default.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the instalments in arrears and the account no longer meets any of the default criteria for a consecutive period of 30 days within which the borrower shall make consecutive payments.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes.

4.1.4 Expected Credit Loss Measurement Inputs

Integral to the Bank's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model that applies relevant inputs and assumptions, that considers forward-looking information (FLI) as appropriate.

(a) *Key Inputs and Assumptions in the ECL Model*

The ECL is determined by projecting the PD, LGD and EAD for each future month for exposures assessed collectively.

(i) PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. PD is computed in a simpler manner focusing on the performance of the accounts. In determining PD, the Bank performed segmentation of its credit exposures stratified based on homogenous characteristics, and developed a systematic PD methodology for each color code classification. The Bank uses the term "Observe Default Frequency" which is calculated as the percentage of defaulted borrowers to total number of borrowers per each color code. To note, during model refresh, CRMU initially computed PD on a per product basis but it was observed that the level of default per product type is relatively low per population count hence it was advised that it be consolidated bank-wide.

(ii) LGD is the estimate of full economic loss in the event of default, expressed as a percentage of EAD. A cash shortfall is a difference between the cash flows that are due to an entity in accordance with cash flows that the entity expects to receive. The Bank, after the suggestions of RCBC ECL TWG and the Bank's independent ECL validator, will use the LGD for Middle Market portfolio as a proxy. The Bank believes it is the closest approximation for the Bank portfolio due to its similarities in clients. However, the Bank has smaller loan tickets than the Middle Market, thus, only accounts with less than P20.0 million were considered in computing the LGD. Separate LGD is considered for secured and unsecured portfolio.

(iii) EAD explains how much exposure the Bank will have to face when a customer fails to pay back the amount at the time of the default. It represents the gross carrying amount of the exposure in the event of default, which include the amortized cost amount of an instrument.

(b) *Overlay of Forward-looking Information*

The Bank incorporates FLI in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. To project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used, which means that MEVs tend to either a long run average rate (e.g., for unemployment) or a long run average lending rate over a period of two to five years. The impact of these economic variables on the PD, LGD and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank include economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Bank has identified key drivers for credit risk for its loan portfolio, which include among others, unemployment rate, lending rate, inflation rate and gross domestic product rate. Using an analysis of historical data, the Bank has assessed that the above economic factors have no significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs on a regular basis and additional factors may be incorporated from time to time as deemed appropriate.

4.1.5 Credit Risk Exposures and Allowance for Credit Losses

(a) Maximum Credit Exposures

The table below sets out the gross carrying amounts of the exposures to credit risk on financial assets measured at amortized cost at the end of the reporting period, before taking into consideration the effect of collateral and other credit enhancements.

(Amounts in PHP)	Notes	**2025**	2024
Cash	8	**20,356,791**	19,457,898
Due from BSP	8	**101,058,571**	137,733,981
Due from other banks	8	**85,854,811**	89,536,204
Loans arising from reverse repurchase agreements	8	**125,000,000**	-
Loans and receivables:	9		
Receivable from customers		**1,444,634,900**	1,162,798,310
Unquoted debt securities classified as loans		**12,909,280**	-
Sales contract receivables		**9,640,991**	15,043,317
Accrued interest receivables and others		**18,863,769**	14,625,837
Rental and other deposits	12	**3,760,329**	3,766,997
		1,822,079,442	1,442,962,544

Cash equivalents, which include loans and advances to banks (i.e., Due from BSP, Due from Other Banks and Loans under Reverse Repurchase Agreements) (see Note 8) are held with BSP and financial institutions counterparties that are reputable and with low credit risk. This includes the deposits to the Parent Bank (see Note 21.2).

The information about the credit exposures on the Bank's loans and receivables by stages of impairment as of December 31, 2025 and 2024 is shown at their gross carrying amounts with the corresponding allowance for ECL are shown below.

(i) Receivables from customers

(Amounts in PHP)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2025				
Credit Quality				
Unclassified	1,158,038,497	-	-	1,158,038,497
Especially mentioned	-	56,630,570	-	56,630,570
Defaulted	-	-	229,965,833	229,965,833
Gross carrying amount	1,158,038,497	56,630,570	229,965,833	1,444,634,900
Allowance for ECL	(223,330)	(3,992,832)	(109,418,922)	(113,635,084)
Carrying Amount	**1,157,815,167**	**52,637,738**	**120,546,911**	**1,330,999,816**

(Amounts in PHP)	Stage 1	Stage 2	Stage 3	Total
2024				
Credit Quality				
Unclassified	921,160,261	-	-	921,160,261
Especially mentioned	-	30,979,214	-	30,979,214
Defaulted	-	-	210,658,835	210,658,835
Gross carrying amount	921,160,261	30,979,214	210,658,835	1,162,798,310
Allowance for ECL	(267,216)	(898,597)	(91,918,777)	(93,084,590)
Carrying Amount	920,893,045	30,080,617	118,740,058	1,069,713,720

(ii) Accrued interest receivables and others

(Amounts in PHP)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2025				
Credit Quality				
Unclassified	11,361,897	-	-	11,361,897
Especially mentioned	-	1,624,722	-	1,624,722
Defaulted	-	-	5,877,150	5,877,150
Gross carrying amount	11,361,897	1,624,722	5,877,150	18,863,769
Allowance for ECL	-	(877,072)	(1,178,203)	(2,055,275)
Carrying Amount	**11,361,897**	**747,650**	**4,698,947**	**16,808,494**
2024				
Credit Quality				
Unclassified	13,803,393	-	-	13,803,393
Especially mentioned	-	281,378	-	281,378
Defaulted	-	-	541,066	541,066
Gross carrying amount	13,803,393	281,378	541,066	14,625,837
Allowance for ECL	(744,684)	-	-	(744,684)
Carrying Amount	13,058,709	281,378	541,066	13,881,153

(iii) Unquoted debt securities classified as loans

The carrying amount of the Bank's unquoted debt securities classified as loans amounted to P12.91 million as of December 31, 2025 (see Note 9). No ECL was recognized for this account in 2025. There were no similar transactions in 2024.

(iv) Sales contract receivables

The carrying amount of the Bank's sales contract receivables is P9.60 million and P15.04 million as of December 31, 2025 and 2024, respectively. All accounts are in the Stage 1 category and considered current as of December 31, 2024. As of December 31, 2025, one account is considered non-performing amounting to P0.40 million with an ECL of P0.04 million. No ECL was recognized for the Bank's sales contract receivables in 2024.

(b) Allowance for ECL

The table below and in the succeeding page show the reconciliation of the loss allowance for ECL for receivable from customers as of December 31, 2025 and 2024.

(Amounts in PHP)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2025				
Balance at beginning of year	267,216	898,597	91,918,777	93,084,590
Transfers from:				
Stage 1 to Stage 2	(2,319)	2,319	-	-
Stage 2 to Stage 3	-	(482,539)	482,539	-
Stage 3 to Stage 1	323,520	-	(323,520)	-
Stage 3 to Stage 2		316,436	(316,436)	-
Assets derecognized or repaid	(404,635)	(85,176)	(12,563,465)	(13,053,276)
New assets originated:				
Remained in Stage 1	139,006	(65,873)	-	73,133
Moved to Stage 2 and 3	(99,458)	3,409,068	30,221,027	33,530,637
Balance at end of year	**223,330**	**3,992,832**	**109,418,922**	**113,635,084**
2024				
Balance at beginning of year	5,885,975	3,405,675	58,990,797	68,282,447
Transfers from:				
Stage 1 to Stage 2	(4,823,611)	4,823,611	-	-
Stage 2 to Stage 3	-	(17,711,905)	17,711,905	-
Stage 3 to Stage 1	61,068		(61,068)	-
Stage 3 to Stage 2	-	8,986,296	(8,986,296)	-
Assets derecognized or repaid	(3,911,173)	(2,129,731)	(220,517)	(6,261,421)
New assets originated:				
Remained in Stage 1	3,054,957	-	-	3,054,957
Moved to Stage 2 and 3	-	3,524,651	24,483,956	28,008,607
Balance at end of year	267,216	898,597	91,918,777	93,084,590

ECL on cash and cash equivalents and other financial instruments (except for receivable from customers) were assessed by management to be not significant.

The Bank recognized an allowance of P2.06 million and P0.74 million on accrued interest receivables and others in 2025 and 2024, respectively. These financial instruments were in Stage 1 and Stage 2 category and are considered performing as of December 31, 2025, and 2024, respectively.

(c) Significant Changes in Gross Carrying Amounts Affecting Allowance for ECL

The table on succeeding page provides information on how the significant changes in the gross carrying amounts of receivables from customers contributed to the change in the amount of allowance for ECL.

