RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NSA NEPOMUCENO SUNER & ASSOCIATES, CPAs

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The management of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. Management is likewise responsible for all the information and representations contained in the financial statements accompanying the Annual Income Tax Return or Annual Information Return covering the same reporting period. Furthermore, management is responsible for all the information and representations contained in all other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns and any and all other tax returns.

In this regard, the management affirms that the attached audited financial statements for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.**, complete and correct in all material respects. Management likewise affirms that:

a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulation No. 8-2007 and other relevant issuances;

c) the **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

ALEJANDRO M. PULIDO JR.
President

THELMA M. DE LA CRUZ
Treasurer

MICHAEL P. ASANIAS
Chairman of the Board

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TAGUIG CITY

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

NEPOMUCENO SUNER AND ASSOCIATES, CPAs and LAMBERTO D. AN, CPA, the independent auditors appointed by the stockholders, have audited the financial statements of the Company for the years ended December 31, 2018 and 2017, respectively, in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

ALEJANDRO M. PULIDO JR.
President

THELMA M. DE LA CRUZ
Treasurer

MICHAEL P. ASANIAS
Chairman of the Board

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JUAN T. AGUSTIN, CPA

▪San Lorenzo, San Nicolas **CP No. 0928-554-7015/0917-796-4583**

2901 Ilocos Norte, Philippines **E Mail: jjako_cpa@yahoo.com**

PRACTITIONER'S COMPILATION REPORT

TO THE MANAGEMENT
RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
Lagasca St. Centro 1, Sanchez Mira, Cagayan

I have compiled the accompanying financial statements of RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC. based on information you have provided. These financial statements comprise the statement of financial position of RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC. as at December 31, 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

I performed this compilation engagement in accordance with Philippine Standard on Related Services 4410 (Revised), Compilation Engagements.

I have applied my expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with Philippine Financial Reporting Standards (PFRS). I have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, I am not required to verify the accuracy or completeness of the information you provided to me to compile these financial statements. Accordingly, I do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with PFRS.

JUAN T. AGUSTIN
CPA License No. 25214
BOA Accreditation No. 0517 valid until March 19, 2021
Tax Identification No. 177-308-440-000
BIR A.N. 01-001882-001-2016 issued on November 16, 2016 valid until November 15, 2019
CDA CEA Accreditation No 0164 Issued April 25, 2017 valid until April 24, 2020
PTR No. 0011397 issued January 15, 2019 at San Nicolas, Ilocos Norte

March 30, 2019
Sanchez Mira, Cagayan

NSA NEPOMUCENO SUNER & ASSOCIATES, CPAs
3/F JSN Bldg., Paco Roman St. cor. Maharlika Highway, Cabanatuan City
♦ Tel. (044)-464-3559 ♦ Email: nepsuncpas@yahoo.com ♦

CERTIFICATION

To Whom It May Concern:

In connection with our audit with RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC. and in pursuant to the provisions of Section 174 of MORB and Section 4172Q of MORNBFI which require the submission of annual financial audit of bank / non-bank with quasi-banking functions, we hereby certify the following:

1.) That we had commenced the engagement to audit the financials of the bank on **January 30, 2019** and had finished the audit on **March 30, 2019**;

2.) That said audited financial statements were submitted to the bank on **March 30, 2019**;

3.) That we and the members of our immediate family do not have any direct or indirect financial interests with the bank including its affiliates and subsidiaries and that our independence is not at all impaired under any circumstances specified in the Code of Professional Ethics for Certified Public Accountants.

4.) That we have **none to report** on the matters under Section 8 of Circular 660 on cases involving any material findings on fraud or dishonesty and any potential losses the aggregate of which amounts to at least one percent (1%) of the capital.

5.) That we have **none to report** on any finding to the effect that the consolidated assets of the bank, on a going concern basis, are no longer adequate to cover the total claims of creditor.

6.) That we have **none to report** on any material internal control weaknesses which may lead to financial reporting problems.

7.) That we have **none to report** on discovery of material breach of BSP rules and regulations such as capital adequacy ratio and findings on loans and other risk assets review and classification.

8.) That we have **none to report** on findings regarding corporate governance issues.

9.) That we have **none to report** regarding termination and resignation as external auditor.

10.) That the letter of comments was submitted to the bank on **March 30, 2019**.

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It is however understood that the accountability of the undersigned auditing firm is based on matters within the normal coverage of an audit conducted in accordance with the Philippine Standards on Auditing.

