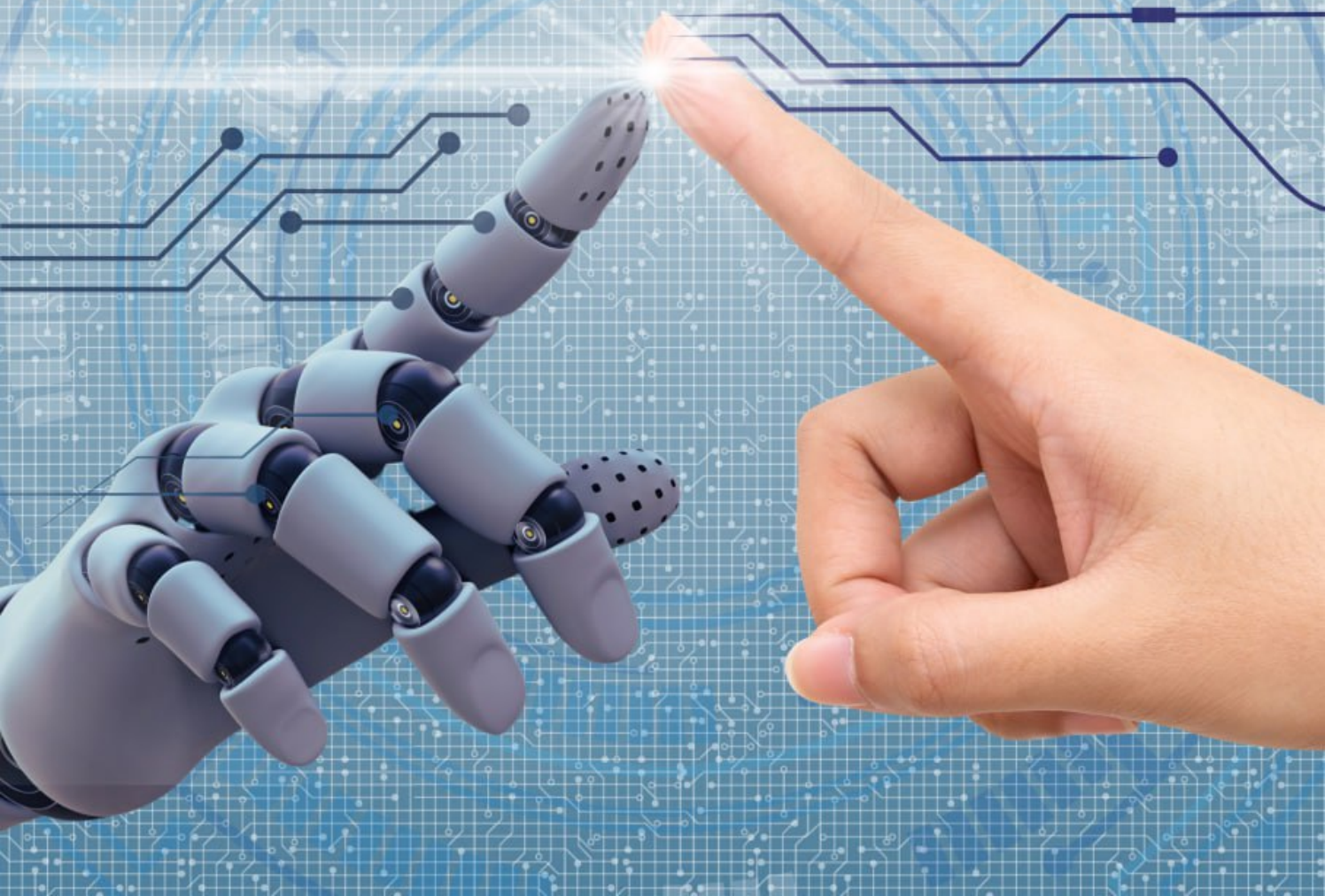


ANNUAL REPORT 2023

Building Resilience Through People and Technology



MCCB AT A GLANCE



MINDANAO

Branches	20
Branch-Lite Units	2
ATMs	28
Lending Centers	4
MCCB Online Accumulated Number of Transactions	37,313
MCCB Online Accumulated Amount of Transactions	P313 Million

MINDANAO C

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Vision

We envision MCCB to be the bank of choice of cooperatives, farmers, fishermen, small entrepreneurs, and other clients, helping them fulfill their dreams and aspirations.

Mission

We commit ourselves to provide efficient, responsive, and innovative financial services to institutional and individual clients, achieve a reasonable return of investment for our shareholders, promote the professional growth and well-being of our officers and staff, and contribute to the development of the communities we serve.

Core Values

In accomplishing our mission, we adopt as our guiding light, the universal cooperative values of self-help, self-responsibility, democracy, equality, equity, and solidarity. We shall run our business in accordance with the ethical values of honesty, openness, social responsibility, and caring for others.

Corporate Profile

Mindanao Consolidated Cooperative Bank (MCCB) is a leading financial institution that offers a wide range of banking services to individuals and businesses, especially cooperatives, farmers, fisherfolks, and microentrepreneurs. It was established in 2016 through the consolidation of Cooperative Bank of Agusan Norte, Bukidnon Cooperative Bank, and Cooperative Bank of Misamis Oriental, the lead bank. It has since grown to become one of the most trusted and reputable cooperative banks in the country.

MCCB has a strong capital base and a highly skilled workforce that is dedicated to providing quality service to customers. Banking services offered by MCCB include personal and business banking, loans, investments, and insurance. It has invested heavily in technology to ensure that its services are secure and efficient. It also has an online banking platform that allows customers to access their accounts from anywhere.

MCCB has 20 branches and 2 branch lite units, scattered in strategic locations in Mindanao. These branches are supported by 28 automated teller machines.

At MCCB, customer satisfaction is a top priority. The bank has a team of experienced customer service representatives who are always available to assist customers with any banking needs they may have. The bank also offers personalized banking services that cater to the unique needs of each customer.

As part of its commitment to giving back to the community, MCCB has an active Corporate Social Responsibility program that supports various charitable causes. It also sponsors educational and cultural events that benefit the wider community.

To sum it up, MCCB is a reliable and customer-focused financial institution that offers a wide range of banking services. Its strong financial record, dedicated workforce, and commitment to customer satisfaction make it a preferred choice for many individuals and businesses in this part of the country.

Brief Discussion of the Bank's Vision

The mandate of MCCB is to help the marginalized sector of the community gain access to its various banking services. This is in accord with the financial inclusion agenda of the BSP, which is focused on reaching out the unbanked and underserved individuals.

Brief Discussion of the Bank's Mission

For it to survive and thrive, the Bank must be responsive to the needs or wants of its clientele and be innovative in the delivery of its services. MCCB has the responsibility to make the investments of its shareholders grow. On the other hand, it is its mandate to extend credit and other banking services to the community, thereby contributing to the socio-economic growth of the communities where MCCB operates.

Moreover, the Bank takes care of its employees by providing them with competitive pays and benefits, thus enabling them to have a quality standard of life.

Sustainability Policy

The MCCB Board provides sustainability directions and policies that serve as guides in decision-making at all levels, providing a frame of reference for its contributions to sustainable development, while managing risks and opportunities in a changing world.

MCCB is committed to:

- Uphold, protect, and respect the environment, human rights, and labor standards.
- Contribute to enhancing positive social and environmental impact.
- Provide products and services that contribute to the well-being of people, the environment, and the economy; reduce or avoid unsustainable practices; and demonstrate a positive impact on the most important issues of the business.
- Implement inclusive business programs and initiatives.
- Engage internal and external stakeholders for continuous improvement and to promote cooperation.
- Foster in-house learning, management capacity, and leadership on sustainability issues.
- Comply with all national laws and regulations.
- Communicate transparently about MCCB's sustainability performance.

Products and Services

MCCB offers a wide variety of loan products (SME, agricultural, commercial, salary, etc.) and savings products (ATM, time deposit, regular savings, equity investment). MCCB has been true to its purpose of bringing about financial empowerment and freedom to its clientele, meeting the clientele's need for a reliable banking institution for their financial needs and investments.

The MCCB Business Model

As a cooperative bank, MCCB engages in the typical deposit-taking and loan operations. The Bank accepts deposits from the public at a competitive interest rate and lends the same to borrowers at a commensurate lending rate. Additionally, the Bank is licensed as a receiver for all InstaPay payment/fund transactions, enabling InstaPay-enabled banks/institutions to send funds to MCCB. Other products and services offered by MCCB include ATM services, a mobile banking application platform, and GCash-enabled payment on loans. These services provide the Bank's customers with better banking experiences.

LIST OF MCCB PRODUCTS AND SERVICES

Loan Products

Agricultural Loan

Agricultural credit in general shall include all loans granted to borrowers, whether beneficiaries of agrarian reform or not, to finance activities relating to agriculture and for processing, marketing, storage and distribution of products resulting from these agricultural activities.

Home Loan

A Consumer Loan facility designed for the purpose of residential lot acquisition, house renovation, house construction, purchase of condominium unit or town house and any other purpose where the property is offered as collateral.

Auto Loan

A financial product that allows to purchase a brand new car, second hand and used car for personal and business purposes.

Jewelry Loan

Motorcycle Loan

Bonus Loan

OFW and Seaman's Loan

Loans Against Hold-Out Deposit

Travel Loan

Pension Loan

The primary objective of this facility is to assist the pensioners and their families in their livelihood projects to earn additional income and other providential needs.

Salary Loan

The MCCB Salary loan program is a credit facility intended for any private or government employees. The primary objective of this facility is to assist employees and their families in their providential needs.

Truck Loan

A financial product that allows the purchase a Truck or other commercial vehicle for business purposes.

SME Loan

Any business activity engaged in industry, agribusiness and or services whether Single Proprietorship, Cooperative, Partnership or Corporation with Total Assets (excluding land) falling under the following categories;

- Micro - Up to ₱3 million
- Small - > ₱3 million to ₱15 million
- Medium - > ₱15 million to ₱100 million
- All Enterprises with total assets of more than ₱100 million shall be called large enterprises.

Deposit Products

Passbook

- Opening amount of ₱100
- Earns 0.375% interest p.a.

Time Deposit

- Minimum opening amount of ₱10,000
- Earns up to 7% interest p.a.

ATM Savings Deposit

- Opening amount of ₱100
- Earns 0.375% interest p.a.

Checking Account

- Opening amount of ₱5,000 only
- Earns 0.125% interest p.a.

MCCB Website

Visit the official website of MCCB through www.mccb.com.ph.

List of MCCB Branches and BLUs

1. CdO-Main Branch
 - a. Carmen Moneyshop BLU
2. Villanueva Branch
 - a. Balingasag BLU
3. Alae Branch
4. Alubijid Branch
5. Butuan Branch

6. Calinan Branch
7. Davao Branch
8. GenSan Branch
9. Gingoog Branch
10. Iligan Branch
11. Kibawe Branch
12. Malaybalay Branch
13. Manticao Branch

14. Maramag Branch
15. Panabo Branch
16. Puerto Branch
17. Quezon Branch
18. Surigao Branch
19. Tagum Branch
20. Valencia Branch



Republic of the Philippines
City of Cagayan de Oro
OFFICE OF THE CITY MAYOR

Message from the City Mayor

My warmest greetings to the cooperators, associates and stakeholders of the Mindanao Consolidated Cooperative Bank as you hold your 8th Annual General Assembly, anchoring on the theme: “Building Resilience Through People and Technology”.

This is a very timely and significant gathering as this forum serves as a good avenue to take concrete, sustained actions in achieving resiliency, at a time when our economy is slowly but surely gaining grounds toward economic recovery after the Covid-19 pandemic.

As we march towards the road to economic revitalization, I am confident that your cooperative is taking the right path to success, going stronger and stronger more than ever for the past years of existence.

May this assembly yield positive results even as I am looking forward to a fruitful cooperative endeavor, believing that cooperative development has contributed to the growth and progress of Cagayan de Oro City, now ranked as the country’s “7th Most Competitive Highly Urbanized City” and an awardee of the prestigious “Seal of Good Local Governance”.

Sa kalamboan sa kooperatiba, Kauban ta UY!

ROLANDO KLAREX A. UY
City Mayor
Cagayan de Oro City



COOPERATIVE DEVELOPMENT AUTHORITY

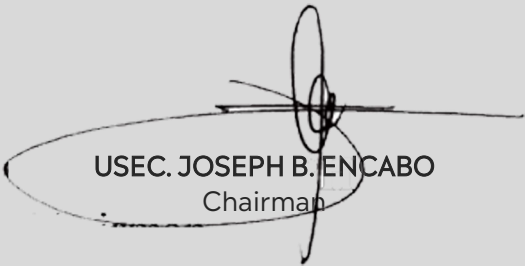
Message from the CDA Chairman

I am extending my sincerest and warmest cooperative greetings to the esteemed members of the Mindanao Consolidated Cooperative Bank led by your ever dedicated, incredibly passionate, and hardworking President, Myrna A. Sescon, as you gather for your cooperative's 8th Annual General Assembly Meeting.

This year's Annual General Assembly reaffirms your cooperative's shared commitment to cultivating strong partnerships and maintaining the highest integrity within our organization. The theme, "Building Resilience Through People and Technology," underscores the need for a strong commitment to fostering resilience by empowering both our human capital and technological infrastructures. Through strategic investment in innovation and nurturing our talented workforce, we aspire to cultivate a strong and adaptable cooperative bank capable to flourish in an increasingly digital and competitive environment.

The Cooperative Development Authority stands firmly behind your cooperative offering its utmost support for your ongoing efforts and future endeavors. Your dedication to excellence and progressive vision exemplifies the spirit of the cooperative movement.

Let us continue to uphold the principles of integrity and cooperation toward a brighter future for our union and the communities we serve. Mabuhay to the MCCB for this event, and we extend our best wishes for your future endeavors. Mabuhay ang kooperatibang Pilipino!


USEC. JOSEPH B. ENCABO
Chairman



LANDBANK

SERVING THE NATION

Message from the LBP President

On behalf of LANDBANK, I extend my warmest greetings to the Board of Directors, Management Team, and members of the Mindanao Consolidated Cooperative Bank (MCCB) as you convene for your 8th Annual General Assembly!

Since 2016, MCCB has been a beacon of progress and empowerment in Northern Mindanao, championing initiatives that uplift vital sectors and resonate deeply with one of LANDBANK's missions to foster inclusive growth.

Your remarkable expansion across Mindanao, particularly in the underserved communities of Misamis Oriental, Bukidnon, Davao, Iligan, Butuan, General Santos, Surigao, and Panabo, stands as a shining example of your steadfast commitment to financial inclusion. The success MCCB has achieved undoubtedly stems from a strong foundation that is anchored on a commitment to the people you serve.

At LANDBANK, we share MCCB's commitment to continuous improvement and innovation – key drivers that enable us to thrive in a dynamic economic landscape and ensure long-term sustainability. By fostering a culture that embraces new ideas and empowers your workforce, you are not only building resilience but also paving the way for a brighter future.

I commend MCCB's leadership for your visionary approach and your ongoing efforts to cultivate a culture of collaboration and forward-thinking. May you continue to inspire and elevate your members as you tackle both opportunities and challenges of tomorrow.

Congratulations once again on your achievements, and best wishes for a fruitful and successful Annual General Assembly.

Mabuhay ang MCCB!


LYNETTE V. ORTIZ
President and CEO



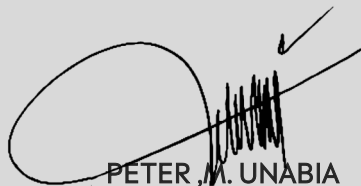
Message from the Governor

Our warmest greetings to Mindanao Consolidated Cooperative Bank (MCCB) as it holds its 8th Annual General Assembly this year. Going by the theme "Building Resilience Through People and Technology", MCCB has underscored the importance of fearlessly working through every challenge it faces as it continues to provide efficient, responsive, and innovative financial services to its customers.

We recognize MCCB as the province's steadfast partner in terms of poverty alleviation and people empowerment. In its eight years of continued service to its members, MCCB has continuously and consistently installed its cooperative at the forefront in economic, social and environmental sustainability by acting as a consolidated cooperative bank thus creating larger and formidable institutions whose firm capital position and expanded branch network enabled it to deepen its reach especially in the countryside and eventually uplift the economic condition of people residing in these communities.

As the province begins its genuine transformation, we are inspired to work alongside dedicated partners like MCCB in establishing reforms necessary to improve the efficiency of our social services, harness the potential of our people, and accelerate the growth of our economy. Together, let us fulfill our duties as agents of positive change and as builders of our communities.

Finally, it is our fervent wish that MCCB continue to be successful in its endeavor and will continue in its growth and success in the coming years.



PETER A. UNABIA
Governor

STATE OF

The post-pandemic operations of the Bank were heavily influenced by the country's economic condition. The Philippines was considered as the fastest-growing economies in Asia with a GDP growth of 5.9% year-on-year. This impressive growth was driven by strong domestic demand, despite facing elevated inflation rates and external challenges. During 2023, the Philippines inflation rate peaked at 8.6%. Nevertheless, MCCB successfully stabilized its operations, minimizing the adverse impacts on its performance. This year underscored the relentless and passionate efforts of MCCB's management and workforce to overcome economic challenges, with a primary focus on providing its patrons with efficient, responsive, and innovative financial services.

2023 in Review

With all the unprecedented challenges we have surmounted during the COVID-19 pandemic - from health concerns and financial needs to safety and economic issues, with the added tensions brought about by the war between Russia and Ukraine that had far-reaching impacts on global energy prices and trade flows, exacerbating economic instability in various regions, MCCB proudly highlights in sailing successfully through these adversities that some institutions struggled to survive.

In 2023, MCCB seized new opportunities, expanded geographical market reach, strengthened connections, educated its employees, and explored new ventures were some of the notable actions that the board and the management had taken initiative to enhance the bank's financial performance. Despite the economic challenges brought by the rising inflation, MCCB has effectively manage to minimize the increase of expenses for the year.

At the onset, MCCB aimed to stabilize operations and significantly grow its assets. Although a reorganization occurred mid-year, the unwavering dedication and support of the workforce ensured that MCCB ended the year fruitfully and being ranked among the top 20 in terms as per Bank Assets of the TOP 100 List of Rural and Cooperative Banks Nationwide.

Navigating our 2023 Footprints

Despite the numerous challenges MCCB has faced since its inception, we have remained steadfast and resilient, committed to protecting the interests of our stakeholders and members. The 2023 performance of MCCB demonstrates that our dedication has resulted in stabilized growth, even amid economic adversities throughout the year.

By year-end, MCCB achieved the following milestones:



The opening of our new branch has significantly contributed to our growth, resulting in a remarkable increase in our membership to 34,419, all of whom have been well-served by MCCB's comprehensive services throughout Mindanao. To better serve our community, MCCB also expanded its workforce from 259 to 283 employees, encompassing both our head office and branch staff by the end of 2023.

By year-end 2023, MCCB successfully generated ₱1.71 billion in savings, ₱1.96 billion loan portfolio, ₱326.89 million share capital and amassed a total of ₱2.84 billion in assets.

Despite the challenges posed by increased expenses due to inflation, MCCB managed to achieve a net income of ₱30.82 million. This resilience and effective financial management underscore our commitment to sustaining growth and stability, even in the face of economic pressures.

In our ongoing commitment to safeguard our stakeholders' interests, we have made significant enhancements to our security controls and IT infrastructure in 2023. These improvements were designed to strengthen our defenses against potential threats, ensuring the protection of sensitive information and the continuity of our services. By investing in advanced technologies and implementing robust security protocols, we have further fortified our systems, thereby enhancing the overall reliability and trustworthiness of MCCB's operations.

THE BANK

As of December 31, 2023



MCCB continued to implement its social programs and initiatives aimed at uplifting the communities we serve. Through our annual social assistance program, we addressed critical health and environmental concerns, demonstrating our commitment to societal well-being. Additionally, MCCB extended its support to individuals in correctional facilities, providing assistance and hope to those striving to regain their direction.

As a conscientious institution, our focus extends beyond serving our stakeholders. MCCB is dedicated to making a positive impact on the entire community, reflecting our broader commitment to social responsibility and community development.

Moving Forward to 2024

With the theme "Building Resilience Through People and Technology," MCCB is poised to continue expanding its geographical market reach in 2024 and beyond by bridging the gap and making banking services more accessible to underserved rural areas. Operating profitably and sustainably since its consolidation, MCCB has strategically invested in, and adapted to, technological advancements to enhance its services, providing clients with a seamless banking experience by integrating an e-banking system across all its financial services. To keep pace with consumer and market demands, MCCB has heavily invested in technology. The implementation of an e-banking system marks a significant leap in cooperative banking, making digital payments more imperative, common, accessible, and affordable. This technological shift not only caters to the modern consumer's need for convenience but also positions MCCB as a forward-thinking institution in the cooperative banking sector.

The fragility of digital banking systems is a critical concern, and MCCB is proactively addressing this challenge. The Bank is implementing stringent measures to control and safeguard its stakeholders' interests. These actions include adopting advanced cybersecurity protocols, conducting regular security audits, and educating not just the bank personnel but as well as the clients on safe banking practices. By prioritizing security, MCCB aims to build trust and confidence among its customers, ensuring that their financial information and transactions are secure.

At the heart of MCCB's strategy is its commitment to people. It recognizes that a motivated and skilled workforce is essential for delivering exceptional service and driving innovation. With that, the Bank has also heavily invested on its people. As building resilience through people means investing in employee's career development and growth,

fostering a culture of continuous learning, and empowering the workforce, ensuring that they are fully equipped with the tools and knowledge they need to excel and take on their roles efficiently and effectively.