(Amounts in PHP)	Stage 1	Stage 2	Stage 3	Total
2025				
Balance at beginning of year	921,160,261	30,979,214	210,658,835	1,162,798,310
Transfers from:				
Stage 1 to Stage 2	(12,405,199)	12,405,199	-	-
Stage 2 to Stage 3	-	(18,396,693)	18,396,693	-
Stage 3 to Stage 1	2,264,228	-	(2,264,228)	-
Stage 3 to Stage 2	-	834,212	(834,212)	-
Assets derecognized or repaid	(661,041,794)	(14,230,598)	(53,260,648)	(728,533,040)
New assets originated:				
Remained in Stage 1	952,448,268	(755,440)	-	951,692,828
Moved to Stage 2 and 3	(44,387,267)	45,794,676	57,269,393	58,676,802
Balance at end of year	**1,158,038,497**	**56,630,570**	**229,965,833**	**1,444,634,900**
2024				
Balance at beginning of year	1,011,138,764	58,279,458	206,730,158	1,276,148,380
Transfers from:				
Stage 1 to Stage 2	(13,850,084)	13,850,084	-	-
Stage 2 to Stage 3	-	(27,998,429)	27,998,429	-
Stage 3 to Stage 1	1,456,623	-	(1,456,623)	-
Stage 3 to Stage 2	-	7,275,000	(7,275,000)	-
Assets derecognized or repaid	(749,238,087)	(27,977,917)	(48,069,054)	(825,285,058)
New asset originated:				
Remained in Stage 1	671,653,045	-	-	671,653,045
Moved to Stage 2 and 3	-	7,551,018	32,730,925	40,281,943
Balance at end of year	921,160,261	30,979,214	210,658,835	1,162,798,310

4.1.6 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and advances to customers in the form of real estate mortgage, chattel mortgage, assignment of receivables, personal guaranty and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated as deemed appropriate (i.e., generally at the time of credit renewal or at foreclosure event).

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing arrangements.

The fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2025 and 2024 were classified per stage as follows:

(Amounts in PHP)	Stage 1	Stage 2	Stage 3	Total
2025				
Real properties	3,005,031,845	364,157,880	231,733,111	3,600,922,836
Chattel	283,590,711	13,091,299	79,268,999	375,951,009
Hold-out deposits	65,892,261	1,846,320	9,689,989	77,428,570
	3,354,514,817	**379,095,499**	**320,692,099**	**4,054,302,415**
2024				
Real properties	3,372,035,989	84,487,900	276,156,059	3,732,679,948
Chattel	145,605,205	11,593,433	186,008,696	343,207,334
Hold-out deposits	62,946,025	2,074,125	7,020,575	72,040,725
	3,580,587,219	98,155,458	469,185,330	4,147,928,007

The Bank has recognized certain properties arising from foreclosures in settlement of loan account amounting to P29.95 million and P30.12 million in 2025 and 2024, respectively.

The Bank's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

The Bank does not generally use the non-cash collateral for its own operations.

There were no changes in the Bank's collateral policies in 2025 and 2024.

4.1.7 Modifications of Financial Assets

(a) Financial Reliefs Provided by the Bank

In certain cases, the Bank modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Bank is owed to. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary. Restructuring is most commonly applied to term or corporate loans.

On July 5, 2021, the Bank's BOD approved to launch RACE in response to client's request for additional loan payment relief measures. Many of the Bank's loan clients continue to suffer due to the impact of the pandemic on their business as well as other adverse situations that put the business in a difficult and challenging financial position. Specifically, the following are the loan relief measures to be offered to clients:

- payment holiday with or without loan term extension;
- loan refinancing/repacking; and,
- loan restructuring.

On top of the government reliefs, the Bank has offered financial relief through its RACE Program, which was approved by the Executive Committee on May 28, 2020, in response to the COVID-19 situation. These relief measures were granted to eligible customers to allow them to get back into the habit of paying loans and included the following:

- payment relief including extension of contractual terms;
- principal and interest relief including lower amortization on extended term with interest payment only on the first year; and,
- extension of balloon repayment terms.

As of December 31, 2025 and 2024, the total outstanding balance of loans modified under the Bank's loan relief measure amounts to P90.9 million and P144.56 million, respectively.

(b) Assessment of SICR

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2.

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets (see also Note 4.1.2).

4.2 Liquidity Risk

Liquidity risk is the risk from inability of the Bank to settle its maturing obligations when they become due because of inability to liquidate assets or obtain adequate funding from other financing sources. In view of this, the Bank ensures that sufficient liquid assets are carefully managed to meet short-term and medium-term funding, and regulatory requirements.

Analysis of maturity profile of the financial assets and financial liabilities of the Bank is shown below.

(Amounts in PHP)	**Less than one Month**	**One to Three Months**	**Three Months to One Year**	**More than One Year**	**Non-Maturity**	**Total**
2025						
Resources:						
Cash	-	-	-	-	20,356,791	20,356,791
Due from BSP	225,000,000	-	-	-	1,058,571	226,058,571
Due from other banks	-	-	-	-	85,854,811	85,854,811
Loans and receivables:						
Receivables from customer	121,744,228	340,003,356	387,620,842	481,631,390	-	1,330,999,816
Unquoted debt securities classified as loans	-	-	-	12,909,280	-	12,909,280
Accrued interest receivables	16,809,494	-	-	-	-	16,809,494
Sales contract receivables	86,007	357,563	-	9,197,421	-	9,640,991
Other resources:						
Rental and other deposits	-	-	-	3,760,319	-	3,760,319
	363,639,729	340,360,919	387,620,842	507,498,410	107,270,173	1,706,390,073
Liabilities:						
Deposits liabilities	340,693,003	391,150,282	157,096,585	415,263	306,541,884	1,195,897,017
Accrued interest and other expenses	-	-	-	-	19,882,743	19,882,743
Bills payable	50,000,000	-	-	-	-	50,000,000
Other liabilities	1,248,235	52,471,546	11,025,082	77,924,828	8,761,809	151,431,500
	391,941,238	443,621,828	168,121,667	78,340,091	335,186,436	1,417,211,260
Net periodic surplus (gap)	(28,301,509)	(103,260,909)	219,499,175	429,158,319	(227,916,263)	289,178,813
Cumulative total surplus	**(28,301,509)**	**(131,562,418)**	**87,936,757**	**517,095,076**	**289,178,813**	**-**
2024						
Resources:						
Cash	19,457,898	-	-	-	-	19,457,898
Due from BSP	137,733,981	-	-	-	-	137,733,981
Due from other banks	89,536,204	-	-	-	-	89,536,204
Loans and receivables:						
Receivables from customer	81,580,246	133,658,132	313,427,121	541,048,221	-	1,069,713,720
Accrued interest receivables	13,881,153	-	-	-	-	13,881,153
Sales contract receivables	444,062	915,581	4,598,100	9,085,574	-	15,043,317
Other resources:						
Rental and other deposits	-	-	-	-	3,766,997	3,766,997
	342,633,544	134,573,713	318,025,221	550,133,795	3,766,997	1,349,133,270
Liabilities:						
Deposits liabilities	227,732,074	209,293,834	208,818,966	1,035,545	297,752,324	944,632,743
Accrued interest and other expenses	-	-	-	-	20,002,130	20,002,130
Other liabilities	10,299,210	3,565,686	10,697,060	66,891,803	-	91,453,759
	238,031,284	212,859,520	219,516,026	67,927,348	317,754,454	1,056,088,632
Net periodic surplus (gap)	102,848,872	(77,189,341)	98,509,195	482,863,369	(313,987,457)	293,044,638
Cumulative total surplus	102,848,872	25,659,531	124,168,726	607,032,095	293,044,638	-

The contractual maturities reflect the gross cash flows (including contractual interest on deposit liabilities) which may differ from the carrying values of the financial liabilities at the end of the reporting periods.

4.3 Market Risk

Interest Rate Risk

Interest rate risk is the risk to earnings or capital resulting from adverse movements in the interest rates. The economic perspective of interest rate risk focuses on the value of a bank in the current interest rate environment and the sensitivity of that value to changes in interest rates.

The Bank closely monitors the movements of interest rates in the market and reviews its interest-bearing financial assets and liabilities structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits.