These certifications are being issued in compliance with the requirements by the BSP in the submission of audited financial statements of the aforementioned rural bank.

Nepomuceno Suner & Associates
Certified Public Accountants

By:

EDWIN M. PELLICER
Senior Partner

SUBSCRIBED AND SWORN to before me this 30th day of March, 2019 at Cabanatuan City.

Doc. No. 120
Page No. 24
Book No. III
Series of 2019

ATTY. RUBEN M. ILAGAN
NOTARY PUBLIC
AT IBP ORTIGAS, PASIG CITY
SC ROLL No. 7865/01-21-1955

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To : RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
Lagasca St. Centro 1, Sanchez Mira, Cagayan

For : The Board of Directors
RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Subject : LETTER OF COMMENTS

Date : March 30, 2019

In connection with the audit of the financials of RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC., and in pursuant to the provisions of Sec. 8 – Reportorial Requirements of BSP Circular No. 660, series of 2009 dated August 25, 2009, we are pleased to report the following:

1. The bank was exposed to big amount of loans with lump sum maturity.

   Recommendation:

   The bank should not be concentrated on big accounts with lump sum maturity as this may pose high risk in case these accounts turn sour. Require periodic amortizations on principals as this may also help the bank to maximize the earning potential of its resources.

2. A random review of current loan folders reveals some lapses. This includes some documents which are not on file or no updated documents on file.

   Recommendation:

   The bank should ensure that all the necessary loan documents are complete and properly filed in the credit folders to facilitate easy access and periodic review of the loan officers, auditors, and other interested parties. Periodic review should be conducted on documentations to be up to date and to provide the true status of borrowers for verification purposes. The bank must maintain a complete copy of the documents for immediate checking in case of audit or when other need arises.

3. Maturity matching gap on financial assets and financial liabilities

   Recommendation:

   Ensure that the bank has an adequate level of liquid assets and the terms and maturities of its working assets and liabilities must be monitored. Maturities of assets and liabilities must be properly matched to strengthen its liquidity.

4. Audit findings and recommendations by the BSP in their recently concluded examination which are still outstanding as of audit must be corrected and strictly complied.

EDWIN M. PELLICER
Senior Partner

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NSA NEPOMUCENO SUNER & ASSOCIATES, CPAs

3/F JSN Bldg., Paco Roman St. cor. Maharlika Highway, Cabanatuan City
♦ Tel. (044)-464-3559 ♦ Email: nepsuncpas@yahoo.com ♦

STATEMENT OF REPRESENTATION

TO THE SECURITIES AND EXCHANGE COMMISSION:

In connection with our examination of the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.**, which are to be submitted to the Commission, I hereby represent the following:

1. That I am in the active practice of the accounting profession and duly registered with the Board of Accountancy (BOA);

2. That financial statements are presented in conformity with generally accepted accounting principles in the Philippines in all cases where I shall express an unqualified opinion; Except that in case of any departure from such principle, I shall indicate the nature of the departure, the effects thereof, and the reasons why compliance with the principles would result in a misleading statement, if such is a fact;

3. That I shall fully meet the requirements of independence as provided under the Code of Professional Ethics for CPAs;

4. That in the conduct of the audit, I shall comply with the generally accepted auditing standards promulgated by the Board of Accountancy; in case of any departure from such standards or any limitations in the scope of my examination, I shall indicate the nature of the departure and the extent of limitation, the reasons therefore and the effects thereof on the expression of any opinion or which may necessitate the negotiation of the expression of an opinion;

5. That I shall comply with the applicable rules and regulations of the Securities and Exchange Commission in the preparation and submission of financial statements; and

6. That relative to the expression of my opinion on the said financial statements, I shall not commit any acts discreditable to the profession as provided under Code of Professional Ethics for CPAs.

As a CPA engaged in public practice, I make these representations as a partner in the accounting firm of **NEPOMUCENO SUNER & ASSOCIATES, CPAs**.

EDWIN M. PELLICER
Senior Partner
CPA Certificate No.124840
TIN 231-522-647-000
SEC Accreditation No. 1646-A (Group C)
June 22, 2017, valid until June 21, 2020
BOA Accreditation No. 0882
January 10, 2019, valid until July 20, 2022
BIR Accreditation No.04-0003460-003-2018
September 3, 2018, valid until September 2, 2021
PTR No. 1179667-70, January 10, 2019, Cabanatuan City

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DATE
TUGUEGARAO CITY

March 30, 2019
Cabanatuan City, Nueva Ecija

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
Lagasca St. Centro 1, Sanchez Mira, Cagayan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.**, which comprise the statement of financial position as at December 31, 2018, and the statement of income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respect, the financial position of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** as at December 31, 2018, and 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 the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Philippine Ethics Standards Board for Accountants (PESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, the Code of Ethics for Professional Accountants in the Philippines 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 basis for our opinion.