The Bank's focus on employee education includes training programs on new technologies, customer service excellence, and operational efficiency. By equipping employees with the latest skills and knowledge, it is assured that the workforce can effectively utilize new technologies and adapt to the changing banking landscape.

Acknowledgment

The milestones we have made and the challenges we have conquered in the past years especially during the pandemic period would not have been possible without the active involvement of our management and staff, the invaluable guidance of our Board of Directors, and the unwavering faith and confidence of our clients and partner agencies in the institution's strength and long-term growth goals and objectives. Our progress is a testament to the collective effort and dedication of everyone involved.

With the continued support of our general membership and other stakeholders, we are confident that, with God's grace, we can overcome the challenges that 2024 may bring. We remain committed to our mission and optimistic about our future, knowing that our strong foundation and the collaboration of our community will guide us through any obstacles.

Mansueto V. Dela Peña
Chairman of the Board

Myrna A. Sescon
President

MCCB FINANCIAL AND OPERATIONAL HIGHLIGHTS

Operational Performance

In 2023, the economy was anticipated to continue its recovery from the pandemic. However, the ongoing conflict between Russia and Ukraine had a notable impact, driving up prices, increasing spending, and making borrowing more expensive. Despite these challenges, the banking industry is projected to rebound robustly this year, buoyed by improving economic conditions and positive market sentiment.

The Philippines economy recorded a 5.9 percent full-year growth on 2023, setting the stage for a stronger recovery amidst economic challenges. MCCB capitalized on this positive turnaround to recover, expand, and enhance its operations, aiming to solidify its role as the preferred bank of cooperatives, farmers, fishermen, small entrepreneurs, and its diverse clientele and stakeholders.

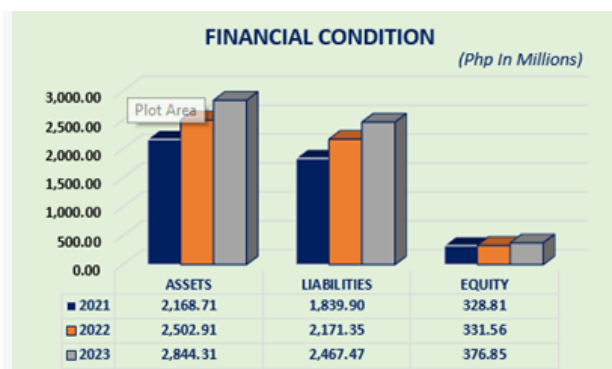
	2023	2022	VAR	% INC (DEC)
ASSETS				
Cash and other cash items	152,984,310	88,779,110	64,205,200	72%
Due from BSP	51,374,573	31,005,751	20,368,822	66%
Due from other banks	316,847,201	254,931,971	61,915,230	24%
Loans and other receivables - net	1,932,040,073	1,880,608,451	51,431,622	3%
Investment properties-net	174,513,018	56,425,654	118,087,364	209%
BPFFE-net	122,131,357	104,773,517	17,357,840	17%
Goodwill	55,032,396	55,032,396	-	0%
Other Assets	39,390,609	31,354,327	8,036,282	26%
TOTAL ASSETS	2,844,313,537	2,502,911,177	341,402,360	14%
	2023	2022	VAR	% INC (DEC)
LIABILITIES AND EQUITY				
Liabilities				
Deposit Liabilities	1,709,336,232	1,404,790,300	304,545,932	22%
Bills Payable	419,139,044	441,468,008	(22,328,964)	-5%
Other payables	338,992,143	325,092,743	13,899,400	4%
TOTAL LIABILITIES	2,467,467,419	2,171,351,051	296,116,368	14%
Equity				
Common Share	253,478,000	227,360,600	26,117,400	11%
Preferred Share	73,410,600	73,432,500	(21,900)	0%
Surplus reserve	19,331,046	19,884,079	(553,033)	-3%
Surplus free	30,626,472	10,882,947	19,743,525	181%
TOTAL EQUITY	376,846,118	331,560,126	45,285,992	14%
TOTAL LIABILITIES AND EQUITY	2,844,313,537	2,502,911,177	341,402,360	14%

At a glance, the Bank's total assets reached ₱2.844 billion, marking a 14% increase or ₱341.40 million over the previous year's ₱2.503 billion. Gross loans and receivables totaled ₱1.963 billion, slightly lower than the previous year but still significantly higher than many industry competitors. Deposit liabilities stood at ₱1.709 billion, with a CASA Mix ratio of 63:100 (63% Savings and Demand Deposits; 37% Time Deposits). The Bank's total common and preferred capital was ₱326.89 million. The total surplus free increased to ₱30.63 million, driven primarily by net income for the year. The total net worth was ₱376.85 million, representing 14% of the Bank's total resources as of 2023.

For its financial performance, MCCB earned a net interest income of ₱155.39 million on 2023, which shows a 10% higher than the previous year. Reflecting its conservative approach to credit provisioning and impairment losses, the Bank set aside a total provision of ₱16.64 million, fully compliant with its loan loss methodology. Other operating income increased by 3%, or ₱2.68 million, compared to the previous year. Operating expenses rose by ₱16.02 million, an 8% increase. Overall, MCCB's net income for the year was ₱30.82 million, a slight decrease of ₱20 thousand from the previous year's ₱30.84 million.

	FY 2023	FY 2022	VAR	% INC (DEC)
Loans and other receivables	210,822,712	188,883,587	21,939,125	12%
Due from other banks	841,974	870,759	(28,785)	-3%
Investment securities at amortized cost	1,217,704	441,868	775,836	176%
INTEREST INCOME	212,882,390	190,196,214	22,686,176	12%
Deposit liabilities	(31,633,475)	(33,153,922)	1,520,447	-5%
Bills Payable	(25,862,857)	(16,394,538)	(9,468,319)	58%
INTEREST EXPENSE	(57,496,332)	(49,548,460)	(7,947,872)	16%
NET INTEREST INCOME	155,386,058	140,647,754	14,738,304	10%
Provision for Credit and Impairment Losses	(16,644,503)	(15,227,912)	(1,416,591)	9%
NET INTEREST INCOME AFTER PROVISION	138,741,555	125,419,842	13,321,713	11%
Other Operating Income	96,915,161	94,237,522	2,677,639	3%
Other Operating Expenses	(204,843,903)	(188,820,583)	(16,023,320)	8%
INCOME BEFORE INCOME TAX	30,812,813	30,836,781	(23,968)	0%
Income Tax Expense	-	-	-	-
TOTAL COMPREHENSIVE INCOME	30,812,813	30,836,781	(23,968)	0%

MCCB's total assets in the 3-year trend is significantly increasing with an average growth rate of 15%, while total liabilities slightly decrease in 2023, its average growth rate is 16%, still significantly higher which can be attributed to the increasing deposit liabilities generated by the bank. Total Equity also has an increasing trend, with an average growth rate of 7% for the 3-year period.



Lending Operations

Amidst the tight competition, market pressures, and other operational challenges, the Lending Group is taking a bold and aggressive approach to improve MCCB's operational performance this year.



For the year ended 31 December 2023, MCCB's total loan releases amounted to ₱1.343 billion, covering 7,624 accounts, with new loans constituting 49% of the total. During the year, the Board approved the write-off of ₱41.645 million in loan receivables, which contributed to a reduction of ₱9.26 million in the bank's loan portfolio by year-end.

MCCB's shift in credit strategy towards increased credit concentration in secured loans led to a more safeguarded loan portfolio. The proportion of secured loans over total loans increased from 78.01% in 2021 to 81% in 2023. The loan portfolio composition was primarily made up of agricultural loans, which accounted for 38%, followed by MSME (Micro, Small, and Medium Enterprises) loans at 34%, and consumption loans at 29%.

Loan portfolio quality remained manageable and within expectations. The Bank tightened its credit risk systems and controls and implemented a loan loss methodology that adequately considers uncertainty and risks inherent in its lending activities. Past due ratio reported at 15.54% and is way higher against last year, however, just within the cooperative banking industry's 15.70%. Overall, the lending programs as the Bank's core operation have contributed not just to the realization of the quantitative goals but mostly to support its mission and vision as a cooperative bank.

Branch Banking Operations and Deposit Generation

With the extensive marketing strategy and action plans in deposit-taking operations initiated by the Branch Banking Group, MCCB achieved a total deposit increment of ₱304.55 million for 2023, a 22% growth compared to the previous year. The substantial growth in new deposits contributed significantly to the bank's deposit bottom line, with deposit liabilities peaking at ₱1.709 billion, up from ₱1.404 billion the previous year. This upward trend is expected to continue in the coming years, supported by the bank's expansion into neighboring provinces with the opening of new branches.

To meet the needs of its customers and support its growing organization, the Branch Banking Group is continually enhancing its banking products and services. In 2023, the Bank added seven automated teller machines (ATMs) in various branches and locations, bringing the total number of ATMs to twenty-eight. This expansion ensures faster delivery of financial transactions. Additionally, the MCCB Mobile Application now supports InstaPay services, facilitating instantaneous fund transfers between bank accounts of participating banks within the country, thereby enhancing its digital services. MCCB remains committed to optimizing its resources and opportunities to strengthen its position in the banking industry.



Asset Recovery



The Bank's Collection and Asset Recovery Group made a significant contribution to the bank's non-core banking operational performance. In 2023, 19% of the total other operating income, amounting to ₱18.32 million, came from income generated through the disposal of acquired assets and recoveries from written-off accounts. This was ₱1.94 million more than the previous year's figure of ₱16.38 million. Throughout the year, the Bank intensified its marketing efforts and implemented incentive-driven policies to expedite the sale of acquired assets and bolster

the recovery of non-performing asset accounts.

Corporate Services and Support

The Corporate Services Group is a crucial support system for the Bank's core operations. One of the components of this group is the Information and Technology Department (ITD), which plays a vital role in the launching of ATMs and mobile banking applications. To enhance controls and security protocols, the ITD has upgraded the computer hardware, improved physical resources, and implemented comprehensive employee management programs. These measures underscore MCCB's unwavering commitment to maintain stringent data security standards and ensure compliance with regulatory requirements.



Moreover, the implementation of advanced employee management programs reflects our dedication to cultivating a skilled and security-conscious workforce. These initiatives include regular training sessions, workshops on the latest security practices, and continuous monitoring of employee activities to prevent and detect potential breaches as soon as they arise. Throughout the year, the Bank sponsored and conducted a total of 50 training sessions and seminars for all directors, officers, and employees. These initiatives and training programs ensure that our personnel are continuously updated with the latest knowledge and skills that will support the bank's long-term goals and objectives.

Amid the evolving regulatory changes in Philippine banking laws, shifting risk policies, adjustments to the business environment, and sudden global economic shifts, we have consistently enhanced MCCB's regulatory compliance. We have strengthened our core banking systems, continually explored new business opportunities, implemented operational and digital innovations, and committed to providing an improved banking experience for our customers.

Summary of Selected Financial Data

The table shows the summary of Selected Financial Data based on MCCB's operations for the past 2-years.

Particulars	2023	2022
Profitability (In Millions)		
Total Net Interest Income	155.39	140.65
Total Non-Interest Income	96.92	94.24
Total Non-Interest Expense	204.84	188.82
Pre-provision Profit	47.46	46.06
Allowance for Credit Losses	16.64	15.23
Net Income	30.81	30.84

Selected Balance Sheet Data (In Millions)		
Liquid Assets	504.80	374.72
Gross Loans	1,963.45	1,972.71
Total Assets	2,844.31	2,502.91
Bills Payable	419.14	441.47
Other Liabilities	338.99	325.09
Capital	376.85	331.56

Selected Ratios		
Minimum Liquidity Ratio	30.13%	17.00%
Past Due Ratio	15.54%	13.00%
Return on Assets	1.15%	1.32%
Return on Equity	8.70%	9.34%
Tier 1 Capital Ratio	13.91%	13.22%
CET 1 Capital Ratio	10.74%	-
Capital Adequacy Ratio	14.54%	14.32%
Earnings per Share	P 12.16	P 13.56
Book Value per Share	P 119.71	P 113.53

MCCB's Net Interest Income reached ₱155.39 million in 2023, alongside a Total Non-Interest Income of ₱96.92 million, both reflecting increases from the previous year. The bank's net profit stood at ₱30.81 million, showing only a slight decline despite higher non-interest expenses.

The Bank's Minimum Liquidity Ratio surged to 30.13%, significantly surpassing the BSP's minimum requirement of 20%. This indicates that MCCB has a healthy liquidity position, ensuring its ability to meet short-term obligations. Additionally, its Capital Adequacy Ratio rose to 14.54%, exceeding the previous year's figure and the BSP's standard of 10%. The improved Capital Adequacy Ratio demonstrates an enhanced financial stability and a strong buffer against

potential risks, aligning well with regulatory standards. This positions MCCB favorably for future growth and regulatory compliance.

MCCB Sustainable Finance Framework

The bank adopted its Sustainable Finance Framework in April 2022, designed to align with its existing practices in lending to sustainable activities of its clients as outlined in the Sustainable Development Goals (SDGs). The MCCB Board provides sustainability directions and policies that serve as a guide in decision-making at all levels, providing a frame of reference for its contributions to sustainable development while managing risks and opportunities in a changing world. MCCB is committed to:

- Uphold, protect, and respect the environment, human rights, and labor standards.
- Contribute to enhancing positive social and environmental impact.
- Provide products and services that contribute to the well-being of people, the environment, and the economy, reduce or avoid unsustainable practices, and demonstrate a positive impact to the most important issues of the business.
- Implement inclusive business programs and initiatives.
- Engage internal and external stakeholders for continuous improvement and to promote Cooperation.
- Foster in-house learning, management capacity, and leadership on sustainability issues.
- Comply with all national laws and regulations.
- Communicate transparently about our sustainability performance.

MCCB Dividend Policy

The Bank recognizes the right of its cooperative shareholders as stipulated in its By-laws, which is to receive dividends, either in the form of stock or cash. The Bank's declaration of dividends is subject to compliance with certain rules and regulations prescribed by the BSP, as outlined in Item 5, Section 2 of Article VIII of the Bank's By-laws.

Dividends for common and preferred shareholders of the Bank are declared by the Board of Directors and authorized by the BSP. The release of the cash and stock dividends follows Board-approved guidelines.

In 2023, the Bank did not declare dividends due to pending issues noted by the Bangko Sentral relative to the goodwill impairment of the former Cooperative Bank of Agusan Norte- Butuan City. Thus, the rate of the dividends declared for 2023 cannot be identified and computed.

MCCB Corporate Social Responsibility

The corporate social responsibility (CSR) of MCCB translates to its vision of becoming the bank of choice of cooperatives, farmers, fishermen, small entrepreneurs, and other clients, in helping them fulfill their dreams and aspirations. Through various activities undertaken throughout the year, the Bank has been successful in making its mission and vision a reality for its members and stakeholders. Last year, it adopted a blood-letting program for its employees in partnership with the Philippine Red Cross. Furthermore, it was involved with the mangrove tree planting program of Barangay Bonbon, Cagayan de Oro (CDO) City.

Additionally, the Bank participated in “Pasko sa Bilanggo,” a program extended to the inmates of CDO Correctional Facility in Barangay Lumbia, in coordination with the Bureau of Jail Management and Penology.

Finally, to continuously promote the advocacy of the BSP on sustainable finance, MCCB has been involved in environment-friendly and socially-inclusive projects through Sustainable Green Banking activities. It will strengthen these efforts by adopting a Sustainable Finance Framework and enhancing its associated activities in the ensuing years.

Financial Consumer Protection

The bank recognizes the right of consumers to safeguard their transactions with it and be heard through appropriate channels to voice out their feedbacks, complaints, and concerns regarding the financial products and services they have availed of. As part of its continuous efforts to promote the BSP’s advocacy on Financial Consumer Protection, the Bank has embedded consumer protection practices all throughout the organization.

RISK MANAGEMENT FRAMEWORK

Risk management stands as a foundational strategy to navigate the complexities of financial operations. Much like a compass that guides a traveler, a bank's risk management framework directs its course through potential hazards while optimizing opportunities for growth and compliance.

MCCB has developed and adopted its Risk Management Framework to structure and formalize the risk management activities across the organization's business units. It outlines the risk management functions, conceptual framework, management implementation, levels of risk management and the risk management approaches of the bank.

The Bank takes risks inherent to its strategy to achieve its corporate and business units' objectives and to deliver better shareholder returns. Thus, managing these risks forms an essential part of the Bank's business. The aim of risk management is to provide reasonable assurance that the risks associated with achieving the business objectives are understood and that these risks are addressed appropriately at all levels within the organization. This is achieved by ensuring that at all times;

- a. Risks are properly identified, assessed, managed, and reported;
- b. Risk ownership is taken and communicated;
- c. Resources are effectively and efficiently allocated to manage risks;
- d. Risks that could significantly affect the employees, the bank, the suppliers or the clients are suitably managed; and
- e. The bank is compliant with regulatory and legal requirements.

The general functions of Risk Management are the following:

- a. Develop and implement a risk management framework and program;
- b. Review the bank's risk profile and identify new and emerging risks;
- c. Assess and measure risks;
- d. Recommend policies, systems and procedures to control risks and address risk management effectiveness gaps;
- e. Evaluate the effectiveness of risk mitigation strategies; and
- f. Monitor risks based on external and internal conditions and continually enhance the risk management process.

The Risk Management process and practices of MCCB are anchored on its mandates taking into consideration the vision, mission, strategies, business objectives, structure, policies and overall risk management strategy. It is based on the guidelines set forth by Bangko Sentral ng Pilipinas (BSP) in circular no. 510 series of 2006. Risk reporting apprises MCCB Top Management on the material risks the bank is faced with & assists in decision-making, specifically in determining viable solutions to address such risks.

The Risk Management objectives serve as a guide in designing the Risk Management Framework & Program, while the execution of the Risk Management program is manifested by the Risk Management action plans. Regular risk monitoring and reporting are done and an annual risk assessment determines the effectiveness of risk control measures and the relevance of remaining risks. The assessment ensures continuous improvement of the risk management process and practices.

Overall Risk Management Culture and Philosophy

Central to effective risk management is the cultivation of a strong risk management culture and philosophy within the organization. MCCB emphasizes a culture of integrity, accountability, and transparency, reflected in its organizational values and leadership approach. The Board of Directors sets the tone at the top by championing a risk-aware culture and fostering open communication channels regarding risk-related matters. Senior management prioritizes risk management as a strategic imperative, embedding risk considerations into decision-making processes and promoting a culture of continuous improvement.

Institutionalizing the risk management culture emphasizes at all levels the importance of managing risk as part of each person's daily activities. The goal of creating a risk management culture in MCCB is to create a situation where staff and Group/Unit Heads instinctively look for the risks and consider their impacts when making effective operational decisions.

Risk culture consists of norms, attitudes and behavior related to risk awareness, risk-taking and risk management, and the controls that affect decisions on risks. The Board of Directors, senior management and all members of staff contribute to the creation of a sound risk culture at MCCB. Clear governance structure, policies and procedures support the creation of a sound risk culture. Ultimately, the risk culture is created by day-to-day actions and the way key decisions are made and communicated. Cooperation and constructive dialogue are part of the sound risk culture, as they foster an environment of open communication to reach common goals. A sound risk culture enables the organization to do the right thing, even in challenging circumstances.

MCCB has implemented a three-lines-of-defense model.

The first line consists of risk-taking business functions that are responsible for day-to-day risk management in line with their tasks and duties and the Bank's policies and procedures. The guiding principle is that those responsible for risk-taking are also accountable for managing the associated risks.

The second line consists of internal control functions, providing oversight over the first line, and monitoring the risk-taking in the Bank. The third line consists of an independent internal audit function.

The second and third-line functions have an important risk monitoring and control role in the Bank, yet risk identification and adherence to the Bank's values and principles of high ethical standards are everyone's responsibility.

We promote a culture of integrity and high ethical standards. We aim for a high level of competence and support each other by sharing information, skills and experiences. We have strong risk awareness, and we critically review and challenge existing practices. We foster an atmosphere where constructive challenging is a natural part of discussions and decisions on risk-taking, risk awareness and risk culture. We respect our mission as a cooperative bank, and we follow sound banking principles. We comply with internal policies, regulations and procedures, and we respect their spirit. All individuals are expected to contribute to and promote a sound risk culture.

Risk Appetite and Strategy

Risk is part of doing business and risk management is therefore part of day-to-day business management. MCCB aims to formalize risk management to the extent that business units are able to apply best-practice techniques, share knowledge and experience, and make the key risks to the shareholders transparent.

MCCB aims to be risk-aware, but not overly risk-averse, and to actively manage risks to protect and contribute to the growth of the bank. To achieve its objectives, MCCB recognizes that it will take on certain risks. Moreover, it aims to take risks in an informed and proactive manner, such that the level of risk is consistent with the potential rewards and that it understands and is able to manage or absorb the impact of the risk in the event that it materializes. Management establishes such risk responses as are required to achieve the objectives in accordance with the acceptability of the risk. Quantified risk tolerances are then formulated.