The following is the maturity profile of the Bank's interest-bearing financial instruments as of December 31, 2025 and 2024:

(Amounts in PHP)	**Less than one Month**	**One to Three Months**	**Three Months to One Year**	**More than One Year**	**Non-Maturity**	**Total**
2025						
Resources:						
Due from BSP	225,000,000	-	-	-	1,058,571	226,058,571
Due from other banks	-	-	-	-	85,854,811	85,854,811
Receivables from customer	121,744,228	340,003,356	387,620,842	481,631,390	-	1,330,999,816
Unquoted debt securities classified as loans	-	-	-	12,909,280	-	12,909,280
Sales contract receivables	86,007	357,563	-	9,197,421	-	9,640,991
	346,830,235	340,360,919	387,620,842	503,738,091	86,913,382	1,665,463,469
Liabilities:						
Deposits liabilities	340,693,003	391,150,282	157,096,585	415,263	306,541,884	1,195,897,017
Bills payable	50,000,000	-	-	-	-	50,000,000
Other liabilities	1,248,235	52,471,546	11,025,082	77,924,828	8,761,809	151,431,500
	391,941,238	443,621,828	168,121,667	78,340,091	315,303,693	1,397,328,517
Net periodic surplus (gap)	(45,111,003)	(103,260,909)	219,499,175	425,398,000	(228,390,311)	268,134,952
Cumulative total surplus	**(45,111,003)**	**(148,371,912)**	**71,127,263**	**496,525,263**	**268,134,952**	**-**
2024						
Resources:						
Due from BSP	137,733,981	-	-	-	-	137,733,981
Due from other banks	89,536,204	-	-	-	-	89,536,204
Receivables from customer	81,580,246	133,658,132	313,427,121	541,048,221	-	1,069,713,720
Sales contract receivables	444,062	915,581	4,598,100	9,085,574	-	15,043,317
	309,294,493	134,573,713	318,025,221	550,133,795	-	1,312,027,222
Liabilities:						
Deposits liabilities	227,732,074	209,293,834	208,818,966	1,035,545	297,752,324	944,632,743
Other liabilities	10,299,210	3,565,686	10,697,060	66,891,803	-	91,453,759
	238,031,284,	212,859,520	219,516,026	67,927,348	297,752,324	1,036,086,502
Net periodic surplus (gap)	71,263,209	(78,285,807)	98,509,195	482,206,447	(297,752,324)	275,940,720
Cumulative total surplus	71,263,209	(7,022,598)	91,486,597	573,693,044	275,940,720	-

5. CAPITAL MANAGEMENT AND BSP REPORTING COMPLIANCE

5.1 Capital Management

It is the Bank's policy to maintain a strong capital base to sustain the development of its business and to meet regulatory capital requirements at all times. It also seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

5.2 Regulatory Capital

The Bank's lead regulator, the BSP, sets and monitors the capital requirements of the Bank.

In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its relevant circulars.

On January 15, 2013, the BSP issued Circular No. 781, effective on January 1, 2014, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary bank and quasi-banks, in accordance with the Basel III standards.

Prior to 2014, the Bank is required to maintain a capital adequacy ratio (CAR) of 10% of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Bank to maintain:

- Common Equity Tier 1 (CET1) of at least 6.0% of risk-weighted assets;
- Tier 1 Capital of at least 7.5% of risk-weighted assets;
- Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
- Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET1 Capital.

In computing for the CAR, the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, each adjusted for prescribed regulatory deductions.

Tier 1 Capital and Tier 2 Capital are defined as follows, subject to deductions as defined in relevant regulations:

(i) CET1 Capital includes the following:

- paid-up common stock;
- common stock dividends distributable;
- additional paid-in capital;
- deposit for common stock subscription;
- retained earnings;
- undivided profits;
- other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
- minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(ii) AT1 Capital includes:

- instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular 781;
- financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular 781;
- financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- additional paid-in capital resulting from issuance of AT1 capital;
- deposit for subscription to AT1 instruments; and,
- minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.
-

(iii) Tier 2 Capital includes:

- instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular 781;
- financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- deposit for subscription of Tier 2 capital;
- appraisal increment reserve – bank premises, as authorized by the Monetary Board;
- general loan loss provisions; and,
- minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans, or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

The Bank's regulatory capital position as reported to the BSP are shown below.

(Amounts in PHP)	**2025**	2024
Tier 1 Capital	**517,319,408**	496,785,474
Tier 2 Capital	**223,330**	267,216
Total regulatory qualifying capital	**517,542,738**	497,052,690
Total risk-weighted assets	**1,887,099,735**	1,608,121,940
Capital ratios:		
Total regulatory capital expressed as percentage of total risk-weighted assets	**27.43%**	30.91%
Total Tier 1 expressed as percentage of total risk-weighted assets	**27.41%**	30.89%

The Bank is in compliance with the minimum capital requirement of the BSP for thrift banks (with head office outside national capital region with 11 to 50 branches) amounting to P400.0 million as of December 31, 2025 and 2024.

5.3 Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides the implementing guidelines on the leverage ratio framework designed to act as a supplementary measure to the risk-based capital requirements. It sets out a minimum leverage ratio of 5.00% and shall be complied with at all times.

The Basel III leverage ratio is defined as the ratio of capital measure (Tier 1 Capital) and the exposure measure which include on-balance sheet and securities financing transactions exposures and off-balance sheet items.

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

(Amounts in PHP)	**2025**	2024
Tier 1 Capital	**517,319,408**	496,785,474
Exposure Measure	**1,897,488,267**	1,576,532,702
	27.26%	31.51%

5.4 Liquidity Coverage Ratio and Net Stable Funding Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. This Circular requires the Bank to maintain available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflows for a 30-day periods under stress conditions. The Bank has fully complied with the LCR minimum requirement of 100% coverage effective January 1, 2019.

To strengthen the Bank's short-term liquidity position and as a defense against potential onset of liquidity stress, it maintains adequate stock of unencumbered HQLAs that consists of cash or assets that can be freely converted into cash at little or no loss of value in private markets.

The Bank's LCR is analyzed below.

(Amounts in PHP)	**Total Unweighted Value**	**Total Weighted Value**
2025		
Total stock of HQLA	**246,415,361**	**157,191,879**
Expected Net Cash Outflows	**169,175,877**	**107,809,947**
LCR		**145.80%**
2024		
Total stock of HQLA	157,191,879	157,191,879
Expected Net Cash Outflows	857,908,639	107,809,947
LCR		145.80%

Net Stable Funding Ratio (NSFR), as detailed in BSP Circular 1007, *Implementing Guidelines on the Adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, measures the availability of medium and long-term stable funding to support illiquid assets and business activities on an on-going basis. It is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NSFR complements the LCR, which promotes short-term resilience of the Bank's liquidity profile.

To promote long-term resilience against liquidity risk, the Bank maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting over reliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

The Bank's Basel III NSFR is summarized below.

(Amounts in PHP)	**2025**	2024
Available stable funding	**1,657,207,814**	1,361,286,575
Required stable funding	**1,099,712,746**	966,062,066
Basel III NSFR	**1.51**	1.41

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

	2025		2024	
(Amounts in PHP)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash and cash equivalents	**332,270,173**	**332,270,173**	246,728,083	246,728,083
Loans and receivables - net	**1,357,449,301**	**1,325,322,698**	1,098,638,190	1,053,602,307
Unquoted debt securities classified as loans	**12,909,280**	**12,200,756**	-	-
Other resources - net	**3,760,329**	**3,760,329**	3,766,997	3,766,997
At fair value -				
Investment securities at FVOCI	**18,369,723**	**18,369,723**	18,369,723	18,369,723
	1,724,758,806	**1,691,923,679**	1,367,502,993	1,322,467,110
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**1,195,897,017**	**1,200,975,391**	944,632,743	949,711,117
Bills payable	**50,000,000**	**50,000,000**	-	-
Accrued interest and other expenses	**19,882,743**	**19,882,743**	20,002,130	20,002,130
Other liabilities	**151,431,500**	**151,431,500**	91,453,759	91,453,759
	1,417,211,260	**1,422,289,634**	1,056,088,632	1,061,167,006

Management considers that the carrying amounts of the Bank's financial instruments which are measured at amortized cost approximate their fair values either because these financial instruments have maturities of one year or less, or the effect of discounting for those with maturities of more than one year is immaterial. The fair value of financial assets at FVOCI is determined using valuation technique disclosed in Note 7.2.

6.2 Offsetting of Financial Assets and Financial Liabilities

Certain financial assets and financial liabilities of the Bank with amounts presented in the statements of financial position as at December 31, 2025 and 2024 are subject to offsetting, enforceable master netting arrangements and similar agreements. However, there were no financial assets and financial liabilities presented at net in the statements of financial position. Presented below is the financial assets and financial liabilities subject to offsetting but the related amounts are not set-off in the statements of financial position.