Material Uncertainty Related to Going Concern

Having regard to the future period to which those charged with governance have paid particular attention in assessing going concern, we have planned and performed procedures specifically designed to identify any material matters which could indicate concern about the entity's ability to continue as a going concern. As stated in Note 1, no events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Use of going concern basis of accounting is appropriate and no material uncertainty has been identified.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Other Matter

The financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** for the year ended December 31, 2017, were audited by another auditor who has issued an unqualified opinion on March 17, 2018. The prior year's balances were only presented for comparative purposes but never part of the current year's balances.

In our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Financial Highlights, but does not included the financial statements and our auditor's report thereon.

In our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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:

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RDO-13
COLLECTION SECTION
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- 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 Company'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 Company'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 Company to cease to continue as a going concern.

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

- 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.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits.

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& ASSOCIATES, CPAs
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♦ Tel. (044)-464-3559 ♦ Email: nepsuncpas@yahoo.com ♦

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on Taxes and Licenses in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits 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.

Nepomuceno Suner & Associates
Certified Public Accountants

By:

EDWIN M. PELLICER
Senior Partner
CPA Certificate No.124840
TIN 231-522-647-000
SEC Accreditation No. 1646-A (Group C)
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March 30, 2019
Cabanatuan City, Nueva Ecija

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RDO-13
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Supplemental Written Statement to
Accompany Report of Independent Auditors

The Board of Directors and Stockholders
RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
Lagasca St. Centro 1, Sanchez Mira, Cagayan

We have audited the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** as of and for the year ended December 31, 2018, on which we have rendered the attached report dated March 30, 2019. In connection with our audit, we obtained a certification from the Bank's corporate secretary on the number of stockholders and their corresponding shareholdings, performed reasonableness tests of the capital stock balance as of December 31, 2018 in relation to the certification issued by the corporate secretary and conducted certain tests necessary to validate the Bank's related entries and balances.

In compliance with SRC Rule 68 and based on the certification received from the Bank's corporate secretary and the results of our work done, the Bank has twenty (20) stockholders owning one hundred (100) or more shares as of December 31, 2018.

Nepomuceno Suner & Associates
Certified Public Accountants

By:

EDWIN M. PELLICER
Senior Partner
CPA Certificate No.124840
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& ASSOCIATES, CPAs
3/F JSN Bldg., Paco Roman St. cor. Maharlika Highway, Cabanatuan City
♦ Tel. (044)-464-3559 ♦ Email: nepsuncpas@yahoo.com ♦

Statements Required by Rule 68, Part I Section 4
Securities and Regulation Code (SRC)

The Board of Directors and Stockholders
RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
Lagasca St. Centro 1, Sanchez Mira, Cagayan

We have audited the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.**, as at and for the year ended December 31, 2018, on which we have rendered the attached report dated March 30, 2019. The supplementary information shown in the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2018, as required by Part I, Section 4 of Rule 68 of the Securities Regulation Code is presented for the purpose of filing with the Securities and Exchange Commission and is not a required part of the basic statements. Such supplementary information is the responsibility of the management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In my opinion, the supplementary information has been prepared in accordance with Part I, Section 4 of Rule 68 of the Securities Regulation Code.

Nepomuceno Suner & Associates
Certified Public Accountants

By:

EDWIN M. PELLICER
Senior Partner
CPA Certificate No.124840
TIN 231-522-647-000
SEC Accreditation No. 1646-A (Group C)
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Cabanatuan City, Nueva Ecija