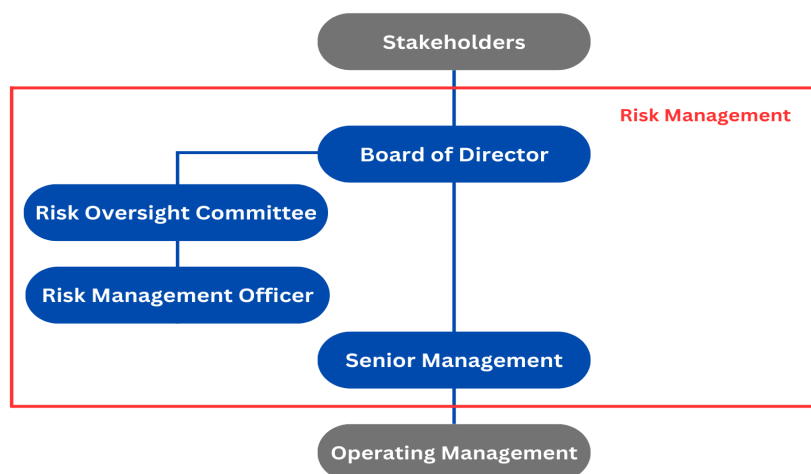
Operational risk is inherent in all banking products, undertakings, processes and systems, and the effective management of operational risk has always been a fundamental element of a Bank's risk management program. As a result, sound operational risk management is a reflection of the effectiveness of the board and senior management in administering its portfolio of products, undertakings, processes, and systems. MCCB Board and Management desire to promote and enhance the effectiveness of operational risk management throughout the banking system.

Bank-wide Risk Governance Structure and Risk Management Process

MCCB's Risk Governance Structure is composed of the Board of Directors, the Risk Oversight Committee, the Risk Management Officer and the Senior Management. Risk Management starts at the top and pervades the entire organization to create a strong culture of risk assessment. The idea is to improve risk-taking ability by pushing decision-making to the lowest level, without losing centralized oversight and control. Continuous communication between different levels of the organization must be implemented to ensure that the risk management process works.

The charts and tables illustrate the structure of MCCB's risk governance, the reporting lines within the structure and the roles and responsibilities within the bank's risk management.

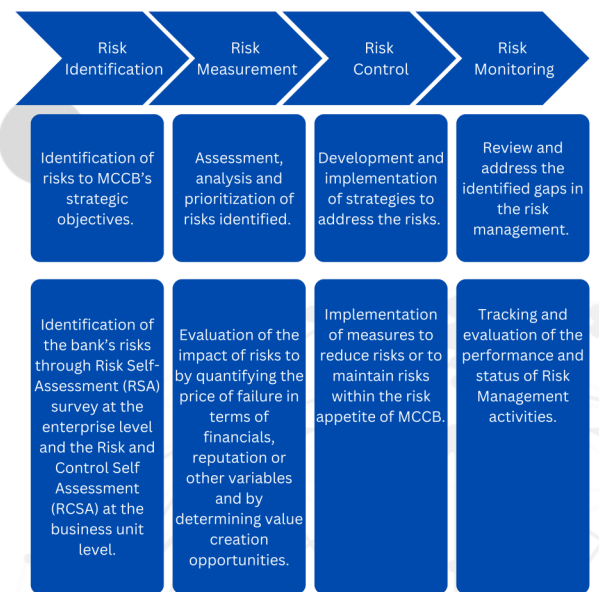
MCCB Risk Governance Structure



Risk Management Governance Roles and Responsibilities



Risk Management Process



MCCB's Overall ML/TF Risk Management

The Board of Directors of MCCB is ultimately responsible for the Bank's AML/CFT/CPF compliance and is tasked to ensure that ML/TF/PF risks are identified and effectively managed. The Senior Management is charged to ensure the effective implementation of AML/CFT/CPF policies and to align activities with the strategic objectives, risk profile and corporate values set by the Board.

In compliance with the Anti-Money Laundering Act (AMLA), the Bank adopted the MCCB Risk-Based Money Laundering and Terrorist Financing Prevention Program as approved by the Bank's Board of Directors. This policy applies to all Bank offices, and its officers and employees. Each office has implemented risk-based procedures reasonably expected to prevent, detect and cause the reporting of transactions required under the Anti-Money Laundering Council. It is the policy of the Bank to prohibit and actively pursue the prevention of money laundering and any activity that facilitates money laundering (ML) or the funding of terrorist (TF) or criminal activities and proliferation financing (PF). The bank is committed to AML compliance in accordance with applicable law and requires its officers and employees to adhere to these standards in preventing the use of its products and services for money laundering/terrorist financing and proliferation financing activities.

Finally, MCCB adheres to the reporting requirement and guidelines on Suspicious Transactions set out by the AMLC, and uses the 2022 MCCB Institutional Risk Assessment (IRA) to effectively prevent money laundering and combat the financing of terrorism, an assessment mechanism that adopts the risk-based approach on Institutional Risk Assessment (IRA) designed and consistent with the bank's risk profile, size and complexity of operation.

CORPORATE GOVERNANCE

AML GOVERNANCE

It is the policy of the Bank to prohibit and actively pursue the prevention of money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. MCCB is committed to AML compliance in accordance with applicable laws and requires its officers and employees to adhere to these standards to prevent the use of its products and services for money laundering purposes.

The bank seeks to combat money laundering by applying the following principles:

1. Conduct business in conformity with high ethical standards in order to protect the bank's interest of being use as a money laundering/terrorist financing activity;
2. Safety and soundness as well as the integrity of the national banking and financial system;
3. Know sufficiently the customer at all times and ensure that the financially or socially disadvantaged are not denied access to financial services while at same time prevent suspicious individuals or entities from opening or maintaining an account or transacting with the bank by himself or otherwise;
4. Adopt and effectively implement a sound MTPP and terrorist financing risk management system that identifies, assesses, monitors and controls risks associated with money laundering and terrorist financing; and
5. Comply fully with these rules and existing laws aimed at combating money laundering and terrorist financing by making sure that officers and employees are aware of their respective responsibilities and carry them out in accordance with superior and principled culture of compliance; and
6. Fully cooperate with the Anti-Money Laundering Council (AMLC) for the effective implementation and enforcement of the AMLA, as amended, and its IRR.

MCCB Corporate Governance

MCCB's corporate governance fosters the achievement of the Board and management's corporate goals with the highest level of performance. This includes promoting the interests of stockholders and furthering the Bank's commitment to transparent and good corporate governance.

Selection Process of the Bank's Board of Directors

The members of the Board of Directors are elected by secret ballot, by the affiliates who are duly authorized representatives, and entitled to vote during the annual regular general assembly meeting or special general assembly meeting called for the purpose. The directors so elected shall hold office for a term of two (2) years until their successors shall have been elected or qualified, unless they are earlier removed for cause, or have resigned or become incapable due to illness or death; Provided, that majority of the elected

directors obtaining the highest number of votes during the first election after registration shall serve for two (2) years, while the remaining directors shall serve for one (1) year. Thereafter, all directors shall serve for a term of two (2) years; the term of the cooperating directors shall expire upon the election of their successors in the first regular general assembly after registration.

Board's Overall Responsibility

The primary responsibility of the Board is to provide effective governance over the Bank's affairs for the benefit of its shareholders, employees, customers, creditors and other stakeholders. It is also the duty of the Board to foster the long-term success of the Bank and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which is exercised in the best interest of the Bank, its shareholders, its depositors and creditors, its management and employees, the government regulators, and public in general.

Board Composition

NAME OF DIRECTORS	TYPE OF DIRECTORSHIP	SHAREHOLDER REPRESENTED	YEARS SERVED	NO. OF SHARES HELD BY THE COOPERATIVE (DIRECT)	% SHARES HELD BY THE COOPERATIVE (DIRECT)
Mansueto V. Dela Peña	Chairman	Coop Life General Insurance and Financial Service Agency (CLIFSA)	5	10,091	0.40%
Engr. Roger L. Ocaya	Vice-Chairman	Del Monte Philippines, Inc. Employees and Community Credit Cooperative (DMPI-ECCC)	3	51,558	2.03%
Doris B. Calapiz	Director	Oro Integrated Cooperative (OIC)	5	203,404	8.02%
Claudine A. Malanog	Director	ACDI Multipurpose Cooperative	1	606,566	23.93%
Engr. Calanico R. Chamen III	Director	Philippine International Travel Assistance Center - Multi-Purpose Cooperative (PITAC MPC)	3	2,008	0.08%
Noel D. Raboy	Director	CLIMBS Life and General Insurance Cooperative (CLIMBS)	1	250,102	9.87%
Delia M. Ladao, CPA	Independent Director	Countryside Builders Multi-Purpose Cooperative (CBMPC)	4	1,196	0.05%
Engr. Jaime B. Balansag, Sr.	Independent Director	Alubijid Municipal Federation Of Cooperatives (AMFEDCO)	6	11,352	0.45%
Atty. Proculo T. Sarmen	Independent Director	San Isidro Calacapan Indahag Farmers Association - Multipurpose Cooperation Incorporated (SICIFA-MPC)	1	3,554	0.14%

Board of Directors' Attendance for 2023 Regular Board Meetings (RBMS)

NAME OF DIRECTORS	TYPE OF DIRECTORSHIP	SHAREHOLDER REPRESENTED	NO. OF MEETINGS ATTENDED	TOTAL NO. OF MEETINGS	% OF ATTENDANCE
Mansueto V. Dela Peña	Chairman	Coop Life General Insurance and Financial Service Agency (CLIFSA)	12	12	100%
Engr. Roger L. Ocaya	Vice-Chairman	Del Monte Philippines, Inc. Employees and Community Credit Cooperative (DMPI-ECCC)	12	12	100%
Doris B. Calapiz	Director	Oro Integrated Cooperative (OIC)	10	12	83%
Claudine A. Malanog ¹	Director	ACDI Multipurpose Cooperative	8	8	100%
Engr. Calanico R. Chamen III	Director	Philippine International Travel Assistance Center - Multi-Purpose Cooperative (PITAC MPC)	11	12	92%
Noel D. Raboy ²	Director	CLIMBS Life and General Insurance Cooperative (CLIMBS)	2	2	100%
Delia M. Ladao, CPA	Independent Director	Countryside Builders Multi-Purpose Cooperative (CBMPC)	11	12	92%
Engr. Jaime B. Balansag, Sr.	Independent Director	Alubijid Municipal Federation Of Cooperatives (AMFEDCO)	12	12	100%
Atty. Proculo T. Sarmen ²	Independent Director	San Isidro Calacapan Indahag Farmers Association - Multipurpose Cooperation Incorporated (SICIFA-MPC)	2	2	100%
Atty. Isidro Q. Lico ³	Former Chairman	Gabayan sa Kaugmaon Multi-Purpose Cooperative. (GASAKA MPC)	6	6	100%
Edgardo T. Gamolo ⁴	Former Vice-Chairman	MICROBANCO (Misamis Oriental Micro Banker Cooperative)	6	6	100%
BGen Gen Manuel F. Natividad, AFP (Ret) ⁴	Former Director	ACDI Multipurpose Cooperative	3	3	100%
Ernie D. Tolentino ⁵	Former Director	ACDI Multipurpose Cooperative	1	1	100%
¹ Director Malanog started her term on May 2023.					
² Director Raboy and Atty. Sarmen started their term on November 2023.					
³ Atty. Lico and Director Gamolo's term ended on June 2023.					
⁴ Director Natividad's term ended on March 2023.					
⁵ Director Tolentino only attended the April 2023 Regular Board Meeting.					

Board Qualifications

Any person who desires the position of the Bank's director must possess certain qualifications. He or she:

1. Shall be at least twenty-five years of age at the time of election or appointment;
2. Shall be at least a college graduate or have at least five years' experience in business;
3. Must have attended a special seminar on corporate governance for Board of Directors;
4. Must be fit and proper for the position;
5. Must have a practical understanding of the business of the Bank.
6. Must be a member of good standing in the relevant industry, business or professional organizations.
7. Shall possess the qualifications required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.

Board Level Committees

The Board is assisted by six committees to ensure the effective performance of its roles and functions. Each of the following board committees has its own terms of reference that clearly define the composition, duties, and responsibilities.

Executive Committee

The Executive Committee has been created to act on matters that need urgent and immediate action, as determined by the Board. However, the actions of this committee on the delegated matters have to be reported to the board for final consideration.

Credit Committee

The Credit Committee is responsible for the supervision and control of the Bank's lending services. It processes, evaluates, and acts on loan applications and ascertains that no loans that are granted are violative of the Bank's credit policies and the rules and regulations of BSP and CDA. The committee meets once a month primarily to deliberate on loan applications that are within its authority.

Internal Audit Committee

The internal audit function plays a crucial role in ensuring that the Bank operates effectively, ethically, and within legal boundaries. The primary responsibility of the internal audit is to evaluate and improve risk management, control, and governance processes, thus ensuring reliability of financial reporting and identifying operational efficiencies. Also, it is authorized by the Board and the audit committee to access records, interview personnel, and investigate issues. At the helm of the internal audit is the Internal Audit Department (IAD) which reports directly to the Board's Audit Committee. It provides reasonable

assurance to the Board and Management that the Bank's internal control, risk management, and governance systems and processes are effective. This involves providing assurance that the bank's key operational and procedural controls are effective, appropriate, and complied with.

The Internal Audit Department (IAD) conducts audits at frequencies commensurate with the assessed level of risk in specific banking areas comprising its audit universe. The department has its own board-approved charter, which directs the performance of its functions. It reports directly to the Audit Committee the violations and the common audit findings committed by the branches, thus permitting the necessity of creating policies for protecting the bank against recurring violations committed.

Compliance Committee

The Compliance Committee is responsible for ensuring that the Bank complies with all the relevant laws, regulations, and policies that apply to its operations. The committee is an internal body that oversees and monitors bank activities to ensure that they are in line with the compliance framework. Working closely with this committee is the Compliance Department, which is vested with the role of designing the Bank's compliance program and overseeing and coordinating its effective implementation towards the sound management of business and compliance risks. This department, which reports directly to the Board's Compliance Committee is responsible for the propagation of the right compliance culture across the organization while avoiding an overly risk-averse environment that inhibits business growth. In addition, it ensures adherence to laws, regulations, policies, and standards, monitoring and mitigating compliance risks to prevent legal and regulatory violations. As an organization regulated by the Bangko Sentral, it is mandated by regulatory requirements, with authority to interpret regulations, establish compliance programs, and enforce policies and procedures.

In addition to the above, the compliance function facilitates the effective management of compliance risk by:

1. Advising the Board of Directors and senior management on relevant laws, rules and standards, including keeping them informed on developments in the area;
2. Advising BSFI personnel on compliance issues, and acting as a contact point within the BSFI for compliance queries from BSFI personnel;
3. Establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines; and
4. Identifying, documenting and assessing the compliance risks associated with the BSFI's business activities, including new products and business units.

Risk Oversight Committee

The Risk Oversight Committee is composed of three members of the Board of Directors, the majority of whom are independent directors, including the Chairperson. It advises the Board on the Bank's overall current and future risk appetite, oversees senior management's adherence to the risk appetite statement, and reports on the state of risk culture of the Bank. It is tasked to oversee the risk management framework, ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans, oversee

adherence to the risk appetite of the bank, ensure that the current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite and finally to oversee the risk management function, ensure that the risk management function has adequate resources and effectively oversees the risk-taking activities of the Bank.

IT Oversight Committee

The IT Oversight Committee is responsible for overseeing the Bank's information technology strategy and operations. This committee ensures that IT initiatives are aligned with the bank's business objectives, regulatory requirements, and security standards. It provides governance over IT projects, monitors IT risk management practices, and evaluates the performance and effectiveness of IT systems. The committee also plays a critical role in guiding the Bank through technological advancements and ensuring the integrity and reliability of its IT infrastructure, ultimately supporting the Bank's mission of delivering efficient and secure financial services to its members.

Senior Management

The senior management team of MCCB comprises individuals at the highest level of management who handle the day-to-day tasks of running the Bank. The team includes the President, Vice-President for Credit Services and Asset Recovery Group, Vice-President for Branch Banking Group, Vice-President for Corporate Services Group, Vice-President for Lending Group, the Bank's Compliance Officer, Internal Auditor, Risk Management Officer, Controller, and the Treasury Manager.

The **President** is the Chief Executive Officer of the Bank and she is accountable for its general management, subject to the control and policies of the Board. She is responsible for the proper and efficient execution of all orders and resolutions of the Board and the rules and regulations of government regulators, particularly the Bangko Sentral ng Pilipinas and Cooperative Development Authority. She directly reports to the Board.

The **Vice-President for Credit Services and Asset Recovery Group** is responsible for planning, organizing, directing, coordinating and controlling the activities of the Credit Services and Asset Recovery Group. He is also responsible for providing executive level strategic leadership and management oversight related to member support services, credit risk, compliance, operational policies, procedures and systems.

The **Vice-President for Branch Banking Group** is responsible for managing the performance and targets for deposit-taking activities of the Bank. He provides leadership, management, and vision necessary to ensure that the strategic direction of the President and the Board of Directors in the attainment of the deposits and deposit growth is achieved while maintaining the Bank's credit quality.

The **Vice-President for Corporate Services Group** provides leadership in the formulation and implementation of the Bank's strategies in line with its mission as they relate to personnel, information technology, general services, procurements, business continuity, health and safety. She ensures that all human resources and corporate services are aligned to the Bank's strategic vision and priorities.

The **Vice-President for Lending Group** ensures that the Bank achieves its loan generation targets, considering its limited resources. He is responsible for making precise and accurate calculations regarding the Bank's targets and revenue generation. Additionally, he ensures that sufficient loans generated meet the bank's targets.

The **Compliance Officer** oversees and coordinates the implementation of the Bank's compliance system. Reporting directly to the Board, he is responsible for identifying, monitoring, and controlling of compliance risks. Additionally, he is the primary contact and focal person for regulatory bodies such as the BSP, CDA, PDIC, BIR, etc.

The **Internal Auditor** examines on a regular basis all accounts, transactions and activities of all the operating departments and offices to determine compliance with board policies and government regulations, and recommend to the Board measures necessary to enhance the internal control system of the Bank. In carrying out his duties, functions and powers, the Internal Auditor is responsible to the Audit Committee and the Board on all matters directly pertaining to audit responsibility. In administrative matters, he is accountable to the President.

The **Risk Management Officer** is responsible for overseeing the risk management function and shall support the board of directors in the development of the risk appetite and risk appetite statement of the bank and for translating the risk appetite into a risk limits structure. He is tasked to propose enhancements to risk management policies, processes, and systems to ensure that the bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

The **Controller** is the person in-charge in the overall conduct of the Accounting Department of the Bank. She is involved in making sound reporting to the President of the actual result of operations for a given period.

The **Treasury Manager** plans, organizes and directs the activities of various treasury programs and functions of the Bank relating to the management of asset and debt portfolios.

Performance Assessment Program

It is the policy of MCCB to ensure readiness of successors for key or critical positions in the Bank for the continuity of its business operations.

The steps involve identification of key or critical positions, determination of appropriate qualification or competency standards for these positions, assessment of possible successors against standard, mapping of candidates and design, and implement development programs such as Management Development Program (MDP) to ensure the readiness of potential successors to assume responsibilities and functions of the key or critical positions.

Orientation and Education Program

The Chairperson of the Board, duly elected following each Annual General Meeting of Shareholders, is given the responsibility to see to it that proper orientation is given for first time directors and training opportunities are provided for all Board of Directors.

Other training providers are also being tapped to conduct special trainings for the Bank's BODs specially on matters that need oversight functions. For Bank's officers and personnel, the HR Department through the Bank's Training Officer is responsible for all education and trainings needed to support the mandatory continuing education program for all bank personnel.

Retirement and Succession Policy

The Bank has its own Retirement and Succession Policy Plan designed to properly guide the Board and Management on the proper turn-over and orderly continuation of functions when a vacancy in key positions occurs. When a vacancy on the Board of Directors occurs due to death, incapacity or resignation, the remaining members constituting a quorum fill the vacancy. The appointed director serves for the unexpired portion of the term.

The Bank's Management has a retirement age of 60 years old. Upon reaching this age, the retiring officer concludes his/her involvement in the Bank. This policy acknowledges that Management positions often involve day-to-day operations and may benefit from fresh perspectives over time. Conversely, board roles typically involve long-term strategic guidance, where accumulated experience and institutional memory are paramount. Therefore, the Bank's Board of Directors does not have a retirement age unless a director is deemed incapable or no longer qualified for the position due to health conditions.

Remuneration Policy

No compensation shall be paid to the Bank's director, but they may be allowed a reasonable honorarium for attendance at BOD meetings, and also reasonable expenses incurred in connection thereto, in an amount to be determined by the Board. The Bank's remuneration policy applies to all bank officers, staff and personnel regardless of rank as approved by the Board. This policy highlights appropriate remuneration and provides specific guidelines for promotion and advancement as defined in the guidelines.

Related Party Transactions

Transactions of the Bank with a related party may be allowed. However, personnel are cautioned that such transactions be conducted on an arm's length basis or in the ordinary course of business. Materiality thresholds for RPTs (P1.0 million and above) have also been set for each type of transaction and for each related party group, excluding deposit transactions, and those granted under the BSP-approved fringe benefits program.

Self-Assessment Functions

The Compliance Department

The Compliance Department of MCCB is responsible for ensuring that the Bank and its personnel, including the Board of Directors, and other officers follow all relevant laws, regulations and standards set by the government regulators. The main function of this department is to manage and mitigate the risks associated with financial crimes. It is also tasked to identify, monitor, and report any suspicious activities to authorities. Finally, it oversees the design of an appropriate compliance system, promote its effective implementation, and address breaches that may arise.

This department is headed by the Compliance Officer, who has regular status within the organization as established by the department's charter.

The Internal Audit Department

The Internal Audit Department (IAD), which reports directly to the Board's Audit Committee, provides reasonable assurance to the board and management that the bank's internal control, risk management, and governance systems and processes are effective. This involves providing assurance that the Bank's key operational and procedural controls are effective, appropriate, and complied with. IAD conducts audits in frequencies commensurate with the assessed level of risk in specific banking areas comprising its audit universe. It also conducts special administrative investigations when required to do so pursuant to the bank's code of conduct, and management advisory and consulting services when required. The department has its own board-approved charter which directs performance of its functions.