	December 31, 2025			December 31, 2024		
	Related amounts not set-off in the statement of financial position			Related amounts not set-off in the statement of financial position		
(Amounts in PHP)	**Financial Instruments**	**Collateral received**	**Net amount**	Financial Instruments	Collateral received	Net amount
Financial Assets – Loans and receivables	**1,370,358,581**	**(77,428,570)**	**1,292,930,011**	1,098,638,190	(72,040,725)	1,026,597,465
Financial liabilities – Deposit Liabilities	**1,195,897,017**	**(77,428,570)**	**1,118,468,447**	944,632,743	(72,040,725)	872,592,018

For purposes of presenting the information, the related amounts not set-off in the statements of financial position pertains to hold-out deposit which serves as the Bank's collateral enhancement for certain loans and receivables. The financial instruments that can be set-off are only disclosed to the extent of the amounts of the Bank's counterparties.

For financial assets subject to enforceable master netting arrangements or similar arrangements between the Bank and counterparties allow for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS Accounting Standards, 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 investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

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

7.2 Financial Instruments Measured at Fair Value

The Bank's financial asset at FVOCI, which consists of investment in unquoted equity securities of a privately-owned company, amounted to P18.37 million as of December 31, 2025 and 2024 (see Note 12.1).

As of December 31, 2025 and 2024, the fair value of the Bank's equity securities categorized under Level 3 of the fair value hierarchy, is estimated and determined through valuation technique using the dividend discounted model. The management assessed that considering the regular dividend payments expected from the investee company in the future, this valuation technique provides appropriate measurement of the fair value of the investment. In discounting the cash flows from dividends, the Bank used a discount rate of 6.69% and 6.87% in 2025 and 2024, respectively.

The reconciliation of the carrying amount of financial assets at FVOCI under Level 3 of the fair value hierarchy is shown below.

(Amounts in PHP)	Notes	**2025**	2024
Balance at beginning of year		**18,369,723**	17,100,271
Fair value gains	16.3	**-**	1,269,452
Balance at end of year	12	**18,369,723**	18,369,723

7.3 Fair Value of Financial Instruments Measured at Amortized Cost

The fair value hierarchy of cash and cash equivalents is within Level 1, while fair value hierarchy of all other financial assets and financial liabilities measured at amortized cost is within Level 3.

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) Cash and Cash Equivalents

Due from BSP and Due from other banks include items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(c) Deposit Liabilities

The estimated fair value of deposits is the amount repayable on demand.

(d) Other Resources and Other Liabilities

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

7.4 Fair Value Disclosures for Non-Current Assets Classified as Held for Sale

For purposes of determining the fair value hierarchy, the Bank categorized the fair value disclosed for investment properties within Level 3 wherein the inputs used in the determination of fair value are not based on observable market data or the significant adjustments were made on the observable prices used as reference of fair value.

The fair values disclosed for the Bank's non-current assets held for sale as of December 31, 2025 and 2024 were based on the appraisals performed by the Bank's internal appraisers and independent and qualified appraisers having appropriate and recent experience in the fair value measurement of similar properties in the relevant locations.

To some extent, the valuation process conducted by the appraisers was made 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 the comparable prices in the corresponding property location. In estimating the fair values of the investment properties and non-current asset held for sale, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's investment properties is agricultural utilization.

The Level 3 fair value of land was derived using the observable recent prices of the reference properties and were adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value of the properties.

The total estimated fair value of the non-current assets held for sale amounted to P149.76 million and P224.66 million in 2025 and 2024, respectively.

8. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents account are as follows:

(Amounts in PHP)	**2025**	2024
Cash	**20,356,791**	19,457,898
Due from BSP	**101,058,571**	137,733,981
Due from other banks	**85,854,811**	89,536,204
Loans arising from reverse repurchase agreements	**125,000,000**	-
	332,270,173	246,728,083

Cash consist of funds in the form of Philippine currency notes and coins in the Bank's vault.

Due from BSP represents the aggregate balance of deposit accounts in local currency maintained with BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims (see Note 13). The outstanding balance as of December 31, 2024 includes Overnight Deposit Facility with the BSP amounting to P127.00 million, bearing annual interest rates of 5.25%, having a one-day term while none for 2025.

Placements with BSP are all denominated in Philippine peso at the end of each reporting period.

Due from other banks represents regular deposits with local banks with annual interest rates ranging from 0.05% to 0.50% in both 2025 and 2024.

Loans arising from reverse repurchase agreements bear interest at 5.33% and maturity on January 2, 2026. No similar transaction in 2024.

Interest income earned from cash equivalents is as follows:

(Amounts in PHP)	**2025**	2024
Due from BSP	**4,068,155**	2,128,464
Due from other banks	**173,918**	168,966
	4,242,073	2,297,430

9. LOANS AND RECEIVABLES

This account is composed of the following:

(Amounts in PHP)	**2025**	2024
Loans and discounts:		
Receivable from customers	**1,444,634,900**	1,162,798,310
Unquoted debt securities classified as loans	**12,909,280**	-
Other receivables:		
Accrued interest receivables	**16,374,894**	12,127,765
Sales contract receivables	**9,640,991**	15,043,317
Others	**2,488,875**	2,498,072
	1,486,048,940	1,192,467,464
Allowance for impairment	**(115,690,359)**	(93,829,274)
	1,370,358,581	1,098,638,190

Loans and receivables earn an average effective interest at rates ranging from 8.0% to 70.0% per annum, and from 15.8% to 53.6% per annum in 2025 and 2024, respectively. Interest income earned from loans and receivables amounting to P314.59 million and P270.05 million in 2025 and 2024, respectively, and is presented as part of Interest Income in the statements of comprehensive income.

Unquoted debt securities classified as loans consist of subordinated notes bearing interest at 1.0% per annum with a contractual maturity of seven years (7), and a senior loan of seven year bearing interest at 6.5% per annum, which includes a two-year grace period. These financial instruments are unquoted and are measured at amortized cost. Based on management's assessment, no expected credit losses were recognized as of December 31, 2025. There were no similar transactions in 2024.

Sales contract receivables represent the present value of the installment receivable arising from the sale of investment properties and asset held for sale on an installment basis.

Others consist of cash advances to officers and employees subject to liquidation.

The changes in the total amount of allowance for impairment on loans and receivables are summarized below.

(Amounts in PHP)	**2025**	2024
Balance at beginning of year	**93,829,274**	69,027,132
Impairment losses during the year	**34,606,996**	27,674,638
Transfer to other account	**(12,745,911)**	(2,872,496)
Balance at end of year	**115,690,359**	93,829,274

10. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2025 and 2024 are shown below.

(Amounts in PHP)	**Furniture, Fixtures and Office Equipment**	**Leasehold Improvements**	**Transportation Equipment**	**Right-of-Use Assets**	**Total**
December 31, 2025					
Cost	61,149,826	87,487,967	24,373,601	97,254,995	270,266,389
Accumulated depreciation and amortization	(48,208,905)	(61,994,202)	(11,520,945)	(15,801,036)	(137,525,088)
Net carrying amount	**12,940,921**	**25,493,765**	**12,852,656**	**81,453,959**	**132,741,301**
December 31, 2024					
Cost	57,838,514	85,150,763	24,573,601	80,961,508	248,524,386
Accumulated depreciation and amortization	(45,180,786)	(58,713,537)	(8,879,484)	(15,077,612)	(127,851,419)
Net carrying amount	12,657,728	26,437,226	15,694,117	65,883,896	120,672,967
January 1, 2024					
Cost	51,005,581	84,881,628	24,316,178	92,176,176	252,379,563
Accumulated depreciation and amortization	(42,828,854)	(53,082,144)	(7,848,882)	(14,531,476)	(118,291,356)
Net carrying amount	8,176,727	31,799,484	16,467,296	77,644,700	134,088,207

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2025 and 2024 are shown below.

(Amounts in PHP)	**Furniture, Fixtures and Office Equipment**	**Leasehold Improvements**	**Transportation Equipment**	**Right-of-Use Assets**	**Total**
Balance at January 1, 2025 net of accumulated depreciation and amortization	12,657,728	26,437,226	15,694,117	65,883,896	120,672,967
Additions	5,380,540	5,777,078	778,439	31,371,099	43,307,156
Disposals	(154,325)	(131,421)	(283,335)	-	(569,081)
Depreciation and amortization charges for the year	(4,943,022)	(6,589,118)	(3,336,565)	(15,801,036)	(30,669,741)
Balance at December 31, 2025 net of accumulated depreciation and amortization	**12,940,921**	**25,493,765**	**12,852,656**	**81,453,959**	**132,741,301**
Balance at January 1, 2024 net of accumulated depreciation and amortization	8,176,727	31,799,484	16,467,296	77,644,700	134,088,207
Additions	7,982,334	1,012,570	2,976,250	8,201,196	20,172,350
Disposals	(1,149,400)	(743,435)	(2,718,826)	(936,114)	(5,547,775)
Depreciation and amortization charges for the year	(2,351,933)	(5,631,393)	(1,030,603)	(19,025,886)	(28,039,815)
Balance at December 31, 2024 net of accumulated depreciation and amortization	12,657,728	26,437,226	15,694,117	65,883,896	120,672,967

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2025 and 2024, the Bank has satisfactorily complied with this BSP requirement.

The Bank disposed of certain bank premises, furniture, fixtures and equipment amounting to P0.57 million and P5.55 million in 2025 and 2024, respectively. The disposals resulted in a loss of P0.06 million and a gain of P0.60 million in 2025 and 2024, respectively, and are presented as part of Other Operating Income in the statements of comprehensive income (see Note 17).

The cost of fully depreciated assets that are still being used in operation amounts to P85.35 million and P66.72 million as of December 31, 2025 and 2024, respectively. None of the Bank's premises and other property and equipment were used as collateral or security for any liability or commitment as of the end of each reporting period.

The Bank has several leases covering the office space of its branches. Terms of the lease agreements range from two to ten years and include escalation rates ranging from 2.25% to 5.65%. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a right-of-use asset under Bank Premises, Furniture, Fixtures and Equipment and the related obligation as Lease liabilities under Other Liabilities (see Note 15) on the statements of financial position. The Bank recognized right-of-use assets with an average remaining term of two to eight years as of December 31, 2025 and 2024.

11. NON-CURRENT ASSETS HELD FOR SALE

A reconciliation of the carrying amounts of non-current assets classified as held for sale at the beginning and end of 2025 and 2024 is shown below.

(Amounts in PHP)	**Land**	**Buildings**	**Total**
Balance at January 1, 2025	65,115,487	6,136,032	71,251,519
Additions	9,754,599	2,450,445	12,205,044
Disposal	(27,483,486)	(5,265,037)	(32,748,523)
Impairment losses	(7,503,362)	-	(7,503,362)
Balance at December 31, 2025	**39,883,238**	**3,321,440**	**43,204,678**
Balance at January 1, 2024	44,653,386	9,013,071	53,666,457
Reclassification from investment properties	2,708,638	-	2,708,638
Additions	23,816,695	3,598,698	27,415,393
Disposal	(2,000,004)	(2,369,313)	(4,369,317)
Transfer	-	(3,777,423)	(3,777,423)
Impairment losses	(4,063,228)	(329,001)	(4,392,229)
Balance at December 31, 2024	65,115,487	6,136,032	71,251,519

In 2024, following the increase in foreign ownership of the Parent bank and the planned disposal of certain real properties, the Bank reclassified all of its investment properties as non-current assets classified as held for sale in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. From that point onward, all real estate properties acquired through foreclosure have likewise been classified as non-current assets held for sale, as management is committed to actively marketing and selling these properties in the ordinary course of business.

As of December 31, 2025 and 2024, the Bank recognized gains on disposal amounting to P11.42 million and P4.95 million, respectively, which are presented as part of Other Operating Income in the statements of comprehensive income (see Note 17).

12. OTHER RESOURCES

This account consists of:

(Amounts in PHP)	Notes	**2025**	2024
Investments at FVOCI	7.2, 12.1	**18,369,723**	18,369,723
Prepaid expense		**4,387,730**	5,491,226
Office supplies		**3,873,407**	3,674,244
Rental and other deposits		**3,760,329**	3,766,997
Computer software - net	12.2	**2,288,616**	2,124,100
Miscellaneous		**3,261,401**	3,245,401
		35,941,206	36,671,691

Miscellaneous resources include, among others, revolving fund and advances relating to the consolidation of titles of certain properties.

12.1 Investments at FVOCI

Investment at FVOCI represents the Bank's investment in equity securities of BancNet, Inc. The fair value of this investment increased by P1.27 million in 2024 which is recognized as an adjustment in other comprehensive income as an item that will not be reclassified to profit or loss. In 2025, no adjustment was made to the Bank's other comprehensive income (see Note 16.3).

No dividend income was received by the Bank on this investment in both 2025 and 2024.

12.2 Computer Software - net

The gross carrying amounts and the accumulated amortization of computer software at the beginning and end of 2025 and 2024 follow:

(Amounts in PHP)	**December 31, 2025**	December 31, 2024	January 1, 2024
Cost	**16,138,432**	15,074,365	14,075,282
Accumulated amortization	**(13,849,816)**	(12,950,265)	(12,384,663)
Net carrying amount	**2,288,616**	2,124,100	1,690,619

A reconciliation of the carrying amounts of computer software at the beginning and end of 2025 and 2024 is shown below.

(Amounts in PHP)	Note	**2025**	2024
Balance at January 1, net of accumulated amortization		**2,124,100**	1,690,619
Additions		**1,130,562**	999,083
Amortization charges for the year	18	**(966,046)**	(565,602)
Net carrying amount		**2,288,616**	2,124,100

13. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

(Amounts in PHP)	**2025**	2024
Current	**32,770,384**	25,104,594
Savings	**273,771,500**	272,647,730
Time	**889,355,133**	646,880,419
	1,195,897,017	944,632,743

Interest rates per annum on deposit liabilities range from 0.25% to 6.00% in 2025 and from 0.25% to 6.50% in 2024.

In 2024, BSP Circular No. 1201, Reduction in Reserve Requirements was released further reducing the required reserves to 1% effective October 25, 2024. In 2025, BSP Circular No. 1211 was issued, further reducing the reserve requirement to 0% effective Reserve week starting March 28, 2025. The Bank is compliant with these BSP regulations as of the end of each reporting period.

In 2025 and 2024, the Bank incurred interest expense on deposit liabilities amounting to P37.53 million and P38.85 million, respectively, which are presented as part of Interest Expense in the statements of comprehensive income.

The available reserves consist of the demand deposit account with the BSP amounting to P101.06 million and P137.73 million as of December 31, 2025 and 2024, respectively (see Note 8).

14. ACCRUED INTEREST AND OTHER EXPENSES

This account consists of:

(Amounts in PHP)	**2025**	2024
Accrued interest	**8,761,809**	9,355,938
Accrued gross receipt tax	**5,304,434**	4,092,380
Accrued insurance – Philippine Deposit Insurance Corporation	**1,183,753**	926,626
Accrued other expenses	**9,937,181**	9,719,566
	25,187,177	24,094,510

Accrued other expenses include mainly accruals for utilities, janitorial, security and professional services.

15. BILLS PAYABLE AND OTHER LIABILITIES

The breakdown of this account is shown below.

(Amounts in PHP)	Note	**2025**	2024
Bills payable		**50,000,000**	-
Other liabilities:			
Lease liabilities		**92,669,691**	77,083,121
Retirement benefit obligation	19.2	**15,034,356**	4,071,428
Accounts payable		**9,788,048**	8,525,306
Withholding taxes payable		**1,038,120**	958,740
Income tax payable		**44,506**	1,159,710
Miscellaneous		**2,003,635**	1,773,905
		120,578,356	93,572,210

Bills payable pertain to the Bank's external borrowing from Land Bank of the Philippines for additional funding obtained in 2025, bearing a prevailing interest rate of 6.5% and a term of one year. In 2024, the Bank settled the outstanding borrowed funds from 2023 with RCBC, parent bank, amounting to P40.00 million for additional funds with a prevailing interest rate of 6.58% and a term of five days (see Note 21). The Bank recognized interest expense in 2025 and 2024 amounting to P2.65 million and P0.20 million, which is presented as part of Others under Interest Expense in the statements of comprehensive income.

Accounts payable includes notarial fees, payable to insurance companies and resigned employees, cash bond of the loan account specialists and unliquidated documentary stamp taxes related to time deposit transactions initially paid by the depositors.