The Risk Management Department

The Risk Management Department monitors the risk environment of the Bank and provides direction for the activities to mitigate, in an acceptable level, the risks that may adversely affect the Bank's ability to achieve its goals. The department facilitates continuous improvement of the Bank's capabilities around managing its risks. It monitors and evaluates the risk management process of the Bank and undertake enhancement when needed.

Corporate Social Responsibility

MCCB adopts corporate social responsibility (CSR) initiatives that benefit its stakeholders, including customers, employees, shareholders, communities and the environment. It recognizes the fact that its actions can have significant impact on the various communities and the environment where it operates.

The Bank has been implementing the following CSR agenda:

1. Environment-friendly initiatives, which consist of reduction of energy consumption and recycling of used materials;
2. Philanthropic initiatives, which include supporting disaster relief efforts and sponsoring educational programs;
3. Employee welfare programs, which comprise providing health insurance and promoting work-life balance, and;
4. Community outreach programs, which include donating foods and other necessities to orphanages and correctional centers, and supporting local cultural activities.

Consumer Protection Practices

The Bank has approved its Financial Consumer Protection Framework Manual, which aims to provide protection for customers transacting with the Bank. The Board is primarily responsible for ensuring effective recourse for Bank's consumers. It approves the Consumer Assistance policies and procedures, conducts reviews of these policies at least annually, and ensures compliance thereto. In providing adequate resources for Consumer Assistance, the Senior Management is responsible for the bank-wide implementation of Consumer Assistance policies and procedures.

The Bank has put in place certain mechanisms to ensure that all complaints are addressed even at the branch level. The Branch Managers primarily serve as the contact persons for Compliance Department in dealing with all complaints and ensuring their proper handling. The Compliance Department regularly reports to the Board on escalated complaints for proper action and monitoring.

MCCB'S TOP 10 SHAREHOLDERS

INSTITUTION NAME	NUMBER OF SHARES	% OF OWNERSHIP	CURRENT INSTITUTION ADDRESS
ACDI Multipurpose Cooperative	606,566	23.93%	Cagayan de Oro City, Misamis Oriental
CLIMBS Life and General Insurance Cooperative (CLIMBS)	250,102	9.87%	Cagayan de Oro City, Misamis Oriental
Oro Integrated Cooperative (OIC)	203,404	8.02%	Cagayan de Oro City, Misamis Oriental
MICROBANCO (Misamis Oriental Micro Banker Cooperative)	104,380	4.12%	Cagayan de Oro City, Misamis Oriental
GASAKA MPC (Gabayan sa Kaugmaon)	57,943	2.29%	Corrales Extension, Cagayan de Oro City, Misamis Oriental
Del Monte Philippines, Inc. Employees and Community Credit Cooperative (DMPI-ECCC)	51,558	2.03%	Bugo National Highway, Cagayan de Oro City, Misamis Oriental
Macajalar Wharf Porters Ass'n - Multi-Purpose Cooperative (MWPA MPC)	27,902	1.10%	Cagayan de Oro City, Misamis Oriental
ILIPCO (Integrated Livestock & Poultry Raisers Cooperative)	15,166	0.60%	Cagayan de Oro City, Misamis Oriental
Provincial Capitol Cooperative	11,352	0.45%	Cagayan de Oro City, Misamis Oriental
Cagayan Transport Cooperative	11,211	0.44%	Cagayan de Oro City, Misamis Oriental

ORGANIZATIONAL STRUCTURE

Table of Organization Approved: July 14, 2022
Board Resolution: 163s2022

Enhancement of IT TO Date Approved: January 12, 2024
Board Resolution #: 12s2024

Enhancement of Lending TO Date Approved: January 12, 2024
Board Resolution #: 13s2024

LEGEND:

BSP MANDATED COMMITTEE

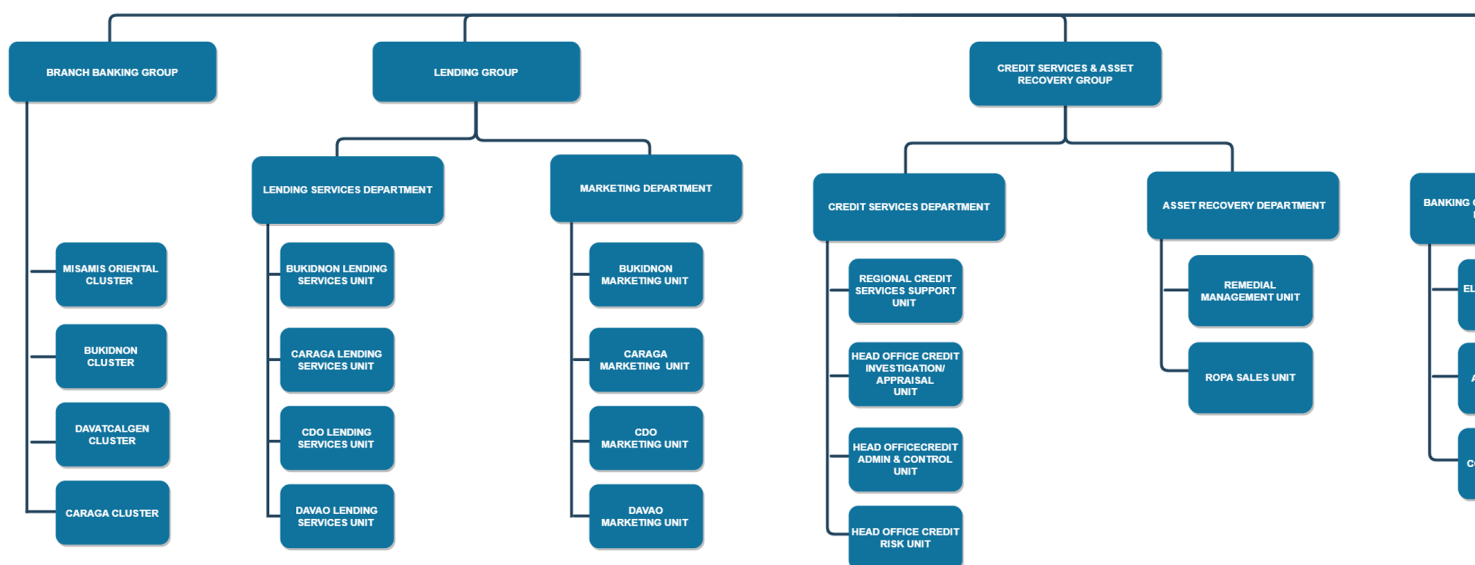
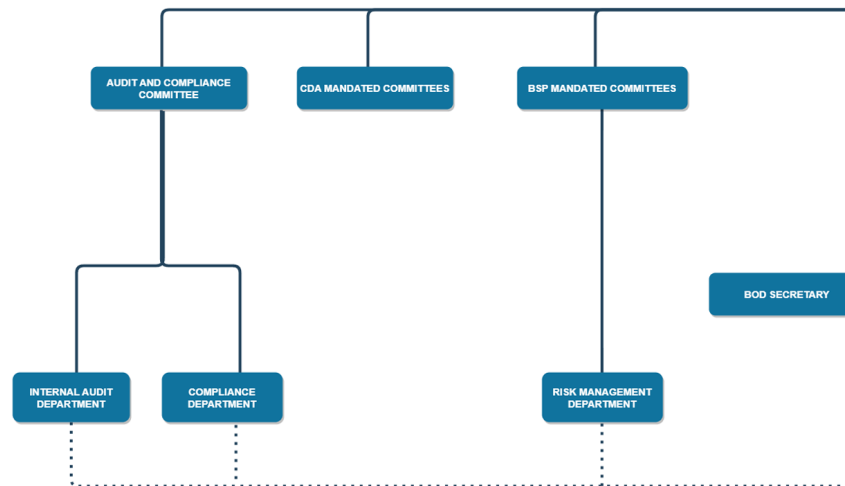
- Audit and Compliance Committee
- Corporate Governance Committee
- Risk Oversight Committee

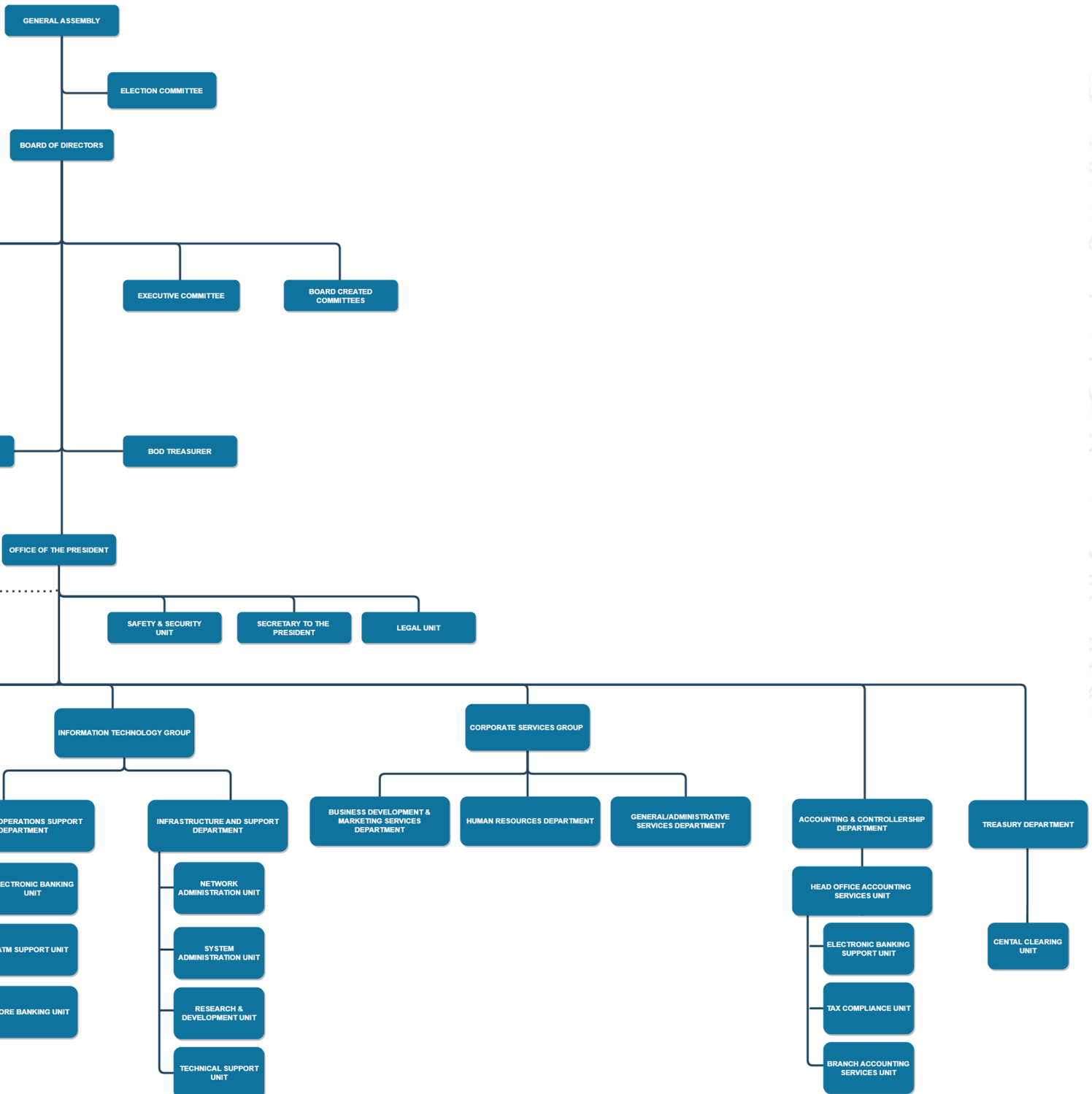
CDA MANDATED COMMITTEE

- GAD Committee
- Grievance and Mediation Committee
- Education Committee
- Ethics Committee
- Election Committee

BOARD CREATED COMMITTEE

- Executive Committee
- HR Oversight Committee
- Asset Liability Management Committee
- Credit Committee





FINANCIAL STATEMENTS OF MINDANAO CONSOLIDATED COOPERATIVE BANK

Financial Statements of **Mindanao Consolidated Cooperative Bank**

*December 31, 2023
(With Comparative Figures for 2022)*

And

Report of Independent Auditors

REPORT OF INDEPENDENT AUDITORS



LOPE LARANJO BATO & Co.

Certified Public Accountants

(A Member Firm of the Leading Edge Alliance Global)

2/F Bato Building, Coastal Road, Zone 1, Kauswagan
Cagayan de Oro City, 9000 Philippines
Tel. Nos. (088) 882-7439, (+63) 917-702-4175 & (+63) 998-571-5654
Email: llbandcopas@gmail.com and junbato.llb@gmail.com
Website: www.llbato-cpas.com



Firm's Accreditations:
BOA Accreditation No. 6358
Valid until September 13, 2024
BIR Accreditation No. 16-006925-000-2023
Valid until September 29, 2026
SEC Group C Accreditation No. 6358-SEC
Valid until financial audit 2025
BSP Group B Accreditation No. 6358-BSP
Valid until financial audit 2025
CDA CEA Accreditation No. 120-AF
Valid until April 7, 2024
NEA Accreditation No. 2023-00097
Valid until December 10, 2026

Branches:

Metro Manila Office
Unit 827, South Star Plaza
Osmeña Highway
Bangkal, Makati City
Cell (+63) 9177024175
junbato@yahoo.com

Cebu Branch
c/o Reyes & Bato Consulting
Reyes Building
A. Del Rosario Street, Guizo,
Mandaue City 6014
Cebu Province
Tel. No.: (032) 272-3140

Davao Branch
Unit 211, 2F Pink Walters Bldg.
Quimpo Blvd., Ecoland, Bucana
Talomo Dist., Davao City 8000
Cell: (+63) 09262255317

Butuan Branch
2F MCAGA Building
Purok 4 J.P. Rosales Avenue
Limaha Pob. (Brgy. 14)
Butuan City 8600
Cell: (+63) 09171131520

Ozamiz Branch
G/F Medina Building
Gallardo Street
Ozamiz City
Tel. No.: (088) 564-3481

Malaybalay Branch
2F Jamstar Building
San Isidro-Judge P. Carillo
Street, Barangay 5
Malaybalay City, Bukidnon
Tel. No.: (088) 813-2797

Ipil Branch
2nd Floor Avery Arcade Sanito
Ipil Zamboanga Sibugay
7001 Philippines
Tel. No.: 0629574281
Cell: (+63) 09296089081

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Mindanao Consolidated Cooperative Bank

Capitol Compound, Antonio Luna St.
Cagayan de Oro City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mindanao Consolidated Cooperative Bank, which comprise the statement of financial position as at December 31, 2023 (with comparative figures for 2022), and the related statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Matters

The financial statements of the Bank for the year ended December 31, 2022 was audited by another auditor whose opinion on those statements, dated March 9, 2023, was unqualified.

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 Philippine Financial Reporting Standards (PFRSs) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

REPORT OF INDEPENDENT AUDITORS

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LLB & Co.

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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

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

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

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

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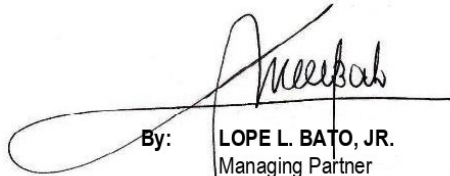
LLB & Co.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required for the year ended December 31, 2023 required by the BSP and by the BIR as disclosed in Notes 28 and 29 to the financial statements, respectively, is presented in accordance with PFRSs. Such supplementary information is the responsibility of the management of Mindanao Consolidated Cooperative Bank and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In compliance with Revenue Regulations V-20, we are stating that we are not related by consanguinity or affinity to the President, Manager, or any shareholder of the Bank.

LOPE LARANJO BATO & Co.



By: LOPE L. BATO, JR.
Managing Partner
CPA Cert. No. 73964
TIN 102-081-516

BIR Accreditation No. 16-006925-001-2023, valid until September 29, 2026
SEC Group C Accreditation No. 73964-SEC, valid until Financial Audit 2025
BSP Group B Accreditation No. 73964-BSP, valid until Financial Audit 2025
PTR No. 5750241-A, January 2, 2024, Cagayan de Oro City, Philippines

March 14, 2024
Cagayan de Oro City, Philippines

LLB-0183-2023-CDO

STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION

Mindanao Consolidated Cooperative Bank
(With Comparative Figures for 2022)

December 31	2023	2022
ASSETS		
Cash (Note 4)	₱521,206,084	₱374,716,832
Loans and Receivables (Note 5)	1,932,040,073	1,880,608,451
Bank Premises, Furniture and Equipment (Note 6)	122,131,357	104,773,517
Investment Properties (Note 7)	174,513,018	56,425,654
Goodwill (Note 8)	55,032,396	55,032,396
Other Assets (Note 9)	39,390,609	31,354,327
Total Assets	₱2,844,313,537	₱2,502,911,177
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposit Liabilities (Note 11)	₱1,709,336,232	₱1,404,790,300
Bills Payable (Note 12)	419,139,044	441,468,008
Retirement Benefits Obligation (Note 13)	6,078,056	4,224,398
Finance Lease Liability (Note 14)	11,364,787	-
Other Liabilities (Note 15)	321,549,300	320,868,345
Total Liabilities	2,467,467,419	2,171,351,051
Shareholders' Equity	376,846,118	331,560,126
Total Liabilities and Shareholders' Equity	₱2,844,313,537	₱2,502,911,177

See Notes to Financial Statements.

STATEMENT OF PROFIT OR LOSS

STATEMENT OF PROFIT OR LOSS

Mindanao Consolidated Cooperative Bank
(With Comparative Figures for 2022)

Year Ended December 31	2023	2022
INTEREST INCOME (Note 17)		
On loans and receivables	₱210,822,712	₱188,883,587
On bank deposits and investments	2,059,678	1,312,627
Total Interest Income	212,882,390	190,196,214
INTEREST EXPENSE (Note 18)	57,496,332	49,548,460
NET INTEREST INCOME	155,386,058	140,647,754
OTHER INCOME (Note 19)	96,915,161	94,235,122
INCOME BEFORE IMPAIRMENT LOSS	252,301,219	234,882,876
LESS IMPAIRMENT LOSS (Note 10)	16,644,503	15,227,912
INCOME AFTER IMPAIRMENT LOSS	235,656,716	219,654,964
OPERATING EXPENSES (Note 20)	204,843,903	188,818,183
PROFIT FOR THE YEAR	₱30,812,813	₱30,836,781
EARNINGS PER SHARE (Note 22)	₱12.16	₱13.56
DISTRIBUTION (NOTE 16)		
General reserve fund (10%)	₱3,081,281	₱3,083,678
Education and training fund (CETF – local) (5%)	1,540,641	770,919
Education and training fund (CETF – apex) (5%)	1,540,641	770,919
Optional fund (7%)	924,384	555,172
Community development fund (3%)	2,156,897	925,103
Surplus free (70%)	21,568,969	24,730,990
	₱30,812,813	₱30,836,781

See Notes to Financial Statements.

STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY

Mindanao Consolidated Cooperative Bank
(With Comparative Figures for 2022)

December 31	2023	2022
SHARE CAPITAL (Note 16)	₱326,888,600	₱300,793,100
SURPLUS FREE		
Balance at beginning of year	10,882,947	9,079,539
Allocation from net surplus (Note 16)	21,568,969	24,730,790
Allocation to union/federation	-	(4,091,634)
Prior period adjustments (Note 16)	(1,825,444)	(18,835,748)
Balance at the end year	30,626,472	10,882,947
STATUTORY FUNDS		
General Reserve Fund		
Balance at beginning of year	8,333,367	5,249,689
Adjustment (Note 5)	(7,000,000)	-
Allocation from net surplus (Note 16)	3,081,281	3,083,678
Balance at end of year	4,414,648	8,333,367
Community Development Fund		
Balance at beginning of year	2,593,973	1,769,796
Allocation from net surplus (Note 16)	924,385	925,103
Disbursement	-	(100,926)
Balance at end of year	3,518,358	2,593,973
Optional Fund		
Balance at beginning of year	6,750,944	6,470,620
Allocation from net surplus (Note 16)	2,156,897	555,172
Disbursement	-	(274,848)
Balance at end of year	8,907,841	6,750,944
Cooperative Educational and Training Fund		
Balance at beginning of year	949,558	3,556,752
Allocation from net surplus (Note 16)	1,540,641	770,919
Disbursement	-	(3,378,113)
Balance at end of year	2,490,199	949,558
General Loan Loss Provision	-	1,256,237
STATUTORY RESERVE (Note 16)	19,331,046	19,884,079
	₱376,846,118	₱331,560,126

See Notes to Financial Statements.

STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS

Mindanao Consolidated Cooperative Bank
(With Comparative Figures for 2022)

Year Ended December 31	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	₱30,812,813	₱30,836,781
Adjustments for:		
Depreciation (Note 6)	17,929,310	17,574,871
Impairment losses (Note 10)	16,644,503	15,227,912
Retirement benefit expense	1,853,658	-
Prior period adjustments	(1,825,444)	(18,835,748)
Changes in working capital:		
Increase in loans and receivables (Note 5)	(68,076,125)	(409,994,979)
(Increase) decrease in other assets (Note 9)	(8,036,283)	1,334,796
Increase in deposit liabilities (Note 11)	304,545,932	58,497,172
Increase in retirement benefit obligation	-	4,224,398
Increase in lease liability (Note 11)	11,364,787	-
Increase in other liabilities (Note 15)	680,955	65,822,182
Cash Generated from (for) Operating Activities	305,894,106	(235,312,615)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions of bank premises, furniture and equipment (Note 6)	(34,801,141)	(12,643,727)
(Additions) disposal of investment properties	(118,573,373)	9,778,878
Net Cash Used in Investing Activities	(153,374,514)	(2,864,849)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payment) proceeds of bills payable	(22,328,964)	202,902,934
Decrease from surplus reserve	(553,032)	(3,268,769)
Withdrawal of preferred shares	(415,400)	(2,807,900)
Issuance of ordinary shares	26,476,400	210,000
Withdrawal of ordinary shares	(359,000)	-
Issuance of preferred shares	393,500	711,100
Allocations during the year	(9,243,844)	(4,091,634)
Cash Generated (for) from Financing Activities	(6,030,340)	193,655,731
NET INCREASE (DECREASE) IN CASH	146,489,252	(44,521,733)
CASH AT BEGINNING OF YEAR (Note 4)	374,716,832	419,238,565
CASH AT END OF YEAR (Note 4)	₱521,206,084	₱374,716,832

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

Mindanao Consolidated Cooperative Bank
(With Comparative Figures for 2022)

Note 1

Bank Information

Organization

The Mindanao Consolidated Cooperative Bank was registered with the Cooperative Development Authority (CDA) under Registration No. 9520-20100000026672 on April 27, 2016 in accordance with the provisions of the R.A. 9520 and with the Bureau of Internal Revenue (BIR) on October 28, 2016 with tax identification number (TIN) 491-920-160-00000. The Certificate of Authority was issued by the Bangko Sentral ng Pilipinas on December 15, 2016. The Bank was primarily organized for the following purposes such as (a) to provide banking and other financial services to cooperative organizations, their members, and the general public; (b) to obtain loans and receive grants and other financial assistance from government and private banks and other financial institutions for the benefit of cooperative organization and their members; (c) to act as the balancing medium for the surplus of the cooperatives and their members by mobilizing savings and investments from them; (d) to facilitate the economic undertakings of the members by issuing negotiable instruments and debentures and by rediscounting bills and promissory notes; and (e) to carry out all other functions prescribed by the CDA and BSP.

Head Office and Business Address

The bank's registered office, which is also its principal place of business, is located at Capitol Compound, Antonio Luna Street, Cagayan de Oro City. It has 21 branches located at Alae, Alubijid, Bayugan, Butuan, Cagayan de Oro City, Calinan, Davao, General Santos, Gingoog, Iligan, Kibawe, Malaybalay, Manticao, Maramag, Panabo, Puerto, Quezon, Surigao, Tagum, Valencia and Villanueva.

Tax Exemption

The Bank was granted a certificate of tax exemption by the Bureau of Internal Revenue (BIR) with CTE No. COOP-54-23-RR16-RDO-098 which is valid for five (5) years or until December 7, 2028, unless sooner revoked by the BIR for violation of any provisions of the Joint Revenue Regulations or upon withdrawal of the Certificate of Registration by the CDA.

As a cooperative transacting with members only, Mindanao Consolidated Cooperative Bank is entitled to the following tax exemptions and incentives provided by Article 60 of Republic Act No. 9520, as implemented by Section 8 of the Joint Rules and Regulations Implementing Articles 60, 61 and 144 of RA No. 9520:

- Exemption from Income tax on income from CDA-registered operations;
- Exemption from Value-added tax on CDA-registered sales or transactions;
- Exemption from other Percentage taxes;
- Exemption from Donor's tax on donations to duly accredited charitable, research and educational institutions, and reinvestment to socio-economic project within the area of operation of the cooperative;
- Exemption from Excise tax for which it is directly liable;
- Exemption from Documentary stamp tax: Provided, however, that the other party to the taxable document/transaction who is not exempt shall be the one directly liable for the tax;
- Exemption from payment of Annual Registration fee of Five hundred pesos (P500.00); and

NOTES TO FINANCIAL STATEMENTS

- 2 -

- Exemption from all taxes on transactions with insurance companies and banks, including but not limited to 20% final tax on interest deposits and 7.5% final income tax on interest income tax on interest income derived from a depositary bank under the expanded foreign currency deposit system.

Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2023 (with comparative figures for 2022), were authorized for issue by the Bank's Board of Directors (BOD) on March 14, 2024.

Note 2

Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation of Financial Statements

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI) that have been measured at fair value. The financial statements are presented in Philippine peso, which is the Bank's functional and presentation currency. All values are rounded to the nearest peso unless otherwise stated.

The financial statements provide comparative information in respect of the previous period.

Statements of Compliance

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

- 3 -

° Consolidation of Financial Statements

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

° Provisioning Requirement

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

° Deemed Cost of ROPA in Settlement of Loans

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

° Accrual of Interest Income on Non-Performing Loans

Interest income is allowed to be recognized on non-performing exposures for the purposes of preparing the general purpose financial statements. For prudential reporting purposes, however, BSFIs are not allowed to recognize interest income on non-performing exposures, except when payment is received. The Bank does not accrue interest income on non-performing loans as dictated by prudence and conservatism.

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

Impairment of Financial Assets

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

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

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

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

a. Significant Increase in Credit Risk

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

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

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g., a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor; and
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

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

b. Definition of Default

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

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

c. Credit-impaired financial assets

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

d. Write-Off Policy

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

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e. Measurement and Recognition of Expected Credit Losses (ECL)

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

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

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

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

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

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

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

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

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

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

- Amendments to PAS 8, Definition of Accounting Estimates
The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.
- Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- ✓ Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
- ✓ Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, Classification of Liabilities as Current or Non-current

The amendments clarify paragraphs 69 to 76 of PAS 1, Presentation of Financial Statements, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

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The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2022, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Effective beginning on or after January 1, 2025

- PFRS 17, Insurance Contracts

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- ✓ A specific adaptation for contracts with direct participation features (the variable fee approach)
- ✓ A simplified approach (the premium allocation approach) mainly for short-duration contracts

On December 15, 2022, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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Accounting policies currently being used are as follows:

Cash

Cash and cash equivalents include cash and other cash items, due from BSP and due from other banks include cash on hand, savings, and demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amount of cash and which are subject to insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Financial Assets

Financial assets are recognized only when the Bank becomes a party to the contractual provisions of the financial statements.

Financial assets are classified based on their contractual cash flow characteristics and the business model for holding the instruments. Financial assets are initially measured at fair value plus transaction costs, except FVPL. Financial assets classified as FVPL are initially measured at fair value; transaction costs are expensed immediately.

Financial assets that are debt instruments

Financial assets measured at Fair Value through Profit or Loss (FVPL)

A financial asset shall be measured at fair value through profit or loss, except in the following cases:

- The financial asset is part of a hedging relationship, in which case, the provisions of PFRS 9 on the hedge accounting shall apply;
- The financial asset is measured at fair value through other comprehensive income (FVOCI); or
- The financial asset that is a debt instrument is measured at amortized cost.

Financial assets measured at fair value through profit or loss shall consists of the following:

- i. Financial assets held for trading (HFT), which include stand-alone and/or embedded derivatives, except a derivative that is a financial guarantee contract or designated and effective hedging instruments, as defined in PFRS 9;
- ii. Financial assets designated at fair value through profit or loss (DFVPL) as defined in PFRS 9.

The Bank may, at initial recognition, irrevocably designate financial assets that are debt instruments as measured at fair value through profit or loss in accordance with the condition mentioned under PFRS 9, subject to the following requirements:

- Bank shall have in place appropriate risk management systems including related risk management policies, procedures, controls; and
 - Bank shall apply the fair value option only to instruments for which fair values can be reliably estimated.
- iii. Other financial assets which are mandatorily measured at fair value through profit or loss (MMFVPL) refers to financial assets that are required to be measured at fair value through profit or loss under PFRS 9, other than those that are HFT and DFVPL.

Financial assets at Fair Value through Other Comprehensive Income (FVOCI)

A financial asset measured at FVOCI shall meet both of the following conditions:

- The financial asset is held within a business model whose objective is achieving by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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Financial assets measured at amortized cost

A financial asset that is a debt instrument, other than those that are designated at fair value through profit or loss, which meet both of the following conditions:

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

Financial assets that are equity instruments

Financial assets that are equity instruments shall be classified under any of the following categories:

- a. Financial assets measured at fair value through profit or loss which shall include financial assets HFT;
- b. Financial assets at Fair Value through Other Comprehensive Income (FVOCI) which shall consists of:
 - i. Financial asset designated at fair value through other comprehensive income (DFVOCI). Bank may, at initial recognition, irrevocably designate financial assets that are equity instruments that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which PFRS 3 applies, as measured at fair value through other comprehensive income.
 - ii. Financial assets mandatorily measured at fair value. This includes investment in an equity instrument, previously accounted at cost per PAS 39, which does not have a quoted price in an active market for an identical instrument.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers and all receivables from customers and other Banks. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PFRS 9 and PFRS 7 (Amendments) shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate.

Derecognition of financial assets occurs when the right to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Bank Premises, Furniture, Fixtures and Equipment

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

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

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

Building	10-15 years
Furniture, fixtures and equipment	2-10 years
Transportation equipment	3-5 years
Information technology	2-5 years
Leasehold improvement,	over the estimated lives of the improvement or the term of the lease, whichever is shorter

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

Investment Properties

Investment properties pertain to properties held by the Bank for capital appreciation, rather than for administrative purposes or sale in the ordinary course of business.

Investment properties are initially measured at the carrying amount of the loan (i.e. outstanding loan balance adjusted for any unamortized premium or discount less allowance for impairment losses based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for impairment losses plus transaction cost incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property).

Real properties acquired in settlement of loans and receivables are booked under ROPA accounts as follows:

- upon the date of entry of judgment in case of juridical foreclosure; or
- upon the date of Sheriff's Certificate of Sale in case of extrajudicial foreclosure; or
- upon the date of notarization of Deed of Dacion in case of dacion in payment.

These properties are carried at cost, which is the fair value at acquisition date including certain transaction cost, less accumulated depreciation and impairment in value. Transaction costs, which include nonrefundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the carrying values of the cost of the real properties acquired. Investment properties acquired through a non-monetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable, where the net carrying value of the related loans and receivable is used. The difference between the fair value of the foreclosed properties and the carrying value of the related receivables given up is recognized in 'Gain (loss) on asset exchange' account in the statement of comprehensive income. Subsequent to initial recognition, real properties acquired in settlement of loans and receivables are stated at cost less accumulated depreciation and any accumulated impairment in value. Depreciation is computed on a straight-line basis over the estimated useful life from the time of acquisition of the investment properties but not to exceed 10 years.

The transfer of a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on derecognition of an investment property is recognized in the statement of income in the year of derecognition. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance, security maintenance and other holding costs are normally charged to income in the period in which the costs are incurred.

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Impairment of Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others:

- (i) significant financial difficulty of the issuer or debtor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) that the borrower will enter Bankruptcy or other financial reorganization;
- (iv) the disappearance of an active market for that financial asset because of financial difficulties; or,
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Assets carried at amortized cost. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivable or financial assets measured at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Bank may measure impairment on the basis of an instruments' fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e., on the basis of the Bank or BSP's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the Board of Directors, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off is recognized in profit or loss.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than ninety (90) days or there are any known difficulties in the cash flow of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed impairment

The Bank determines the allowance appropriated for each significant loan or advances on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and expected dividend payout should Bankruptcy ensue, the availability of other financial support and realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more attention.

Collectively assessed impairment

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have no objective evidence as a result of individual impairment assessment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of impairment yet in an individual assessment.

Impairment losses are estimated by taking the following information into consideration: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individual assessed impairment allowance, and expected receipts and recoveries once impaired.

Management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Impairment of Non-Financial Assets

The Bank equity investments, Bank premises, furniture, fixtures and equipment, investment properties and other assets are subject to impairment testing. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal evaluation of discounted cash flow. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss. Any amount recovered is recognized in profit or loss during the period.

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Financial Liabilities

Financial liabilities include deposit liabilities and other liabilities.

Financial liabilities are recognized when the Bank becomes a party to the contractual agreement of the instrument. All interest and related charges are recognized as an expense in the statement of profit or loss under the caption Interest Expense.

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

Other liabilities and deposit liabilities are initially recognized at their nominal value and subsequently measured at amortized cost less settlement payments.

Dividends distributions to shareholders are recognized as financial liabilities when the dividends are approved by the shareholders.

Provisions

Provisions, if any, are recognized when the Bank has legal or constructive obligations as a result of a past event: it is probable that an outflow of resources will be required to settle the obligation and estimate can be made of the amount of obligation. Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial condition date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of related provision.

Provisions are reviewed at each statement of financial condition date and adjusted to reflect the current best estimate. In those cases, where the possible outflow of the economic resources as a result of present obligation is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Probable inflows of economic benefits that do not yet meet the recognition criteria of the asset are considered contingent assets, hence, are not recognized in the financial statements.

Impairment of Financial Liabilities

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

Share Capital and Other Equity Accounts

Share capital, which consists of common and preferred shares, represents the nominal value of shares that have been issued.

Reserve for retirement of preferred shares was established by the Bank to comply with the requirements of BSP as reserves for the retirement of preferred shares. Allocation to this fund is an appropriation from net profit, as authorized by the Bank's BOD.

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

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

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Statutory Funds

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

The following are the nature of these funds:

a) General Reserve Fund (GRF)

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

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

b) Cooperative Education and Training Fund (CETF)

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

c) Community Development Fund (CDF)

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

d) Optional Fund

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

Revenue and Cost Recognition

a. Under PFRS 9

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

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

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably. The following are the specific recognition criteria in recognizing revenue:

- a. Service charges, fees and commissions are generally recognized when the service has been provided. Other non-finance charges on loans and penalties on delinquent accounts are recognized upon actual collection.
- b. Income from assets sold or exchanged – Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included as part of Other Income account in the statement of profit or loss.
- c. Rental income – Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in profit or loss as part of Other Operating Income.
- d. Interest income from bank deposits and investments is recognized on the accrual method.

Cost and expenses are recognized in the statement of profit or loss upon utilization of the service or at the date they are incurred.

Leases

Bank as lessee

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. Right-of-use assets (ROU)

The Bank recognizes ROU assets (included in 'Property and Equipment') at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight-line basis over the shorter of the lease term and estimated useful lives of the assets is 1 to 10 years for office space.

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ii. Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense (unless they are incurred to produce inventories) in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that are within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Bank's lease liabilities are included in Note 14.

iii. Short-term leases and leases of low-value assets

Lease payments on leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Employees' Benefits

The Bank's employees are provided with the following benefits:

- *Retirement Benefits Obligation.* Retirement benefits are provided to employees through a defined benefit plan. A defined benefit plan is a retirement plan that defines an amount of retirement benefit an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for the benefits of the retirement plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies.
- *Termination Benefits.* Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial condition date are discounted to present value.
- *Compensated Absences.* Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the balance sheet date. The amounts recognized are included in Trade and Other Payables account in the balance sheet at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

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Earnings per Share

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

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

Income Taxes

Current tax

Current tax asset and current tax liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the reporting date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of asset and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credit from the excess of Minimum Corporate Income Tax (MCIT) over the Regular Corporate Income Tax (RCIT), and unused Net Operating Loss Carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credit from MCIT and unused NOLCO can be utilized. Deferred tax assets and deferred tax liabilities, however, is not recognized on temporary differences that arise from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax asset are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statements of financial position date.

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

Provisions and Contingent Liabilities

Provisions, if any, are recognized when the Bank has legal or constructive obligations as a result of a past event: it is probable that an outflow of resources will be required to settle the obligation and estimate can be made of the amount of obligation. Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

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Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial position date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of related provision. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. In those cases, where the possible outflow of the economic resources as a result of present obligation is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Probable inflows of economic benefits that do not yet meet the recognition criteria of the asset are considered contingent assets, hence, are not recognized in the financial statements.

Subsequent Events

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

Note 3

Significant Accounting Judgments and Estimates

The Bank's financial statements prepared in accordance with Philippine Financial Reporting Standards require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates and the differences could be significant.

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:

Leases

Bank as lessor

The Bank has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Bank as lessee

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Extension and termination options

The Bank has several lease contracts that include extension and termination options. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as leasehold improvements and location that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

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Estimating the IBR for lease liabilities

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The Bank estimates the IBR for lease liabilities using observable inputs (by reference to prevailing risk-free rates) adjusted to take into account the entity's credit risk (i.e., credit spread).

The carrying values of the Bank's right-of-use assets and lease liability are disclosed in Notes 6 and 14, respectively.

Classifying Financial Assets Measured at Amortized Cost

The Bank follows the guidance of PFRS 9 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as Financial Asset Measured at Amortized Cost. This classification requires significant judgment. In making this judgment, the Bank considers its intention and ability to hold such investments to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Bank fails to keep these investments at maturity (other than for the allowed specific circumstances, e.g., selling more than an insignificant amount close to maturity), it will be required to reclassify. The investments would therefore be measured at fair value and not at amortized cost through profit or loss or fair value through other comprehensive income.

Impairment of Financial Assets

The Bank follows the guidance of PFRS 9 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Fair Value Determination for Investment Properties and Other Properties

The Bank classifies its acquired properties as Property and Equipment if used in operations, as Investment Properties if intended to be held for capital appreciation, as Financial Assets if qualified as such in accordance with PFRS 9 or as Other Properties if held for sale but the depreciable properties are not yet disposed within three years. At initial recognition, the Bank determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have significant risk of causing material adjustment to the carrying amounts of resources and liabilities within the next financial year.

Impairment Losses on Financial Assets

The Bank reviews its investments and loans and receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgment as to whether there is any observable data indicating that there has been measurable decrease in the estimated future cash flows from a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic condition that correlates with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement are determined using verifiable objective evidence such as foreign exchange rates and volatility rates. However, 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 these financial assets and liabilities would affect profit or loss and other comprehensive income. The total impairment losses on financial assets recognized in profit or loss is presented in Note 10.

Estimating Useful Lives of Property and Equipment and Investment Properties

The Bank reviews annually the estimated useful lives of its property and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of these properties would increase recorded depreciation and amortization expense and decrease the related asset accounts. The carrying amount of property and equipment are presented in Note 6, while the carrying amount of investment properties are presented in Note 7. Based on management's assessment as at December 31, 2023 there is no change in the estimated useful lives of the assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors such as physical wear and tear, technical or commercial obsolescence or legal or other limits on the use of the assets.

Principal Assumptions for Management's Estimation of Fair Value

Investment properties are measured using the cost model. The fair value disclosed in Note 7 to the financial statements are mainly based on existing market conditions and actual transactions at the reporting date, such as selling price, expected timing of sale and appropriate discount rates. The expected selling price is determined on the basis of current appraised values of the properties or similar properties in the same location and condition.

Impairment of Non-Financial Assets

The Bank assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific asset, the recoverable amount represents the net selling price. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Bank is required to make estimates and assumptions that can materially affect the Bank's financial statements.

Valuation of Post-Employment Defined Benefits

The determination of the Bank's obligation and cost for pension and other employee benefits is dependent on the selection of certain assumptions used by management in calculating such amounts. While the Bank believes that the assumptions used are reasonable and appropriate, significant differences in the actual experience or significant changes in assumption may materially affect employee benefits obligation.

Provision and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision are discussed in Note 2.

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Note 4 Cash

For purposes of presenting the cash flows, cash and cash equivalents consists of the following as of December 31, 2023 and 2022:

<i>December 31</i>	2023	2022
Cash and other cash items	₱152,984,310	₱88,779,110
Due from Bangko Sentral ng Pilipinas (BSP)	51,374,573	31,005,751
Due from other banks	316,847,201	254,931,971
	₱521,206,084	₱374,716,832

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or other branches after the bank's clearing cut-off time until the close of the regular banking hours.

Due from Bangko Sentral ng Pilipinas (BSP) represents the Bank's demand deposit with BSP in compliance with BSP's reserve requirements. Section 252 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against reserve deposits shall be limited to: (i) settlement of obligations with the BSP; and, (ii) withdrawals to meet cash requirements. The Bank has satisfactorily complied with the reserve requirements of the BSP. The deposit does not earn interest.

Due from other banks consist of:

<i>December 31</i>	2023	2022
Demand deposits	₱199,287,869	₱51,982,872
Savings deposits	91,074,180	175,968,983
Time deposits	26,485,152	26,980,116
	₱316,847,201	₱254,931,971

Due from other banks earned interest rate ranging from 5% to 12.5% for savings and demand deposits. Interest income arising from due from other Banks amounted to ₱841,974 and ₱870,759 in December 31, 2023 and 2022, respectively (See Note 17).

<i>December 31</i>	2023	2022
Landbank of the Philippines (LBP)	₱251,804,176	₱191,151,398
BDO Unibank, Inc.	37,089,323	34,531,705
Rural Bank of Talisayan	21,764,830	21,067,656
Development Bank of the Philippines	3,335,747	2,830,541
BDO One Network Bank	1,939,468	7,280
MSCB	627,490	625,412
Secured Bank	286,167	2,282,670
UCPB	-	2,435,309
	₱316,847,201	₱254,931,971

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Note 5
Loans and Receivables

The composition of loans and receivables is as follows:

December 31	2023	2022
Loans:		
Agrarian reform	₱80,493,508	₱79,109,236
Other agricultural credit	656,549,653	734,938,241
Small and medium enterprise	660,160,063	628,728,680
Other purpose	566,248,832	529,935,744
Total	1,963,452,056	1,972,711,901
Less: Allowance for impairment losses (Note 10)	126,071,181	151,300,535
Loans discount and unearned charges	18,845,546	19,571,913
Net loans receivable	1,818,535,329	1,801,839,453
Other Loans Receivable:		
Sales contract receivable	37,837,844	32,462,706
Accounts receivable	106,998,058	70,634,450
Total	144,835,902	103,097,156
Less Allowance for impairment losses (Note 10)	31,331,158	24,328,158
Net other receivables	113,504,744	78,768,998
Total Loans and Receivables	₱1,932,040,073	₱1,880,608,451

Accounts receivable is composed of:

December 31	2023	2022
ACPC-PLEA	₱23,317,232	₱23,415,667
Receivable from officers and employees	2,878,651	6,130,646
IBFT	2,176,997	6,900
Hyperstack's mobile banking	2,015,215	-
Receivable from Kenemer	977,690	977,690
Load top up	260,537	157,214
ATM disputes	11,015	-
Bancnet	-	16,357,585
Others	75,360,721	23,588,748
Total	₱106,998,058	₱70,634,450

Accounts receivable-ACPC-PLEA (Production Loan Easy Access) refers to the non-collateralized loans for agri-fishery production and other income generating activities of marginal farmers and fisherfolk and their households subject to the approval by the ACPC.