The movements in the lease liabilities recognized in the statements of financial position are as follows:

(Amounts in PHP)	**2025**	2024
Balance at January 1	**77,083,121**	88,865,476
Additions	**27,233,036**	2,480,391
Payments of lease liabilities	**(16,185,342)**	(19,278,218)
Interest	**4,538,876**	5,015,472
Balance at December 31	**92,669,691**	77,083,121

The lease liabilities are secured by the related underlying assets (see Note 10). The undiscounted maturity analysis of lease liabilities is as follows:

(Amounts in PHP)	Within 1 Year	Within 2 Years	Within 3 Years	Within 4 Years	Within 5 Years	More than 5 Years	Total
December 31, 2025							
Lease payments	21,128,314	20,541,708	17,016,112	15,524,971	15,006,307	23,157,587	112,374,999
Finance charges	(5,383,451)	(4,437,778)	(3,442,701)	(2,619,374)	(1,785,982)	(2,036,022)	(19,705,308)
Net present value	**15,744,863**	**16,103,930**	**13,573,411**	**12,905,597**	**13,220,325**	**21,121,565**	**92,669,691**
December 31, 2024							
Lease payments	18,513,970	14,967,690	14,621,725	10,658,964	8,754,159	26,038,640	93,555,148
Finance charges	(4,251,224)	(3,406,269)	(2,728,783)	(2,085,871)	(1,631,631)	(2,368,249)	(16,472,027)
Net present value	14,262,746	11,561,421	11,892,942	8,573,093	7,122,528	23,670,391	77,083,121

The Bank has elected not to recognize lease liabilities for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

As at December 31, 2025 and 2024, the Bank has no committed leases yet to commence, except for the renewal of the lease over its Makati Head Office, which is scheduled to commence on January 1, 2026 (see Note 21).

The expenses relating to short-term leases and leases of low value assets amounted to P4.34 million in 2025 and P2.42 million in 2024 and is presented as Occupancy under Other Operating Expenses in the statements of comprehensive income (see Note 18).

16. EQUITY

16.1 Capital Stock

The Bank's capital stock is composed of 20,000,000 authorized shares with a par value of P100 per share. As of December 31, 2025 and 2024, there are 11,263,580 shares issued and outstanding at P100 par value or P1.13 billion.

As of December 31, 2025 and 2024, the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock.

16.2 Appropriation of General Loan Loss Reserves

Pursuant to the requirements of the BSP under Circular No. 1011, the Bank shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases where the computed allowance for ECL on those exposures is less than the required one percent general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus. As of December 31, 2025 and 2024, the accumulated amount of appropriation to the General Loan Loss Reserves for the general loan portfolio amounted to P10.20 million and P9.27 million, respectively.

16.3 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity of the Bank under Revaluation Reserves account are shown below.

(Amounts in PHP)	**Retirement Benefit Plan** (see Notes 15 and 19.2)	**Investments at FVOCI** (see Note 12.1)	**Total**
Balance as of January 1, 2025	1,586,464	12,292,222	13,878,686
Remeasurements of retirement benefit plan	(5,846,140)	-	(5,846,140)
Balance at December 31, 2025	**(4,259,676)**	**12,292,222**	**8,032,546**
Balance as of January 1, 2024	5,717,893	11,022,770	16,740,663
Remeasurements of retirement benefit plan	(4,131,429)	-	(4,131,429)
Fair value gains on financial assets at FVOCI	-	1,269,452	1,269,452
Balance at December 31, 2024	1,586,464	12,292,222	13,878,686

17. OTHER OPERATING INCOME

This account consists of the following:

(Amounts in PHP)	Notes	**2025**	2024
Service fees and commissions		**29,781,155**	27,121,554
Gain on sale of assets held for sale	11	**11,418,727**	4,954,726
Rent income		**94,500**	9,000
Gain (loss) on disposal of property and equipment	10	**(56,561)**	592,286
Other income		**15,462,565**	15,240,149
		56,700,386	47,917,715

Other income includes notarial fees, penalties, holding fees, establishment fees charged to customers and pre-termination fees.

18. OTHER OPERATING EXPENSES

The details of this account are shown below.

(Amounts in PHP)	Notes	**2025**	2024
Salaries and employee benefits	19.1	**129,489,274**	115,393,792
Depreciation and amortization	10, 12.2	**31,635,787**	28,605,417
Taxes and licenses		**28,134,593**	24,550,187
Messengerial, janitorial and security	21.3	**16,982,807**	14,922,417
Management and other professional fees		**10,716,723**	6,476,707
Transportation and travel		**7,595,048**	6,458,490
Insurance		**6,816,946**	5,224,288
Postage and utilities		**4,932,959**	4,759,157
Information technology		**4,442,089**	3,523,327
Occupancy	15, 21.3	**4,336,465**	2,419,493
Power, light and water	21.3	**3,938,858**	3,739,440
Repairs and maintenance		**2,965,813**	2,589,687
Stationery and supplies		**2,821,416**	3,350,139
Fuel and lubricants		**2,291,885**	2,173,688
Advertising and publicity		**679,402**	1,127,432
Supervision fees		**527,569**	535,004
Fines, penalties and other charges		**430,531**	1,249,473
Miscellaneous		**5,630,109**	7,461,461
		264,368,274	234,559,599

19. EMPLOYEE BENEFITS

19.1 Salaries and Employee Benefits

Expenses recognized for employee benefits are presented below.

(Amounts in PHP)	Note	**2025**	2024
Short-term employee benefits		**124,719,022**	111,366,731
Post-employment defined benefit	19.2	**4,795,864**	4,027,061
		129,514,886	115,393,792

19.2 Retirement Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a partially-funded, tax-qualified, non-contributory defined retirement benefit plan that is being administered by a trustee bank covering all regular full-time employees (see Note 21.4). The trustee bank managed the fund under the supervision of the Corporate Governance Committee of the Bank who acts in the best interest of the plan assets and is responsible for setting the investment policies.

The normal retirement age is 60 with a minimum of 10 years of credited service. The plan also provides for an early retirement upon attainment of age 50 and completion of at least 10 years of credited service subject to the approval of the BOD. Normal retirement benefit is an amount equivalent to 125% of employee's final covered compensation for every year of credited service.

(b) *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation reports obtained from an independent actuary in 2025 and 2024.

The amount of retirement benefit obligation recognized in the statements of financial position and presented as part of Other Liabilities account is determined as follows (see Note 15):

(Amounts in PHP)	**2025**	2024
Fair value of plan assets	**31,773,767**	32,661,784
Present value of the obligation	**(46,808,123)**	(36,733,212)
	(15,034,356)	(4,071,428)

The movements in the present value of the retirement benefit obligation are as follows:

(Amounts in PHP)	**2025**	2024
Balance at beginning of year	**36,733,212**	32,853,335
Current service cost	**4,795,864**	4,027,061
Interest cost	**2,233,379**	2,299,733
Remeasurement – actuarial gains (losses) arising from:		
Changes in financial assumptions	**4,789,881**	4,837,217
Experience adjustments	**669,635**	(481,860)
Benefits paid	**(2,413,848)**	(6,802,274)
Balance at end of year	**46,808,123**	36,733,212

The movements in the fair value of plan assets are presented below.

(Amounts in PHP)	**2025**	2024
Balance at beginning of year	**32,661,784**	35,690,240
Interest income	**1,912,455**	2,310,564
Contributions	**-**	1,437,909
Return on plan assets (excluding amounts included in net interest)	**(386,624)**	25,345
Benefits paid	**(2,413,848)**	(6,802,274)
Balance at end of year	**31,773,767**	32,661,784

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

(Amounts in PHP)	**2025**	2024
Due from other banks	**1,661,768**	1,326,068
Philippine government bonds	**29,752,955**	31,090,752
Others - net	**359,044**	244,964
	31,773,767	32,661,784

The fair values of the Philippine government bonds are determined based on the Bloomberg Valuation Services (BVAL). The plan assets earned a net gain of P1.52 million in 2025 and P2.34 million in 2024.

Plan assets do not comprise any of the Bank's own financial instruments or assets held and owned by its related parties.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are presented in the succeeding page.

(Amounts in PHP)	**2025**	2024
Recognized in profit or loss		
Current service cost	**4,795,864**	4,027,061
Net interest	**320,924**	2,160
	5,116,788	4,029,221
Recognized in other comprehensive loss (income)		
Actuarial gains (losses) arising from:		
Financial assumptions	**4,789,881**	4,837,217
Experience adjustments	**669,635**	(481,860)
Return on plan assets (excluding amounts included in net interest)	**386,624**	(25,345)
Effect on asset ceiling	**-**	(198,583)
	5,846,140	4,131,429

Current service cost and the past service cost arising from the plan amendment is included as part of Salaries and employee benefits under Other Operating Expenses account in the statements of comprehensive income (see Notes 18 and 19.1).

Past service costs arise from the decrease in expected rate of salary increase during the year.

The net interest expense is presented as part of Others under Interest Expense account in the statements comprehensive income.

Amounts recognized in other comprehensive loss will not be reclassified subsequently to profit or loss. In determining the amounts of the retirement obligation, the following significant actuarial assumptions were used:

	2025	2024
Discount rate	**6.41%**	6.08%
Expected rate of salary increases	**5.00%**	4.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 27 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero-coupon government bond with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan is heavily invested in government bonds and due from other banks which are generally considered to be less risky than equity investments.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment defined benefit obligation as of December 31, 2025 and 2024:

	Impact on Post-employment Defined Benefit Obligation		
(Amounts in PHP)	**Changes in Assumption**	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2025:			
Discount rate	**+/-1%**	**(8,269,992)**	**6,733,934**
Salary growth rate	**+/-1%**	**8,305,461**	**(6,874,468)**
December 31, 2024:			
Discount rate	+/-1%	(6,403,538)	5,217,164
Salary growth rate	+/-1%	6,476,595	(5,357,654)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy which is to ensure that investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in less risky investments (placements with BSP and government bonds).

(iii) *Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P15.03 million based on the latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about five to 10 years' time when the total expected benefit payments would have exhausted the assets currently in the fund.

The maturity profile of undiscounted expected benefit payments within 10 years as of December 31 from the plan follows:

(Amounts in PHP)	**2025**	2024
More than one year to five years	**7,915,559**	2,904,272
More than five years to ten years	**18,234,832**	22,400,935
	26,150,391	25,305,207

The weighted average duration of the defined benefit obligation at the end of the reporting period is 16 years.

20. INCOME TAXES

20.1 Current and Deferred Taxes

The components of tax expense relating to profit or loss follow:

(Amounts in PHP)	**2025**	2024
Current tax expense		
Regular corporate income tax (RCIT) of 25%	**3,235,216**	-
Excess of minimum corporate income tax (MCIT) over RCIT	**2,084,122**	4,416,661
Final tax at 20% and 15%	**1,649,089**	1,003,441
	6,968,427	5,420,102

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

(Amounts in PHP)	**2025**	2024
Tax on pre-tax profit at 25%	**6,001,242**	2,392,695
Adjustment for income subjected to lower tax rates	**(588,066)**	(261,349)
Tax effects of:		
Excess MCIT over regular corporate income tax (RCIT)	**2,084,122**	4,416,661
Utilization of NOLCO	**(9,242,112)**	(8,821,079)
Unrecognized deferred tax assets	**7,326,153**	7,267,796
Non-deductible expenses	**1,406,507**	1,017,410
Non-taxable income	**(19,419)**	(592,032)
Tax expense	**6,968,427**	5,420,102

In 2025 and 2024, the Bank is subject to the MCIT, which is computed at 2% of gross income net of allowable deductions, as defined under the tax regulations, or to RCIT, whichever is higher. The Bank applied NOLCO against the taxable income amounting to P36.97 million in 2025 and is in a net taxable loss position in 2024, thus, being liable for MCIT in both years.

The details of excess MCIT over RCIT which can be applied against RCIT due within three consecutive years from the year the MCIT was incurred. The details of excess MCIT over RCIT with its corresponding validity are shown below.

Year Incurred	**Amounts *(in PHP)***	**Expired**	**Applied**	**Remaining Balance**	**Expiry Year**
2025	2,084,122	-	-	2,084,122	2028
2024	4,416,661	-	-	4,416,661	2027
2023	2,654,718	-	-	2,654,718	2026
2022	1,642,575	(1,642,575)	-	-	2025
	10,798,076	**(1,642,575)**	**-**	**9,155,501**	

Pursuant to Section 4(bbb) of R.A. No. 11494, *Bayanihan II*, the NOLCO for taxable years 2020 and 2021 can be claimed as deduction within five consecutive years immediately following the year of such loss. The breakdown of NOLCO which can be applied against taxable income within five consecutive years from the year the loss was incurred is shown below. In 2022 onwards, NOLCO period reverted to three years.

Year Incurred	Original Amount (*in PHP*)	Expired	Applied	Remaining Balance	Valid Until
2023	1,882,278	-	(1,882,278)	-	2026
2022	39,472,854	-	(39,472,854)	-	2025
2021	6,608,986	-	(6,608,986)	-	2026
	47,964,118	**-**	**(47,964,118)**	**-**	

In 2025 and 2024, the Bank claimed itemized deductions in computing its income tax due.

The Bank has not recognized the net deferred tax assets related to the following temporary differences because management believes that the Bank may not be able to generate sufficient taxable profit in the future against which the benefits of these net deferred tax assets can be utilized:

	2025		2024	
(Amounts in PHP)	**Amount**	**Tax Effect**	Amount	Tax Effect
Allowance for impairment	**115,690,359**	**28,922,590**	93,829,274	23,457,318
Right-of-use assets	**(81,453,969)**	**(20,363,492)**	(66,998,050)	(16,749,513)
Lease liabilities	**92,669,691**	**23,167,423**	76,636,571	19,159,143
NOLCO	**-**	**-**	36,968,448	9,242,112
Past service cost	**11,090,406**	**2,772,602**	11,090,406	2,772,602
Excess MCIT over RCIT	**9,155,501**	**9,155,501**	8,713,954	8,713,954
Retirement benefit obligation	**(15,034,356)**	**(3,758,589)**	(4,071,428)	(1,017,857)
	132,117,632	**39,896,035**	156,169,175	45,577,759

20.2 Supplementary Information Required under Revenue Regulations (RR) No. 15-2010

The BIR issued RR No. 15-2010 which requires certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required disclosure under the PFRS Accounting Standards and SEC rules and regulations covering the form and content of financial statements under the Revised Securities Regulation Code Rule 68.

The Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

21. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has transactions with the Parent Bank and other related parties as defined below. These transactions include regular banking transactions, outside services and lease of office space. The summary of the Bank's transactions and outstanding balances with the Parent Bank and other related parties as of and for the years ended December 31, 2025 and 2024 is as follows:

Related Party Category	Notes	2025		2024	
(Amounts in PHP)		Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Parent Bank					
Cash deposits	8, 21.1, 21.2	**111,444,387**	**74,961,680**	16,559,364	79,885,625
Right-of-use assets	10, 21.3	**18,161,059**	**18,161,059**	2,770,316	-
Bills payable	15	**-**	**-**	(40,000,000)	-
Lease Liability	15, 21.3	**(18,468,873)**	**(18,468,873)**	(3,555,128)	-
Interest income on deposits	21.2	**169,222**	**-**	135,562	-
Rent income	17	**94,500**	**-**	9,000	-
Expenses:					
Occupancy	18, 21.3	**497,970**	**-**	3,873,806	-
Messengerial, janitorial and security	18, 21.3	**484,364**	**-**	333,178	-
Power, light and water	18, 21.3	**43,600**	**-**	88,785	-
Other related parties:					
Key management personnel compensation	21.5	**28,939,272**	**-**	29,829,626	-
Retirement plan	19, 21.4	**(888,017)**	**31,773,767**	(3,028,456)	32,661,784

21.1 Directors, Officers, Stockholders and other Related Interests (DOSRI)

In the ordinary course of business, the Bank may have loans and other transactions with certain DOSRI. Under the Bank's policy, these deposits and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

As of December 31, 2025 and 2024, the Bank has DOSRI loans amounted to P27.14 million and P16.51 million, respectively, and is in compliance with these regulatory requirements.

21.2 Bank Deposits

As of December 31, 2025 and 2024, the Bank has deposit accounts with RCBC, parent bank, amounting to P74.96 million and P79.89 million, respectively, which are presented as part of Due from Other Banks account in the statements of financial position. These bank accounts are interest-bearing and subject to normal banking terms and conditions applied by RCBC to ordinary depositors (see Note 8).

The Bank declared its deposit accounts with related parties as DOSRI credit accommodation as of December 31, 2025 and 2024, which are secured by the related parties' investments in government securities.

21.3 Messengerial, Janitorial and Security and Occupancy, Power, Light and Water

The Bank, as a lessee, entered into a sublease agreement with RCBC for its office space for a period of five years. Incidental to the sublease agreement, RCBC paid expenses on behalf of the Bank, including messengerial, janitorial and security, and power, light and water which are presented under Other Operating Expenses account in the statements of comprehensive income (see Note 18).

The Bank recognized a lease liability and a corresponding right-of-use asset effective January 1, 2026 in accordance with PFRS 16 – Leases. As of December 31, 2025, the outstanding lease liability and right-of-use asset amounted to P18.46 million and P18.16 million, respectively. There are no outstanding payables relating to these transactions as of December 31, 2024.

21.4 Transactions with the Retirement Fund

The Bank's retirement fund for its defined benefit post-employment plan is administered and managed by RCBC Trust Corporation, an associate of the parent bank The fair value and the composition of the plan assets as of December 31, 2025 and 2024 amounted to P31.7 million and P32.6 million, respectively (see Note 19).