Receivables from officers and employees consist of unliquidated cash advances for travelling expenses and other various expenses as of year-end.

IBFT pertains to instapay transactions as receiver which remain unpaid as of year-end.

Hyperstack's mobile banking pertains to transaction fees on instapay as sender which remain unpaid as of year-end.

Load top-up pertains to load wallet central that is due as of year-end.

ATM disputes pertain to undispensed transactions which are due as of year-end.

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Other accounts receivable pertains to the multiple unauthorized ATM withdrawals due to the unauthorized access of the Core Banking System at the Coop Bank and Bancnet Portal amounting to ₱51,771,973. The investigation is still on going, thus, the Bank provides a partial allowance for impairment loss on this account as of December 31, 2023 in the amount of ₱7,000,000 charge to reserve account. The Bank will evaluate and decide to provide additional allowance in 2024 as soon as the investigation is completed. It also includes receivables from employee in relation to fraud incident in Malaybalay branch in 2021 amounting to ₱23,588,748 and the Bank provided the allowance for impairment loss amounting to ₱18,838,747 as of December 31, 2023 and 2022.

Accounts receivable is non-interest bearing and per management, assessment on the allowance provided is enough.

Interest income arising from loans and other receivables amounted to ₱210,822,712 and ₱188,883,587 in December 31, 2023 and 2022, respectively (see Note 17).

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

The maturity profile of the loans is as follows:

December 31	2023	%	2022	%
Due within one year	₱281,103,015	14.32	₱326,485,534	16.55
Over one year to five years	582,363,495	29.66	482,970,359	24.48
Due more than five years	1,099,985,546	56.02	1,163,256,008	58.97
Total	₱1,963,452,056	100.00	₱1,972,711,901	100.00

Breakdown by Age of Accounts

December 31, 2023	Current	Past Due	In Litigation	Total
Agrarian reform	₱70,078,849	₱10,354,868	₱59,791	₱80,493,508
Other agricultural credit	494,279,589	159,788,183	2,481,880	656,549,652
Small and medium enterprise	574,307,465	85,363,057	489,541	660,160,063
Others	516,001,222	49,569,061	678,550	566,248,833
Total	₱1,654,667,125	₱305,075,169	₱3,709,762	₱1,963,452,056
	84.27%	15.54%	0.19%	100.00%

December 31, 2022	Current	Past Due	In Litigation	Total
Agrarian reform	₱71,717,004	₱7,302,441	₱89,791	₱79,109,236
Other agricultural credit	628,501,010	82,968,778	2,628,881	714,098,669
Small and medium enterprise	554,842,458	73,385,680	500,541	628,728,679
Others	455,847,039	92,698,219	2,230,059	550,775,317
Total	₱1,710,907,511	₱256,355,118	₱5,449,272	₱1,972,711,901
	86.72%	13.00%	0.28%	100.00%

The non-performing loans as defined under MORB 304 amounted to ₱193,230,128 in December 31, 2023. As a general rule, non-performing loans refer to loans that even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (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.

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Non-performing loans shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests are probable and payments of interests and/or principal are received for at least six (6) months; or (b) written-off.

Portion of the past due accounts and accounts under litigation are covered by real estate mortgages, which could be foreclosed to reduce possible losses from non-collection.

The Bank has loans to Directors, Officers, Stockholders and Related Interests (DOSRI) amounting to ₱73,249,379 (See Note 28).

Sales contract receivable (SCR) refers to real and other properties acquired and subsequently sold on an installment basis whereby the title of the property is transferred to the buyer only upon full payment of the agreed selling price.

Sales contract receivable represents the outstanding balance receivable for the sale of investment properties through agreed installment payment terms. Contracts to sell were also entered into between the Bank and several borrowers, wherein the latter reacquire the loan through equal installment payments for a period of three months to seven years.

SCR is initially recorded at the nominal value of the installment receivable discounted at imputed rate of interest. Discount shall be accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss in accordance with PAS 18, "Revenue" and PFRS 15 "Revenue from Contracts with Customers". Furthermore, SCR shall be subject to impairment provision of PFRS 9.

The Bank recognizes the gain or loss on sale of ROPA on the date of sale in accordance with PAS 18 "Revenue". This is also the reason for non-recognition of SCR discount for the year.

The carrying amount of sales contract receivable as of December 31, 2023 and 2022 are as follows:

December 31	2023	2022
Sales contract receivable – performing	₱12,172,210	₱30,256,324
Sales contract receivable – nonperforming	25,665,634	2,331,382
Total	37,837,844	32,587,706
Less allowance for impairment loss (see Note 10)	2,331,382	2,331,382
Net sales contract receivable	₱35,506,462	₱30,256,324

The loan breakdown as to their status in application of the BSP Memorandum is as follows:

December 31, 2023	Stage 1	Stage 2	Stage 3	Total
Loans receivable:				
Performing				
Current	₱1,643,851,684	₱10,815,440	-	₱1,654,667,124
Past due	25,770,084	16,850,756	₱5,706	42,626,546
	1,669,621,768	27,666,196	5,706	1,697,293,670
Non-performing				
Past due	71,717,490	-	190,731,133	262,448,623
In litigation	1,210,768	-	2,498,995	3,709,763
	72,928,258	-	193,230,128	266,158,386
Expected Credit Loss Allowance	14,387,154	3,901,508	107,782,519	126,071,181
Carrying Amount	₱1,728,162,872	₱23,764,688	₱85,453,315	₱1,837,380,875

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<i>December 31, 2022</i>	Stage 1	Stage 2	Stage 3	Total
Loans receivable:				
Performing				
Current	₱1,697,294,015	₱13,613,496	-	₱1,710,907,511
Past due	3,192	27,623,570	₱276,557	27,903,320
	1,697,297,207	41,237,067	276,557	1,738,810,831
Non-performing				
Past due	-	-	228,451,799	228,451,799
In litigation	-	-	5,449,272	5,449,272
	-	-	233,901,071	233,901,071
Expected Credit Loss Allowance	23,426,500	2,539,671	125,334,364	151,300,535
Carrying Amount	₱1,673,870,707	₱38,697,396	₱108,843,264	₱1,821,411,367

Note 6**Bank Premises, Furniture and Equipment**

The property and equipment, which are stated at cost, consists of the following:

<i>December 31</i>	2023	2022
Land	₱51,300,116	₱51,300,116
Buildings	94,287,334	92,901,320
Furniture, fixtures and equipment	25,178,514	22,390,453
Transportation equipment	29,111,631	26,920,381
Information technology equipment	74,067,375	62,514,895
Leasehold improvements	10,663,003	5,692,819
Right-of-use asset	19,429,038	-
Total	304,037,011	261,719,984
Less accumulated depreciation on:		
Bank premises, furniture and equipment	173,097,279	156,946,467
Right-of-use asset (Note 16 and 19)	8,808,375	-
Net	₱122,131,357	₱104,773,517

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The reconciliation of the movements of the accounts follows:

<i>December 31, 2023</i>	<i>Beq. Balance</i>	<i>Additions/ Adjustments</i>	<i>Retirements/ Adjustments</i>	<i>End Balance</i>
Cost				
Land	₱51,300,116	-	-	₱51,300,116
Buildings	92,901,320	₱1,386,014	-	94,287,334
Furniture, fixtures and equipment	22,390,453	3,888,863	₱1,100,802	25,178,514
Transportation equipment	26,920,381	2,191,250	-	29,111,631
Information technology equipment	62,514,895	12,387,063	834,583	74,067,375
Leasehold improvements	5,692,819	4,970,184	-	10,663,003
	261,719,984	24,823,374	1,935,385	284,607,973
Accumulated Depreciation				
Buildings	61,467,676	4,363,746	-	65,831,422
Furniture, fixtures and equipment	19,614,579	1,925,999	787,334	20,753,244
Transportation equipment	21,108,943	3,299,247	5	24,408,185
Information technology equipment	50,810,314	7,303,708	505,149	57,608,873
Leasehold improvements	3,944,955	550,601	1	4,495,555
	156,946,467	17,443,301	1,292,489	173,097,279
Net Book Value	₱104,773,517	₱7,380,073	₱642,896	₱111,510,694

<i>December 31, 2022</i>	<i>Beq. Balance</i>	<i>Additions/ Adjustments</i>	<i>Retirements/ Adjustments</i>	<i>End Balance</i>
Cost				
Land	₱51,300,116	-	-	₱51,300,116
Buildings	91,898,405	₱1,083,000	₱ 80,085	92,901,320
Furniture, fixtures and equipment	23,664,739	2,269,617	3,543,903	22,390,453
Transportation equipment	26,234,561	1,028,120	342,300	26,920,381
Information technology equipment	50,783,443	8,104,528	(3,626,924)	62,514,895
Leasehold improvements	5,518,782	176,973	2,936	5,692,819
	249,400,046	12,662,238	342,300	261,719,984
Accumulated Depreciation				
Buildings	57,083,149	4,388,007	3,480	61,467,676
Furniture, fixtures and equipment	21,565,363	1,606,170	3,556,954	19,614,579
Transportation equipment	18,178,862	3,253,870	323,789	21,108,943
Information technology equipment	39,377,483	7,871,977	(3,560,854)	50,810,314
Leasehold improvements	3,490,528	454,847	420	3,944,955
	139,695,385	17,574,871	323,789	156,946,467
Net Book Value	₱109,704,661	(₱4,912,633)	₱18,511	₱104,773,517

Depreciation and amortization for the 2023 and 2022 amounting to ₱19,985,657 and ₱17,574,871 respectively, are presented under other operating expenses in the statements of profit or loss (See Note 20).

The Bank recognized gain on disposal of property equipment amounted to ₱9,500 and ₱60,589 as of December 31, 2023 and 2022, respectively (See Note 19)

The details of depreciation expenses are as follows:

<i>December 31</i>	2023	2022
Bank premises, furniture and equipment	₱17,443,301	₱17,574,871
Right-of-use-asset (Note 19)	2,542,356	-
	₱19,985,657	₱17,574,871

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The Bank recognizes a right-of-use asset on its existing lease contracts as follows:

December 31, 2023

Cost	₱19,429,038
Accumulated Depreciation	
Depreciation charged for the year (Note 20)	2,542,356
Adjustments (Note 16)	6,266,019
End Balance	8,808,375
Net Book Value	₱10,620,663

The Bank uses the modified retrospective approach in its adoption of PFRS 16, Leases. Under this approach, the Bank does not restate comparative information. Consequently, the date of initial application is the first day of the annual reporting period in which the Bank first applies the requirements of the new lease standard.

The adjustments are the recognition of the of the prior year's accumulated depreciation of right-of-use asset.

The balances of the right-of-use-asset at the end of the year is as follows:

December 31, 2023

Alae	₱1,842,446
Bayugan	3,370,271
Cagayan de Oro City	251,648
Calinan	1,904,973
General Santos City	3,842,577
Iligan	3,507,028
Panabo	860,242
Surigao	369,194
Tagum	2,191,029
Villanueva	1,289,630
Total	₱19,429,038

Note 7

Investment Properties

Investment properties consist of parcels of land, cars and jewelries acquired in settlement of loans which are held for capital appreciation. Per MORB Section 382, the carrying amount of ROPA shall be allocated to land, building, other non-financial assets and financial assets. Buildings and other non-financial assets shall be depreciated over the remaining useful life of the assets, which shall not exceed ten (10) years and three (3) years from the date of acquisition, respectively. Land, buildings and other non-financial assets shall be subject to the impairment provisions of PAS 36 "Impairment".

The reconciliation of the carrying amount of investment properties is as follows:

December 31	2023	2022
Land	₱129,143,721	₱66,204,532
Building	36,387,361	4,144,689
Other non-financial assets	9,572,875	(13,923,567)
Total	175,103,957	56,425,654
Accumulated depreciation:		
Building	(407,620)	-
Other non-financial assets	(183,319)	-
Net	₱174,513,018	₱56,425,654

NOTES TO FINANCIAL STATEMENTS

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December 31	2023	2022
Balance at beginning of year	₱56,425,654	₱66,204,532
Additions	128,489,031	4,144,689
Disposal/adjustments	(9,810,728)	(13,923,567)
Total	175,103,957	56,425,654
Accumulated depreciation	(590,939)	-
Net	₱174,513,018	₱56,425,654

Real and other properties acquired (ROPA) are acquired by the Bank in settlement of loans through foreclosure or dation in payment and/or for other reasons, whose carrying amount will be recovered principally through a sale transaction. ROPA in settlement of loans through foreclosure or dation in payment shall be booked when: (1) upon entry of judgment in case of judicial foreclosure; (2) upon execution of the sheriff's certificate of sale in case of extrajudicial foreclosure; and (3) upon notarization of the deed of dacion in case of dation in payment (*dacion en pago*).

The Bank recognized gain on disposal of investment properties amounting to ₱9,724,430 and ₱12,184,416 as of December 31, 2023 and 2022, respectively (see Note 19).

The investments properties are attributable to the following:

<i>December 31, 2023</i>	
Land	₱129,143,721
Building	36,387,361
Other non-financial assets:	
Car	8,621,542
Jewelries	951,333
Total	₱175,103,957

ROPA are booked initially at the carrying amount of the loan (i.e. outstanding loan balance adjusted for any unamortized premium or discount less allowance for impairment losses based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for impairment losses plus transaction cost incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure of the acquired real estate property).

Before foreclosing or acquiring any property in settlement of loans, the Bank properly appraised the property to determine its true economic value. If the amount of real and other properties acquired (ROPA) to be booked exceeds ₱5 million, an independent appraiser acceptable to the BSP conducts the appraisal. The Bank made an in-house appraisal of all ROPA at least every other year. Moreover, immediate re-appraisal is conducted on ROPA, which materially decline in value. Allowance for impairment loss is set up for any anticipated losses based on appraisal reports, current negotiations and programs to dispose of these properties. Moreover, the Bank determines that there is no indication that an impairment loss had occurred on the investment properties for both years in 2023 and 2022. The latest appraisal date of ROPA was for the months of January to December 2023.

The latest appraised value of these properties are as follows:

<i>December 31, 2023</i>	
Land	₱212,530,050
Building	59,882,182
Other non-financial asset:	
Car	9,900,000
Jewelries	1,216,440
Total	₱283,528,672

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Note 8 Goodwill

Goodwill is measured by the excess of the cost of investments over the fair value of the net tangible assets acquired. This approach is in accordance with PFRS 3 "*Business Combination*".

The Mindanao Consolidated Cooperative Bank was formed through the consolidation of Cooperative Bank of Misamis Oriental (CMIOR), Bukidnon Cooperative Bank (CKBDN) and Cooperative Bank of Agusan del Norte-Butuan City (AGNOR) under the provisions of PFRS 3, Business Combination and per BSP circulars that recognize the recording of goodwill for consolidation. The key steps in applying the acquisition method had been undertaken as follows: (1.) identifying the acquirer, (2.) determine the acquisition date, (3.) recognition and measurement of the identifiable assets acquired, the liabilities assumed and any controlling interest in the acquiree, and (4.) recognition and measurement of goodwill or a gain from a bargain purchase option.

The CMIOR has been identified as the acquirer in the business consolidation who obtains control over the acquiree. The consolidation of the identifiable assets and liabilities between CMIOR and CBDKN was determined to have no goodwill.

After assessing the identifiable assets and liabilities of Cooperative Bank of Agusan del Norte-Butuan (AGNOR), the fair value of its assets and liabilities were lower than the consideration given to the equity holders of AGNOR. Goodwill is recognized amounting to ₱55,032,396 for both years on December 31, 2023 and 2022.

The Bank internally assessed the impairment of goodwill on January 23, 2024 under the provisions of PAS 36, '*Impairment of Assets*'. Upon assessment of the Net Assets of Butuan branch, it is concluded that, the fair value less cost to sell exceeds the carrying amount. Thus, no impairment loss of goodwill is to be recognized for the year 2023.

Note 9 Other Assets

This account consists of the following:

December 31	2023	2022
Equity investment in allied undertakings	₱8,014,523	₱6,986,687
Sinking Fund-LBP (Note 13)	7,195,928	7,093,035
Held to maturity financial assets at amortized cost	5,775,991	8,072,395
Stationery and supplies	5,051,222	3,645,611
Sinking funds-treasury bonds	4,672,980	2,160,446
Prepaid IT software	4,129,648	-
Prepaid insurance	1,773,205	-
Security deposit	1,388,347	-
Investment in non-marketable equity security-local	904,553	904,553
Prepaid rent	140,000	-
Investments in banks-legal reserve	10,000	10,000
Other prepayments	277,212	2,427,100
Others	57,000	54,500
	₱39,390,609	₱31,354,326

Equity investment in allied undertaking consist of the equities to allied cooperatives.

Prepayments consist of prepaid insurance, security deposit and prepaid expenses for information and technology.

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Sinking fund - LBP represents the unrestricted fund deposited to the Land of the Philippines for retirement fund. The fund is not yet a registered plan to the Bureau of Internal Revenue (BIR).

Held to maturity financial assets at amortized cost represent the investments in government treasury bonds having a term of three (3) to five (5) years with various maturity dates.

Sinking Fund-treasury bonds pertains to the fund deposited to LBP for the provident fund.

Investment in non-marketable equity security-local consist of investments to various cooperatives and other corporations.

Stationery and supplies on hand are composed of items used in bank's office such as bond papers, printer ribbon, thermal paper, and other items with minimal amounts.

Other assets include petty cash fund and other investments.

The management determines that there is no indication of loss on impairment that occurred during the year.

Note 10

Allowance for Impairment Losses

The accounting of the movement of the allowance for impairment losses consists of the following:

<i>December 31, 2023</i>	<i>Loans Receivable (Note 5)</i>	<i>Accounts Receivable (Note 5)</i>	<i>Sales Contract Receivable</i>	<i>Total</i>
December 31, 2022	₱151,300,535	₱21,996,776	₱2,331,382	₱175,628,693
Impairment loss	16,641,503	3,000	-	16,644,503
Write-off	(41,645,459)	-	-	(41,645,459)
Adjustment (Note 5)	-	7,000,000	-	6,774,602
Reversal	(225,398)	-	-	(225,398)
December 31, 2023	₱126,071,181	₱28,999,776	₱2,331,382	₱157,402,339

Allowance for impairment losses for loans receivables is set up in accordance with BSP guidelines in the classification of loans, and the provisioning requirements for classified loan accounts.

In compliance with BSP Memorandum 2020 – 017 and 2020 – 068, the Bank has determined transfers on impairment of financial assets using the expected credit loss (ECL) model, in accordance with the provisions of PFRS 9. In this respect, the Bank recognized credit impairment/allowance for credit losses even before and objective evidence of impairment becomes apparent. The Bank considers past events, current conditions and forecasts of future economic conditions in assessing impairment.

Written-off of delinquent loan accounts were approved by the Board of Directors on May 11, 2023 through Board Resolution No. 101-2023.

Adjustments were made to recognize allowance for impairment losses for the current period charge to reserve account (see Note 5).

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Note 11 Deposit Liabilities

This account consists of:

December 31	2023	2022
Savings deposits:		
Active	₱867,410,579	₱59,498,634
Dormant	62,548,089	677,686,124
Total savings deposit	929,958,668	737,184,758
Demand deposits	143,944,253	101,947,315
Time deposits	635,433,311	565,658,227
	₱1,709,336,232	₱1,404,790,300

The regular savings deposits interest rate is 0.375% per annum. This is withdrawable upon presentation of a properly accomplished withdrawal slip together with the corresponding passbook. Time deposits earn fixed annual interest ranging from 1.25% to 7.00% and are due within thirty (30) days to five (5) years.

The Bank's deposit liabilities to Directors, Officers, Stockholders and Related Interests (DOSRI) amounting to ₱22,368,588 of December 31, 2023 (see Note 23).

The interest expense of the Bank related to the deposit liabilities amounted to ₱31,633,475 and ₱33,153,922 for 2023 and 2022, respectively (see Note 18).

The analysis of the residual maturity of deposit liabilities are as follows:

December 31	2023	%	2022	%
Due within one year	₱1,222,729,242	72.00	₱911,047,293	65.00
Over one year to five years	415,174,576	24.00	293,138,677	21.00
Due more than five years	71,432,414	4.00	200,604,330	14.00
Total	₱1,709,336,232	100.00	₱1,404,790,300	100.00

Note 12 Bills Payable

This account is a liability by the Bank to the following:

December 31	2023	2022
Landbank of the Philippines	₱388,931,211	₱432,777,768
Philippine Business for Social Progress	29,166,666	2,822,833
Agricultural Credit Policy Council	1,041,167	6,607,407
Total	₱419,139,044	₱441,468,008

December 31, 2023		Maturity		
Name of Creditor	Type of Collateral	Amount	Due in 1 year	Due more than 1 year
LBP	Promissory Note	₱388,931,211	₱246,568,556	₱148,362,655
PBSP	Promissory Note	29,166,666	23,333,333	5,833,333
ACPC	Promissory Note	1,041,167	1,041,167	-
Total		₱419,139,044	₱270,943,056	₱148,195,988

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Bills payable to Land Bank of the Philippines, which were incurred to augment the Bank's working capital, is payable on installment basis and is subject to an average annual interest of 5.0% to 8.4%, with terms of four (4) months to ten (10) years. The bills payable is secured by the borrowers' secured promissory notes discounted at 80% and 85% of the face value. The Bank is compliant with the covenants and warranties on loans as of end of year.