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments covered by any restriction or liens.

21.5 Key Management Personnel Compensation

Short-term benefits paid to key management employees amounted to P28.9 million and P29.83 million in 2025 and 2024, respectively.

22. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Bank:

22.1 Capital Commitments

As of December 31, 2025 and 2024, the Bank has no contractual commitments for the acquisition of Bank premises, furniture, fixtures and equipment (see Notes 10).

22.2 Others

In the normal course of business, the Bank makes various commitments, including undrawn loan commitment to customer, and incurs certain contingent liabilities that are not given recognition in the financial statements. As of December 31, 2025 and 2024, management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

23. MATURITY ANALYSIS OF RESOURCES AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

		2025			2024		
(Amounts in PHP)	Notes	**Within One Year**	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Resources							
Cash	8	**20,356,791**	**-**	**20,356,791**	19,457,898	-	19,457,898
Due from BSP	8	**101,058,571**	**-**	**101,058,571**	137,733,981	-	137,733,981
Due from other banks	8	**85,854,811**	**-**	**85,854,811**	89,536,204	-	89,536,204
Loans arising from reverse repurchase agreements	8	**125,000,000**	**-**	**125,000,000**	-	-	-
Loans and receivables - net	9	**880,533,541**	**489,825,040**	**1,370,358,581**	548,504,395	550,133,795	1,098,638,190
Bank premises, furniture, fixtures and equipment - net	10	**-**	**132,741,301**	**132,741,301**	-	120,672,967	120,672,967
Non-current assets classified as held for sale	11	**43,204,678**	**-**	**43,204,678**	71,251,519	-	71,251,519
Other resources - net	12	**11,522,538**	**24,418,668**	**35,941,206**	11,035,660	25,636,031	36,671,691
		1,267,530,930	**646,985,009**	**1,914,515,939**	877,519,657	696,442,793	1,573,962,450
Liabilities							
Deposit Liabilities	13	**1,195,481,754**	**415,263**	**1,195,897,017**	943,597,198	1,035,545	944,632,743
Accrued interest and other expenses	14	**25,187,177**	**-**	**25,187,177**	24,094,510	-	24,094,510
Bills Payable	15	**50,000,000**	**-**	**50,000,000**	-	-	-
Other liabilities	15	**28,619,172**	**91,959,184**	**120,578,356**	26,680,407	66,891,803	93,572,210
		1,299,288,103	**92,374,447**	**1,391,662,550**	994,372,115	67,927,348	1,062,299,463

24. SUPPLEMENTARY INFORMATION REQUIRED BY THE BANGKO SENTRAL NG PILIPINAS

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

(a) Selected Financial Performance Indicators

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

	2025	2024
Return on average equity		
$\frac{\text{Net income}}{\text{Average total equity}}$	**3.29%**	0.80%
Return on average resources		
$\frac{\text{Net income}}{\text{Average total equity}}$	**0.98%**	0.25%
Net interest margin		
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	**16.27%**	16.37%

(b) *Capital Instruments Issued*

As of December 31, 2025, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements, which may include*, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

(c) *Significant Credit Exposures for Loans*

The Bank's concentration of credit as to industry for its receivables from customers' portfolio (gross of allowance for ECL) as presented below.

	2025		2024	
(Amounts in PHP)	**Amount**	**Share**	Amount	Share
Wholesale and retail trade, repair of motor vehicles motorcycles, personal household goods	**858,534,050**	**59%**	680,489,560	58%
Real estate, renting and business activities	**122,640,622**	**8%**	102,494,051	9%
Hotels and restaurants	**108,966,942**	**8%**	78,537,275	7%
Manufacturing	**94,219,094**	**6%**	69,386,619	6%
Agriculture, forestry and fishing	**85,433,861**	**6%**	98,722,054	8%
Transportation, storage and communication	**70,399,589**	**5%**	69,217,928	6%
Construction	**22,000,001**	**2%**	30,860,306	3%
Private households with employed persons	**22,137,152**	**2%**	17,505,433	2%
Electricity, gas and water supply	**8,058,887**	**0%**	11,427,642	1%
Mining and quarrying	**647,979**	**0%**	958,221	0%
Others	**51,596,723**	**4%**	3,199,221	0%
	1,444,634,900	**100%**	1,162,798,310	100%

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceed 30% of total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

As of December 31, 2025 and 2024, 10% of Tier 1 capital amounted to P51.73 million and P49.68 million, respectively, and the table in the succeeding page shows the industry groups exceeding this level.

(Amounts in PHP)	**2025**	2024
Wholesale and retail trade, repair of motor vehicles motorcycles, personal household goods	**858,534,050**	680,489,560
Real estate, renting and business activities	**122,640,622**	102,494,051
Hotels and restaurants	**108,966,942**	78,537,275
Manufacturing	**94,219,094**	69,386,619
Agriculture, forestry and fishing	**85,433,861**	98,722,054
Transportation, storage and communication	**70,399,589**	69,217,928

Others consists of loans granted to industries under health and social work, and wellness centers.

(d) *Credit Status of Loans*

The breakdown of total loans (receivable from customers) as to status is shown below.

(Amounts in PHP)	**Performing**	**Non-performing**	**Total Loan Portfolio**
2025			
Gross carrying amount:			
Micro enterprise	200,470,776	67,208,532	267,679,308
Agricultural loan	160,872,002	2,540,311	163,412,313
SME	732,319,349	56,024,048	788,343,397
Salary	2,282,358	-	2,282,358
Other	179,268,853	43,648,671	222,917,524
	1,275,213,338	169,421,562	1,444,634,900
Allowance for ECL	(22,802,298)	(90,832,786)	(113,635,084)
Net carrying amount	**1,252,411,040**	**78,588,776**	**1,330,999,816**
2024			
Gross carrying amount:			
Micro enterprise	202,463,516	45,439,956	247,903,472
Agricultural loan	35,971,021	2,666,701	38,637,722
SME	743,705,815	43,742,865	787,448,680
Salary	2,305,422	-	2,305,422
Other	42,854,342	43,648,672	86,503,014
	1,027,300,116	135,498,194	1,162,798,310
Allowance for ECL	(1,156,602)	(91,927,988)	(93,084,590)
Net carrying amount	1,026,143,514	43,570,206	1,069,713,720

Non-performing loans (NPLs) included in the total loan portfolio of the Bank as of December 31, 2025 and 2024 are presented below, net of allowance for ECL.

(Amounts in PHP)	**2025**	2024
Gross NPLs	**169,421,562**	135,498,194
Allowance for impairment	**(90,832,786)**	(91,927,988)
Net carrying amount	**78,588,776**	43,570,206

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

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

Restructured loans amount to P90.95 million and P104.58 million as of December 31, 2025 and 2024, respectively. The related allowance for credit loss of such loans amounted to P19.68 million and P16.98 million as of December 31, 2025 and 2024, respectively.

Interest income recognized on impaired loans and receivables amounted to P4.27 million and P3.41 million in 2025 and 2024, respectively.

(e) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to security follows:

(Amounts in PHP)	**2025**	2024
Secured:		
Real estate mortgage	**695,874,785**	633,016,178
Chattel mortgage	**11,582,049**	23,445,364
Hold-out deposit	**-**	1,605,653
Others	**1,478,875**	-
	708,935,709	658,067,195
Unsecured	**735,699,191**	504,731,115
	1,444,634,900	1,162,798,310

(f) *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with its other affiliates, and with certain DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The table below shows the information relating to the loans, credit accommodations and guarantees to DOSRI, excluding loans granted as fringe benefits to officers which are excluded from the individual ceiling as of December 31, 2025 and 2024 in accordance with BSP reporting guidelines.

	DOSRI Loans		Related Party Loans (inclusive of DOSRI)	
(Amounts in PHP)	**2025**	2024	**2025**	2024
Total outstanding loans	**27,331,682**	-	**27,331,682**	-
% of loans to total loan portfolio	**1.89%**	0%	**1.89%**	-
% of unsecured loans to total DOSRI/related party loans	**8.35%**	0%	**8.35%**	-
% of past due loans to total DOSRI/related party loans	**0%**	0%	**0%**	-
% of non-performing loans to total DOSRI/related party loans	**0%**	0%	**0%**	-

(g) *Secured Liabilities and Assets Pledged as Security*

As of December 31, 2025 and 2024, the Bank has no assets pledged as security for liabilities.

(h) *Contingencies and Commitments Arising from Off-balance Sheet Items*

The Bank has no commitments and contingent accounts as of December 31, 2025 and 2024.