The interest expense of the Bank related to bills payable amounted to ₱25,862,857 and ₱16,394,538 for 2023 and 2022, respectively (see Note 18).

Note 13

Retirement Benefits Obligation

The Bank maintains a fully funded, noncontributory post-employment benefit plan that is being administered through a depository bank which is unrestricted. The post-employment plan covers all qualified regular employees. As at December 31, 2023, the Bank has not yet obtained an actuarial valuation of its employees' retirement benefits required under PAS/IAS 19 *Employee Benefits* and PAS/IAS 26, *Accounting and Reporting by Retirement Benefit Plans*.

Normal retirement date of an employee shall be the first day of the month coincident with or next following the employee's 60th birthday. Employment shall not continue beyond normal retirement date unless extended by mutual agreement. The retirement benefits shall be lump sum amount equivalent to 100% of basic monthly salary of an employee prior to separation multiplied by the number of year in service provided that the employee provided that the employee has served the bank for at least ten (10) years of credited service.

Any employee prior to eligibility for retirement, voluntarily resigns from service or is separated without cause after completion of at least five (5) years but less than ten (10) years of service will be given an amount upon recommendation of the management.

The Bank's retirement benefit obligations were computed based on the accumulated benefit obligation method using assumptions authorized under R.A. 7641, instead of based on actuarial valuations using projected credit unit method as required under PAS/IAS 19, *Employees Benefits*. Since the Bank has only seven (7) years of operation as a consolidated bank, the management decided not to adopt PAS 19 in the meantime.

The Bank's retirement benefits obligation during the period was charged to operation. The Bank's retirement obligations are accounted for as follows:

<i>December 31</i>	2023	2022
Balance at beginning of the year	₱4,224,398	₱1,645,120
Provisions during the year (Note 20)	1,853,658	2,579,278
Balance at end of year	₱6,078,056	₱4,224,398

The Retirement Benefit Obligation is funded by the Sinking Fund-LBP presented as other assets amounted to ₱7,195,928 (see Note 9).

Retirement benefits expense is presented as part of compensation and employee's benefits.

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Note 14 Finance Lease Liability

This account represents the present value of the finance lease payments for the year ended December 31, 2023, amounting to ₱11,364,787. This amount consists of rental payments that are not paid as of the date of application of PFRS 16, Leases, discounted using the Bank's average incremental borrowing rate of 6.44%.

December 31, 2023

Maturity analysis – contractual undiscounted cash flows	
Less than one year	₱3,218,176
One to two years	8,481,195
More than two years	1,863,400
Total undiscounted lease liabilities	₱13,562,771
Lease liabilities included in the statement of financial position	
Current	₱2,597,213
Non-current	8,767,574
Total	₱11,364,787

The following relates to the finance lease liability have been recognized in profit or loss:

December 31, 2023

Interest on lease liabilities	₱569,674
Expenses relating to lease of low-value assets, excluding short-term leases of low value assets	₱728,506

The Bank leases buildings for its office spaces. These lease contracts typically run for a period of 1-10 years, with an option for renewal for an additional period subject to mutual agreement between the Bank (lessee) and the lessors. There are no existing provisions for variable lease payments in any of the Bank's lease contracts.

Note 15 Other Liabilities

This account consists of the following:

December 31	2023	2022
Due to Agricultural Credit Policy Council (ACPC)	₱239,058,595	₱249,437,652
Accrued expenses	46,984,984	37,327,921
Dividends payable	9,008,885	9,606,427
Farm machineries	7,500,000	7,500,000
Accounts payable	6,791,447	4,717,721
Deposit for stock subscription	5,368,585	4,992,785
Due to Union/Federation (see below)	2,105,915	4,915,774
SSS, Philhealth and Pag-ibig Contributions Payable	1,098,136	1,037,634
Documentary stamp tax payable	691,634	543,527
Withholding tax payable	441,226	745,063
Others	2,499,893	43,841
	₱321,549,300	₱320,868,345

As mandated under Executive Order No. 113 (EO 113) Series of 1986, Agricultural Credit Policy Council (ACPC) aims to assist the Department of Agriculture (DA) in synchronizing all credit policies and programs and to review and evaluate the economic soundness of all ongoing and proposed agricultural credit programs.

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The Bank signed three (3) Memorandum of Agreement (MOA) with the ACPC in order to serve as a lending conduit of the agency to offer the following programs:

1) The Production Loan Easy Access (PLEA)

A special credit facility under the Program for Unified Lending To Agriculture (PUNLA), hereinafter referred to as PLEA, which is designed to address the financial needs of farmers and fisherfolk-borrowers that are classified as poor in a manner that is fast and convenient and at a cost that is affordable to intended borrowers. It is a non-collateralized loans for agri-fishery production and agri-microfinance available to poor farmers and fishers in the program pilot areas.

2) The Young Agripreneurs Loan Program also known as “Kapital Access for Young Agripreneurs (KAYA)”

A loan facility for qualified young Agripreneurs at zero (0%) interest to finance the capital requirements of start-up or existing farm/fishery business. KAYA aims to attract Filipino youth agripreneurs to be key players in attaining our vision of a food-secure Philippines with prosperous farmers and fishers.

3) Expanded SURE COVID-19 for Marginalized Small Farmers and fisherfolk (MSFF)

The Expanded SURE Aid and Recovery Project is a quick response support facility that cater to marginalized, small farmers and fisherfolk from areas identified by the Department of Agriculture (DA) as severely affected by the Enhanced Community Quarantine (ECQ) due to the COVID-19.

Accrued expenses represent payables that remain unpaid at the end of the year that are expected to be settled within 12 months from the end of the reporting period. This pertains to supervisory fees, light, power and water and management and professional fees.

Dividends payable represent unpaid dividends that remain outstanding to shareholders at the end of the year.

Movements of dividends payable as follows:

<i>December 31, 2023</i>	2023	2022
Dividends payable, beg	₱9,606,427	₱9,632,178
Less dividends paid	597,543	25,751
Dividends payable	₱9,008,884	₱9,606,427

Accounts payable pertains to insurance, notarial fees and other accounts with loan re-payments.

Deposit for stock subscription is cash received from shareholders pending its plan for increase in authorized share capital.

Due to Union/Federation consists of the allocated fund from the net surplus to be remitted to the APEX organization where the Bank is affiliated.

The movement of Due to Union/Federation as follows:

<i>December 31</i>	2023	2022
Balance at beginning	₱4,915,774	₱807,316
Allocation	1,540,641	4,091,634
Adjustment charge to surplus	-	280,324
Disbursements	(4,350,500)	(263,500)
Balance at end of year	₱2,105,915	₱4,915,774

SSS, Philhealth and Pag-ibig contribution payable represents the employer's share contributions outstanding at the end of the year.

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Documentary stamp tax payable pertains to taxes withheld and unremitted to BIR at the end of the year.

Withholding tax payable pertains to taxes withheld and unremitted to the BIR at the end of the year.

Other payable include accounts due to BancNet Instapay, PhilPass, MDebt and Load Top-Up that were outstanding at the end of the year.

Note 16 Share Capital

The details of the share capital are presented below:

December 31	Shares		Amount	
	2023	2022	2023	2022
Preferred - ₱100 par value				
Authorized				
Preferred Shares "A"	11,600	11,600	₱1,160,000	₱1,160,000
Preferred Shares "B"	656,205	656,205	65,620,500	65,620,500
Preferred Shares "C"	3,049,795	3,049,795	304,979,500	304,979,500
Preferred Shares "D"	282,400	282,400	28,240,000	28,240,000
Issued and fully paid				
Beginning	734,325	755,293	₱73,432,500	₱75,529,300
Issuance	3,935	7,111	393,500	711,100
Less withdrawals	(4,154)	(28,079)	(415,400)	(2,807,900)
	734,106	734,325	73,410,600	73,432,500
Common - ₱100 par value				
Authorized	4,000,000	4,000,000	400,000,000	400,000,000
Issued and outstanding				
Beginning	2,273,606	2,271,506	227,360,600	227,150,600
Issuances	264,764	2,100	26,476,400	210,000
Less withdrawals	(3,590)	-	(359,000)	-
	2,534,780	2,273,606	253,478,000	227,360,600
Total Share Capital	-	-	₱326,888,600	₱300,793,100

The par value of the Bank's share shall be One Hundred Pesos (₱100.00). The features of the shares of stocks of the Bank are as follows:

- A. Common Shares
 1. Shall be issued only to duly registered primary cooperatives, federation of cooperatives, and cooperative unions;
 2. Shall have voting rights; and
 3. Any interest on share capital may be credited to the member's unpaid subscriptions, outstanding obligations, additional shares, or to the revolving fund of the Bank.
- B. Preferred Shares "A"
 1. Shall be issued only against investments of the Development Bank of the Philippines (DBP) shall preference over common shares in the assets of the Bank in the event of liquidation.

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2. Shall be non-voting. However, these shares maybe converted to common shares if sold to qualified cooperatives at par value, after compliance with legal requirements. The Articles of Cooperation of the Bank shall be amended to reflect the conversion of the said preferred shares into common shares.
3. Shall be entitled to a maximum of two percent (2%) interest on share capital, subject to the declaration of interest on common shares.
4. No retirement or purchase by the Bank of the shares subscribed by the stockholders shall be made unless an equal amount of preferred shares "A" is retired or purchased and for as long as the DBP holds such shares in the Bank.

C. Preferred Shares "B"

1. Shall be issued only against investments of the Cooperative Development Authority, Land Bank of the Philippines (LBP) and the Philippine Deposit Insurance Corporation (PDIC) in the share capital of the Bank and shall have preference over common shares in the assets of the Bank in the event of liquidation;
2. Shall be non-voting. However, when the shares are sold to qualified cooperatives, they shall automatically become common shares;
3. Shall be entitled to interest on share capital as determined by the Board of Directors, which should be equivalent to the average rate of the 364-day government treasury bills rate + 1% per annum or at 6% per annum whichever is lower, and such interest on share shall be non-cumulative;
4. Maybe converted to common shares after the tenth (10th) year of incorporation of the Bank at par value, after compliance with the legal requirements. The Articles of Cooperation of the Bank shall be amended to reflect the conversion of said preferred shares into common shares;
5. Maybe sold at par value to any existing shareholders of the Bank in proportion to their shareholdings or to any interested party qualified to be a member of the Bank;
6. Shall be redeemable in part or in full at any time during the ten-year period, provided that the said redemption shall not diminished the paid-up capital level existing at that time of said redemption, or the required minimum capital, whichever is higher;
7. No retirement or purchase of the Bank of the shares subscribed by the members shall be made unless an equal amount of Preferred Shares "B" is retired or purchased and for as long as LBP and PDIC holds such shares in the Bank.

D. Preferred Shares "C"

1. Shall be issued only against the investment of a natural person in the share capital of the Bank and shall have preference over the common shares in the event of liquidation;
2. Shall be non-voting;
3. Shall be entitled to interest on share capital as determined by the Board of Directors, which should be equivalent to the of average rate of the 364-day government treasury bills rate + 1% per annum or at 6% per annum whichever is lower, and such interest on share shall be non-cumulative;
4. Convertible into common shares with voting rights if the member opts to join in a cooperative which has investment in the Bank investors or be converted into common shares of stock to the cooperative where he is a member.

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E. Preferred Shares "D"

1. Shall be issued only against the investments of Samahang Nasyon in the share capital of the Bank and shall have preference over the common shares in the event of liquidation;
2. Shall be non-voting. However, in case of conversion of Samahang Nasyon into a duly registered cooperative, such shares shall be automatically become common shares; and
3. Shall be entitled to interest on share capital as determined by the Board of Directors, which should equivalent to the of average rate of the 364-day government treasury bills rate + 1% per annum or at 6% per annum whichever is lower, and such interest on share shall be non-cumulative.

In the event of liquidation, dissolution, receivership, bankruptcy, or winding up of the affairs of the Bank, voluntary or involuntary, the assets of the Bank remaining after payments have been made to its creditors, shall be proportionately distributed first to the preferred shareholders at par value in so far as the assets of the Bank shall permit. The remaining assets, after the interests of preferred shareholders or members are satisfied, shall be proportionately distributed to the holders of common shares. The above rights, preferences, and restrictions are printed on the back of the share certificate to be issued by the Bank.

In no event shall the retirement of preferred shares be made if the paid-up capital of the Bank shall be reduced below the amount of what is required by the Bangko Sentral ng Pilipinas.

Statutory Reserve

This account consists of:

<i>December 31</i>	2023	2022
General reserve fund	₱4,414,648	₱8,333,367
Community education and training fund	2,490,199	949,558
Community development fund	3,518,358	2,593,973
Optional fund	8,907,841	6,750,944
General loan loss provision	-	1,256,237
	₱19,331,046	₱19,884,079

The Net Surplus of the Bank shall be distributed as follows:

Distribution of Net Profit

The net surplus of the Bank shall be distributed as follows:

- a) Reserve fund: At least ten percent (10%) of the net surplus provided for that for the first five (5) years of operation after registration, this amount shall not be less that fifty percent (50%) of the net Surplus,
- b) Educational and training fund: An amount not exceeding ten percent (10%) of the net surplus. Half of this amount shall be spent by the Bank for its own education and training purposes; while the other half may be remitted to a union/federation chosen by the Bank, or of which it is a member,
- c) Community development fund: An amount which shall not be less that three percent (3%) of the net surplus,
- d) Optional fund: Land and building, and any other necessary funds, the total of which shall not exceed seven percent (7%) of the net surplus,

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- e) The remaining net surplus shall be made available to the members in the form of interest on share capital/dividend not to exceed the normal rate of return on investments and patronage refunds, subject to existing BSP rules and regulations on the distribution of dividends,
- f) Any other remaining amount shall be credited to the Reserve Fund.

The distribution of net profit as mandate by the Cooperative Code is as follows:

December 31	2023	2022
General reserve fund (10%)	₱3,081,281	₱3,083,678
Education and training fund (CETF – local) (5%)	1,540,641	770,919
Education and training fund (CETF – apex) (5%) (Note 15)	1,540,641	770,919
Optional fund (7%)	924,384	555,172
Community development fund (3%)	2,156,897	925,103
Surplus free (70%)	21,568,969	24,730,990
	₱30,812,813	₱30,836,781

Adjustments

December 31	2023	2022
Adjustments due to capitalization of leases (PFRS 16)		
Interest expense	(₱1,888,644)	-
Depreciation expense	(6,266,019)	-
Rentals	7,468,091	-
Deficiency tax paid for the taxable year 2019	(1,008,609)	-
Adjustments due to recognition of depreciation expense of ROPA	(104,929)	-
Allowance for losses on accounts receivable	-	(₱18,835,748)
Other prior period adjustments	(25,334)	-
	(₱1,825,444)	(₱18,835,748)

Adjustments pertain to capitalization of rent expense and recognition of prior year's depreciation expense of ROPA.

Deficiency tax during the year is the amount paid to BIR during the audit for the taxable year 2019.

Other prior period adjustments pertain to prior year's adjustments not booked by the Bank in 2023.

Prior period adjustments in 2022 refers to the recognition of allowance for losses on accounts receivable from employee in relation to fraud incident in Malaybalay in 2021.

Note 17**Interest Income**

This account consists of:

Year Ended December 31	2023	2022
Interest income on loans receivables	₱210,822,712	₱188,883,587
Interest income on bank's deposits and investments:		
Bank deposits	841,974	870,759
Investments	1,217,704	441,868
	2,059,678	1,312,627
Total interest income	₱212,882,390	₱190,196,214

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Note 18 **Interest Expense**

This account consists of the following:

<i>Year Ended December 31</i>	2023	2022
Deposit liabilities (Note 11)	₱31,633,475	₱33,153,922
Borrowed funds (Note 12)	25,862,857	16,394,538
	₱57,496,332	₱49,548,460

Interest expense amounting to ₱10,911,653 was not subjected to final withholding tax since such interest were derived from deposits of individuals with maturity period of more than five (5) years, also included was interest expense derived from deposits from various cooperatives.

Note 19 **Other Income**

This account consists of the following:

<i>Year Ended December 31</i>	2023	2022
Fees and commissions	₱38,255,395	₱45,473,812
Income from insurance and ATM charges	26,642,146	31,548,765
Recovery of charged-off assets	14,137,686	4,190,713
Gain on disposal of investment properties (Note 7)	9,724,430	12,184,416
Gain on disposal of property equipment (Note 6)	9,500	60,589
Miscellaneous income	8,150,504	776,827
	₱96,915,161	₱94,235,122

Miscellaneous income includes penalties and other charges.

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Note 20
Other Operating Expenses

This account consists of the following:

<i>Year Ended December 31</i>	2023	2022
Compensation and employees' benefits:		
Salaries and wages and employees' benefits	₱98,613,662	₱99,532,355
SSS, Philhealth and Pag-ibig contributions	6,735,882	6,218,698
Employees provident fund	4,630,796	4,739,057
Retirement benefits expense (Note 13)	1,853,658	2,579,278
Medical, dental, hospitalization	1,783,662	1,279,042
Directors' fee	1,520,100	1,850,625
Mortuary fund	63,850	78,075
Depreciation and amortization:		
Bank premises, furniture and equipment (Note 6)	17,443,301	17,574,871
Right-of-use asset (Note 6)	2,542,356	-
Investment properties (Note 7)	486,010	-
Security, clerical, messengerial & janitorial services	7,604,430	7,061,527
Litigation and assets acquired	7,446,780	1,520,661
Light, power and water	5,629,939	5,392,920
Repairs and maintenance	5,334,695	3,459,742
Travel and transportation	5,190,545	4,895,904
Information technology	4,641,827	4,245,274
Insurance (Note 21)	4,318,876	4,259,069
Postage, telephone and telegram	4,259,096	3,021,699
Representation and entertainment	3,450,710	3,018,519
Fuel, oil and lubricants	2,936,214	2,967,490
Stationeries and supplies used	2,097,592	2,339,481
Training	2,088,521	-
Management and other professional fees	1,147,894	661,581
Rent (Note 14)	728,506	2,958,719
Interest expense on finance lease liability (Note 14)	569,674	-
Taxes and licenses (Note 29)	536,316	390,029
Advertising and publicity	522,231	548,119
Fines, penalties and charges	520,586	264,297
Donations	283,763	69,754
Documentary stamps used	265,942	-
Banking and supervision fees	90,989	457,556
Membership fees and dues	39,830	57,980
Periodicals and magazines	8,134	16,084
Others	9,457,536	7,359,777
	₱204,843,903	₱188,818,183

Security services amounts to ₱6,448,942 from the total ₱7,604,430 for security, messengerial, and janitorial expenses, ₱1,155,488 of which are for the salaries of the security guard while ₱878,862 is for the agency fee, which was the only amount subjected to expanded withholding tax.

Other operating expenses refer to miscellaneous expenses such as ATM thermal paper, ATM cards, PhilPass fees and other fees.

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Note 21 **Details of Insurance Expense**

This account consists of:

<i>Year Ended December 31</i>	2023	2022
Philippine Deposits Insurance Corporation	₱2,679,055	₱3,022,103
Others	1,639,821	1,236,966
	₱4,318,876	₱4,259,069

Other insurance expenses pertain to insurance paid on fidelity bonds, car and motorcycle, and building and furniture and fixtures.

Note 22 **Earnings Per Share**

Basic loss per share, computed by dividing loss for the year by the weighted average number of common shares during the year as follows:

<i>Year Ended December 31</i>	2023	2022
Income for the year	₱30,812,813	₱30,836,781
Outstanding common shares during the year (Note 16)	2,534,780	2,273,606
Earnings per common share	₱12.16	₱13.56

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

Note 23 **Related Party Transactions**

In the ordinary course of business, the Bank has loans, deposits and other transactions with its related parties and with certain DOSRI.

i. Loans to related parties

The Bank's related parties include its Directors, Officers, Stockholders and Related Interests (DOSRI) and key management as described below. None of the transactions incorporates special terms and conditions and gives or receives no guarantee. Outstanding balances are generally settled in cash. Under Bank's policy, these loans and other transactions are made substantially on the same terms and conditions as with other individuals and businesses of comparable risks.

The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the Bank. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower.

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The following are information related to DOSRI:

<i>December 31</i>	2023	2022
Total Outstanding DOSRI loans	₱73,249,379	₱1,248,727
Percent of DOSRI loans to total loans	3.73%	0.06%
Percent of unsecured DOSRI loans to total DOSRI loans	0.69%	43.94%
Percent of past-due DOSRI loans to total DOSRI loans	0.00%	0%
Percent of non-performing DOSRI loans to total DOSRI loans	0.69%	0%

The Bank has complied with the requirements set by BSP with regard to limits on DOSRI loans. Total interest income on DOSRI loans is presented as part of interest income on loans in the statement of profit or loss. The outstanding balance of these loans is presented as part of others under loans and receivables in the statement of financial position (see Note 5). The management has determined that no impairment loss is required to be provided on DOSRI loans in 2023.

Deposits received from DOSRI are presented as part of deposit liabilities in the statements of financial position (see Note 11). Total interest expense on DOSRI deposits is presented as part of interest expense on deposit liabilities in the statements of profit or loss.

ii. Other transactions with related parties

The key management compensation and employees' benefits is as follows:

<i>Years Ended December 31</i>	2023	2022
Salaries and wages	₱19,358,506	₱16,986,732
Benefits and allowances	9,935,626	8,883,137
	₱29,294,132	₱25,869,870

Key management personnel compensations are presented as part of compensation and employees' benefits under other operating expenses in the statements of profit or loss (see Note 20). There are no outstanding liabilities related to key management compensation in 2023.

Note 24

Risk Management Objectives and Policies

The Bank is exposed to a variety of financial risks in performing its activities. The main types of risks to which the Bank is exposed to include market risk, credit risk, liquidity risk, operations risk and legal and regulatory risk.

The Bank's risk management is coordinated 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.

The Bank does not actively engage in 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 described below and in the succeeding pages.

The BOD is primarily responsible for approving the credit policies and the overall risk capacity of the Bank. Board Committees have been established by the BOD to oversee the increasingly varied risk management activities of the Bank with the active participation of senior management.

The Audit Committee is an advisory committee whose main function is to assist and act on behalf of the BOD and provides oversight of the Bank's financial reporting. It serves as principal agent of the BOD in ensuring independence of the Bank's external auditors and the internal audit function, the integrity of management, and the adequacy of disclosures and reporting to stockholders.

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The Corporate Governance Committee is responsible for ensuring the BOD's effectiveness and due observance of corporate governance principles and guidelines. It oversees the periodic performance evaluation of the BOD and its committees and executive management.

In compliance with BSP Circular 747, the Bank has revised its compliance manual to incorporate the revised compliance framework for banks. The manual is designed to guide the identification of business risks to mitigate factors that might be detrimental to the Bank's business model and its ability to generate returns from operations.

These are summarized below:

Market Risk

The Bank is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk which result from its operating, investing and financing activities.

- (a) **Foreign Currency Risk**
Most of the Bank's transactions are carried out in Philippine pesos, its functional currency. The Bank's exposures to currency exchange rates may arise from deposits with other banks denominated in currencies other than the Philippine peso. As of December 31, 2023 and 2022, the Bank has no significant foreign currency risk exposure as it has no significant foreign currency denominated deposits with other banks.
- (b) **Interest Rate Risk**
The Bank's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowings are therefore usually made at fixed rates. As of December 31, 2023 and 2022, the Bank has no significant exposure to interest rate risk as most of its financial instruments have fixed rates.

Liquidity risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The analysis of maturity groupings of financial resources, financial liabilities as at December 31, 2023 are presented below:

December 31, 2023	One year and below	Over one year	Total
Cash and cash equivalents (Note 4)	₱521,206,084	-	₱521,206,084
Loans receivable (Note 5)	281,103,015	₱1,682,349,041	1,963,452,056
	₱802,309,099	₱1,682,349,041	₱2,484,658,140
Deposit liabilities (Note 11)	₱1,222,729,242	₱486,606,990	₱1,709,336,232

Minimum Liquidity Ratio is computed as follows:

December 31	2023	2022
Stock of liquid assets	₱504,800,043	₱374,716,832
Qualifying liabilities	1,675,205,469	2,171,351,051
Minimum liquidity ratio	30.13:1	17:1

Per BSP Memorandum No. 2020-020, MLR under Section 145 of the Manual of Regulations for Banks, is hereby reduced from 20 percent (20%) to 16 percent (16%). Per BSP Memorandum No. 2020-085, the reduction in the MLR and the arrangements set forth in the memorandum shall be effective until 31 December 2022, unless otherwise revoked by the BSP.

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Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Bank by defaulting on an obligation. Significant changes in the economy, or in the prospects of a particular industry segment that may represent a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the reporting date.

The Bank has no significant concentrations on credit risk. There are no risks involved on cash, due from BSP and due from other Banks since the counterparties are reputable Banks.

The Bank mitigates its credit risk by requiring security, particularly for loans. The Bank implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans are mortgages over real estate properties. In order to minimize credit loss, the Bank seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans. The Bank's maximum exposure to credit risk before collateral held or other credit enhancement is shown below:

<i>December 31, 2023</i>	<i>Neither Past Due Nor Impaired</i>	<i>Past Due But Not Impaired</i>	<i>Total</i>
Loans receivable (Note 5)	₱1,654,667,125	₱308,784,931	₱1,963,452,056
Due from other Banks and BSP (Note 4)	368,221,774	-	368,221,774
Financial assets at amortized cost (Note 9)	5,775,991	-	5,775,991
	₱2,028,664,890	₱308,784,931	₱2,337,449,821
	86.79%	13.21%	100.00%

High grade cash and cash equivalents are short-term placements and working cash fund; and special Bank deposit which are placed, invested, or deposited in local Banks belonging to the top ten (10) Banks in the Philippines in terms of resources and profitability. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. Standard grade accounts are active accounts with propensity of deteriorating to mid-range age brackets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

As part of Bank's policy, deposits with other Banks are only maintained with reputable financial institutions.

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees.

The Bank's loans are actively monitored to avoid significant concentrations of credit risk in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of persons exceeding 25% of its net worth.

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Loans receivable of Mindanao Consolidated Cooperative Bank are summarized as follows:

	<i>Agri/Agra Loan</i>	<i>Small and Medium Entities</i>	<i>Microfinance</i>	<i>Other Purpose Loan</i>
Security of Loans	Real Estate Mortgage / Unsecured	Real Estate Mortgage/ Unsecured	Unsecured	Real Estate Mortgage /Jewelry/Unsecured
Term of Loans	1 to 3 years	1 to 5 years	6 months to 1 year	1 to 10 years
Interest Rate	9% - 15% per annum	9%-10% per annum	10%	7.8% to 27.6%
Purpose	Farm production/ Land improvement/ Working capital for Livestock Production	Additional Working Capital for trading business/agri-business /livestock production/purchase of machineries & equipment/ purchase of fixed assets and other profitable undertakings and business expansion.	To support micro business operation-sari-sari store/ bakery/ livelihood projects.	House repair/ renovation/agri production/purchase of farm and fishing equipment/providential/ other purposes /commercial and business loan.

Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Bank's financial strength and undermine public confidence.

Given the Bank's diverse base of counterparties, mostly various individual buyers of real estates, it is not exposed to large concentration of credit risks.

Impairment assessment

The Bank recognizes impairment losses based on the results of the specific/individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, infringement of the original terms of the contract has happened, or when there is inability to pay principal or interest overdue, if any, beyond a certain threshold. These and other factors constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Bank in assessing and measuring impairment include: (1) specific/individual assessment; and (2) collective assessment.

Under specific/individual assessment, the Bank assesses each individual significant credit exposure for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment. Among the items and factors considered by the Bank when assessing and measuring specific impairment allowances are: (a) the timing of the expected cash flows; (b) the projected receipts or expected cash flows; (c) the going concern of the counterparty's business; (d) the ability of the counterparty to repay its obligations during financial crises; (e) the availability of other sources of financial support; and, (f) the existing realizable value of collateral, if any. The impairment allowances, if any, are evaluated as the need arises, in view of favorable or unfavorable developments.

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With regard to the collective assessment of impairment, allowances are assessed collectively for losses on receivables that are not individually significant and for individually significant receivables when there is no apparent or objective evidence of individual impairment. A particular portfolio is reviewed on a periodic basis, in order to determine its corresponding appropriate allowances. The collective assessment evaluates and estimates the impairment of the portfolio in its entirety even though there is no objective evidence of impairment on an individual assessment. Impairment losses are estimated by taking into consideration the following deterministic information: (a) historical losses/write off; (b) losses which are likely to occur but has not yet occurred; and, (c) the expected receipts and recoveries once impaired.

Note 25

Capital Management Objectives, Policies and Procedures

i. Objectives, Policies and Procedures

The Bank manages its capital to ensure that it has the ability to continue as a going concern while maximizing the return to shareholders. The Bank's Board of Directors reviews regularly its capital structure on the basis of the carrying amount of equity, less cash and cash equivalents, as presented on the face of the statement of financial condition. As a part of this review, the Board of Directors considers the cost of capital and the risks associated with each class of capital.

The Bank balances its overall capital structure principally through the payment of interest on share capital (the Bank may adjust the amounts to be paid as interest on share capital or increase the amounts allocated for statutory reserves, as needed), campaign for additional deposits and intensify its capital build-up programs.

The Bank's overall strategy remains unchanged for several years. Its reported capital as at December 31, 2023 and 2022 is summarized as follows:

December 31	2023	2022
Total shareholders' equity	₱376,846,118	₱331,560,126
Less cash on hand and other cash items (Note 4)	152,984,310	88,779,110
Capital	223,861,808	242,781,016
Total shareholders' equity	376,846,118	331,560,126
Borrowings (total liabilities)	2,467,467,419	2,171,351,051
Overall financing	₱2,844,313,537	₱2,502,911,177
Capital-to-Overall Financing Rate	7.87%	9.70%

ii. Regulatory Capital

The lead regulator of the Bank, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

Under current Banking regulations, the combined capital accounts of each Bank should not be less than an amount equal to ten percent of its risk assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio is total equity excluding:

- Un-booked valuation reserves and other capital adjustments as may be required by the BSP;
- Total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
- Deferred tax asset or liability;
- Goodwill;

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- e) Sinking fund for redemption of redeemable preferred shares; and
- f) Other regulatory deductions.

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

The Bank's regulatory capital position as of December 31, 2023 and 2022 follows:

<i>Years Ended December 31</i>	2023	2022
Tier 1 capital	₱73,410,600	₱275,979,003
CET1 capital	247,899,087	-
Total Tier 1 Capital	321,309,687	275,979,003
Total Tier 2 Capital	14,387,154	23,095,804
Total qualifying capital	335,696,841	299,074,807
Risk weighted assets	₱2,309,091,329	₱2,087,899,128
Tier 1 ratio	13.91	13.22
CET1 ratio	10.74	-
Capital adequacy ratio	14.54	14.32

Note 26

Events After the Reporting Date

Any post year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Note 27

Reclassification

Certain amounts and figures as of December 31, 2022 financial statements had been reclassified to conform to the presentation of the Bank's financial statements for the period ended December 31, 2023.

Note 28

Supplementary Information Required by the BSP

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

Selected Financial Performance Indicators

<i>December 31</i>	2023	2022
Return on average equity (<i>Net profit / Average total capital accounts</i>)	8.70%	9.34%
Return on average assets (<i>Net profit / Average total assets</i>)	1.15%	1.32%
Net interest margin (<i>Net interest income / Average interest earning assets</i>)	11.51%	11.21%
Debt-to-equity ratio (<i>Total liabilities / Shareholders' equity</i>)	6.55:1	6.55:1
Minimum liquidity ratio (<i>Liquid assets/qualifying liabilities</i>)	30.13:1	17:1
Capital adequacy ratio	14.54:1	14.32:1

NOTES TO FINANCIAL STATEMENTS

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(a.) *Description of capital instruments issued*

A. Common Shares

1. Shall be issued only to duly registered primary cooperatives, federation of cooperatives, and cooperative unions;
2. Shall have voting rights; and
3. Any interest on share capital may be credited to the member's unpaid subscriptions, outstanding obligations, additional shares, or to the revolving fund of the Bank.

B. Preferred Shares "A"

1. Shall be issued only against investments of the Development Bank of the Philippines (DBP) shall preference over common shares in the assets of the Bank in the event of liquidation.
2. Shall be non-voting. However, these shares may be converted to common shares if sold to qualified cooperatives at par value, after compliance with legal requirements. The Articles of Cooperation of the Bank shall be amended to reflect the conversion of the said preferred shares into common shares.
3. Shall be entitled to a maximum of two percent (2%) interest on share capital, subject to the declaration of interest on common shares.
4. No retirement or purchase by the Bank of the shares subscribed by the stockholders shall be made unless an equal amount of preferred shares "A" is retired or purchased and for as long as the DBP holds such shares in the Bank.

C. Preferred Shares "B"

1. Shall be issued only against investments of the Cooperative Development Authority, Land Bank of the Philippines (LBP) and the Philippine Deposit Insurance Corporation (PDIC) in the share capital of the Bank and shall have preference over common shares in the assets of the Bank in the event of liquidation;
2. Shall be non-voting. However, when the shares are sold to qualified cooperatives, they shall automatically become common shares;
3. Shall be entitled to interest on share capital as determined by the Board of Directors, which should be equivalent to the average rate of the 364-day government treasury bills rate + 1% per annum or at 6% per annum whichever is lower, and such interest on share shall be non-cumulative;
4. May be converted to common shares after the tenth (10th) year of incorporation of the Bank at par value, after compliance with the legal requirements. The Articles of Cooperation of the Bank shall be amended to reflect the conversion of said preferred shares into common shares;
5. May be sold at par value to any existing shareholders of the Bank in proportion to their shareholdings or to any interested party qualified to be a member of the Bank;
6. Shall be redeemable in part or in full at any time during the ten-year period, provided that the said redemption shall not diminish the paid-up capital level existing at that time of said redemption, or the required minimum capital, whichever is higher;

NOTES TO FINANCIAL STATEMENTS

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7. No retirement or purchase of the Bank of the shares subscribed by the members shall be made unless an equal amount of Preferred Shares "B" is retired or purchased and for as long as LBP and PDIC holds such shares in the Bank.

D. Preferred Shares "C"

1. Shall be issued only against the investment of a natural person in the share capital of the Bank and shall have preference over the common shares in the event of liquidation;
2. Shall be non-voting;
3. Shall be entitled to interest on share capital as determined by the Board of Directors, which should be equivalent to the of average rate of the 364-day government treasury bills rate + 1% per annum or at 6% per annum whichever is lower, and such interest on share shall be non-cumulative;
4. Convertible into common shares with voting rights if the member opts to join in a cooperative which has investment in the Bank investors or be converted into common shares of stock to the cooperative where he is a member.

E. Preferred Shares "D"

1. Shall be issued only against the investments of Samahang Nasyon in the share capital of the Bank and shall have preference over the common shares in the event of liquidation;
2. Shall be non-voting. However, in case of conversion of Samahang Nasyon into a duly registered cooperative, such shares shall be automatically become common shares; and
3. Shall be entitled to interest on share capital as determined by the Board of Directors, which should equivalent to the of average rate of the 364-day government treasury bills rate + 1% per annum or at 6% per annum whichever is lower, and such interest on share shall be non-cumulative.

In the event of liquidation, dissolution, receivership, bankruptcy, or winding up of the affairs of the Bank, voluntary or involuntary, the assets of the Bank remaining after payments have been made to its creditors, shall be proportionately distributed first to the preferred shareholders at par value in so far as the assets of the Bank shall permit. The remaining assets, after the interests of preferred shareholders or members are satisfied, shall be proportionately distributed to the holders of common shares. The above rights, preferences, and restrictions are printed on the back of the share certificate to be issued by the Bank.

In no event shall the retirement of preferred shares be made if the paid-up capital of the Bank shall be reduced below the amount of what is required by the Bangko Sentral ng Pilipinas.

(b.) Significant Credit Exposures for Loans

The breakdown of this account classified as to concentration of credit is as follows:

December 31	2023	%	2022	%
Wholesale/retail, trade of motor vehicle	₱660,160,063	33.62	₱628,728,680	31.87
Agriculture, forestry and fishing	737,043,161	37.54	814,047,478	41.27
Real estate, renting and business activities	117,352,510	5.98	115,229,273	5.84
Other service activities	448,896,322	22.86	414,706,470	21.02
	₱1,963,452,056	100.00	₱1,972,711,901	100.00

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

NOTES TO FINANCIAL STATEMENTS

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No individual borrower gives significant credit exposures for Loans that comprise 30.0 percent of the total loan portfolio or 10.0 percent of Tier 1 capital as to industry/economic sector as of December 31, 2023.

(c.) Credit Status of Loans

The breakdown of total loans as to status

<i>December 31, 2023</i>	<i>Performing Loans</i>	<i>Past Due Non-Performing Loans</i>	<i>Total</i>
Agrarian reform	₱71,512,740	₱8,980,769	₱80,493,509
Other agricultural credit	510,202,618	146,347,035	656,549,653
Small and medium enterprise	591,202,266	68,957,797	660,160,063
Others	524,376,046	41,872,785	566,248,831
Total	₱1,697,293,670	₱266,158,386	₱1,963,452,056

<i>December 31, 2022</i>	<i>Performing Loans</i>	<i>Past Due Non-Performing Loans</i>	<i>Total</i>
Agrarian reform	₱72,098,546	₱7,010,690	₱79,109,236
Other agricultural credit	639,289,698	95,648,543	734,938,241
Small and medium enterprise	561,902,384	66,826,295	628,728,679
Others	465,520,202	64,415,543	529,935,745
Total	₱1,738,810,830	₱233,901,071	₱1,972,711,901

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

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Non-performing loans shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests are probable and payments of interests and/or principal are received for at least six (6) months; or (b) written-off.

Portion of the past due accounts and accounts under litigation are covered by real estate mortgages, which could be foreclosed to reduce possible losses from non-collection.

(d.) Analysis of Loan Portfolio as to Type of Security

<i>December 31</i>	2023	%	2022	%
Secured:				
Real Estate and Chattel Mortgage	₱1,223,165,615	62.30	₱1,295,563,344	65.67
Jewelry	3,197,958	0.16	5,393,940	0.27
Hold-out Deposit	365,554,098	18.62	298,478,429	15.14
Others-CARMO	2,101,740	0.10	3,753,623	0.19
Total	1,594,019,411	81.18	1,603,189,336	81.27
Unsecured	369,432,645	18.82	369,522,565	18.73
Total	₱1,963,452,056	100.00	₱1,972,711,901	100.00

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(e.) *Information on Related Party Loans*

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31, 2023 and 2022 as reported to the BSP:

<i>December 31</i>	2023	2022
Total Outstanding DOSRI/Related party loans	₱73,249,379	₱1,248,727
Percent of DOSRI/Related party loans to total loans	3.73%	0.06%
Percent of unsecured DOSRI/Related party loans to total DOSRI/Related party loans	0.69%	43.94%
Percent of past-due DOSRI/Related party loans to total DOSRI/Related party loans	0.00%	0.00%
Percent of non-performing DOSRI/Related party loans to total DOSRI/Related party loans	0.69%	0.00%

(f.) *Secured Liabilities and Assets Pledged as Security*

The Bank has secured liabilities consisting of bills payable amounted to ₱419,139,044 for the year ended December 31, 2023. The related assets pledged as security amounted to ₱494,024,463 for the year 2023.

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

The Bank has no contingent liabilities arising in the ordinary course of business. It is not anticipated that any material liabilities will arise as contingent liabilities.

Note 29

Supplementary Information Required by BIR

Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The following is the additional information required by RR No. 15-2010. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

The Bank reported and/or paid the following types of taxes for the year:

a. Gross receipts tax

The Bank is exempted from paying Gross Receipts Tax (GRT).

b. Tax on importation

The Bank has no landed cost, customs duties and tariff fees in 2023 since it has no importation during the year.

c. Excise tax

The Bank does not have any transactions in 2023 which are subject to excise tax.

NOTES TO FINANCIAL STATEMENTS

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d. Documentary stamp tax

The Bank remitted documentary stamp tax amounting to ₱6,087,538 for 2023 of which was shouldered and passed on to the other party.

e. Taxes and licenses

<i>Years Ended December 31</i>	2023	2022
Business permit/licenses	₱379,776	₱258,821
Vehicle registration fees	95,205	69,938
Real property tax	47,193	286
Others	14,142	60,984
	₱536,316	₱390,029

f. Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2023 consist of

<i>Year Ended December 31, 2023</i>	Tax base	Amount paid
Salaries and wages	₱97,977,732	₱2,162,234
Deposits	20,721,822	4,144,364
Rental	3,421,747	171,087
Management and Professional fees	1,147,894	73,487
	₱123,269,195	₱6,551,172

g. Deficiency tax assessment

As of December 31, 2023, the Bank does not have any final deficiency tax assessments from the BIR nor tax cases outstanding or pending in courts or bodies outside of the BIR.

Revenue Regulations (RR) No. 34-2020

The Bank is not covered by the requirements and procedures for related party transactions under Section 2 of Revenue Regulations No. 34-2020.

MCCB BOARD OF DIRECTORS AND THE MANAGEMENT

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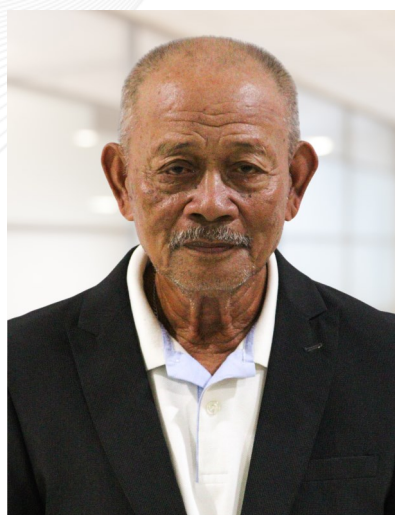
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Lending Center Manager



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Davao City Cluster -
Lending Center Manager



ORVILLE S. ASPIRAS

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BENJIE L. DIAGRO

Malaybalay City Cluster -
Lending Center Manager

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Manager



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TAGUM—Branch Manager



LOUIE JAY E. PALO
VALENCIA—OIC/Asst. Branch
Manager



MICHELLE G. BORROMEO
VILLANUEVA—Branch Manager



COOPERATIVE PLEDGE

As a Filipino
I am and I believe in the Cooperative.
Alone I am weak,
But with others I am strong.

So I commit myself to work to cooperate,
For all to be prosperous.
Harmony, industry I will value.
Cooperative affairs I will attend.

Responsibilities I will assume.
The cooperative philosophy I will live.

One vision, one belief, one feeling,
In cooperativism, my life I pledge

SO HELP ME GOD.



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