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DATE
TUGUEGARAO CITY

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

FINANCIAL HIGHLIGHTS

As of December 31, 2018 and 2017

	Year				Percentage
	2018		2017		of Change
For the Year Ended (In Pesos):					
Gross Revenues	P	11,164,398.00	P	9,429,064.00	**18.40%**
Gross Expenses		8,959,359.00		8,096,809.00	**10.65%**
Net Income		2,205,039.00		1,332,255.00	**65.51%**
At Year End (In Pesos):					
Total Assets	P	95,329,860.00	P	84,376,450.00	**12.98%**
Loans and Receivables		59,537,646.00		49,591,707.00	**20.06%**
Deposit Liabilities		67,236,546.00		65,232,495.00	**3.07%**
Equity		21,462,332.00		17,815,793.00	**20.47%**
Number of Branches (Including Head Office):		1		1	
Other Quantitative Indicators:					
Earnings Per Share	P	15.52	P	10.42	**48.94%**
Book Value Per Share		151.05		139.35	**8.40%**
Capital Adequacy Ratio		21.85%		21.54%	**1.44%**
Past Due / ITL Ratio		4.44%		3.83%	**15.93%**
Return on Average Equity		11.23%		8.03%	**39.85%**
Return on Average Assets		2.45%		1.64%	**49.39%**
Net Interest Margin		9.66%		8.69%	**11.16%**
Debt to Equity Ratio		3.44 : 1		3.74 : 1	**-8.02%**

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2018 and 2017

		Year	
		2018	2017
ASSETS			
Cash and Cash Equivalents	*Note 5*	P 32,242,215.00	P 31,545,603.00
Held-To-Maturity Financial Assets	*Note 6*	2,000,000.00	2,000,000.00
Loans and Receivables	*Note 7*	59,537,646.00	49,591,707.00
Bank Premises, Furniture, Fixtures and Equipment	*Note 8*	1,350,177.00	164,733.00
Investment Property	*Note 9*	0.00	973,000.00
Deferred Tax Assets	*Note 10*	76,747.00	0.00
Other Assets	*Note 11*	123,075.00	101,407.00
Total Assets		**P 95,329,860.00**	**P 84,376,450.00**
LIABILITIES AND EQUITY			
Deposit Liabilities	*Note 12*	P 67,236,546.00	P 65,232,495.00
Bills Payable	*Note 13*	5,000,000.00	0.00
Accrued Interest, Taxes and Other Expenses Payable	*Note 14*	702,091.00	396,308.00
Other Liabilities	*Note 15*	928,891.00	931,854.00
Total Liabilities		73,867,528.00	66,560,657.00
Equity	*Note 16*		
Capital Stock	*SCE*	14,209,200.00	12,784,700.00
Retained Earnings Free	*SCE*	7,253,132.00	5,031,093.00
Total Equity		21,462,332.00	17,815,793.00
Total Liabilities and Equity		**P 95,329,860.00**	**P 84,376,450.00**
Book Value Per Share		**P 151.05**	**P 139.35**

(See Accompanying Notes to Financial Statements)

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RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

STATEMENTS OF INCOME

For the Years Ended December 31, 2018 and 2017

		Year	
		2018	2017
Interest Income			
Loans and Receivables		P 8,465,497.00	P 7,120,133.00
Due from Other Banks		173,406.00	150,127.00
Held-To-Maturity Financial Assets		65,000.00	57,010.00
Total Interest Income		8,703,903.00	7,327,270.00
Interest Expenses			
Deposit Liabilities		782,830.00	608,945.00
Borrowed Funds		0.00	0.00
Total Interest Expenses		782,830.00	608,945.00
Net Interest Income		7,921,073.00	6,718,325.00
Provision for Credit Losses	*Note 7*	255,824.00	83,943.00
Net Interest Income After Provision		7,665,249.00	6,634,382.00
Other Operating Income	*Note 17*	2,460,495.00	2,101,794.00
Net Income Before Other Operating Expenses		10,125,744.00	8,736,176.00
Other Operating Expenses			
Compensation and Other Benefits		4,665,731.00	4,546,594.00
Taxes and Licences	*Note 26*	686,096.00	573,826.00
Depreciation / Amortization	*Note 8*	173,651.00	187,391.00
Other Expenses	*Note 18*	1,639,479.00	1,709,878.00
Total Other Operating Expenses		7,164,957.00	7,017,689.00
Net Income Before Income Tax		**2,960,787.00**	**1,718,487.00**
Income Tax Expense	*Note 24*	**755,748.00**	**386,232.00**
Net Income After Income Tax		**P 2,205,039.00**	**P 1,332,255.00**
Earnings Per Share		**P 15.52**	**P 10.42**

(See Accompanying Notes to Financial Statements)

BUREAU OF INTERNAL REVENUE
RDO-13
COLLECTION SECTION
RECEIVED
APR 08 2019
DATE

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2018 and 2017

		Year	
		2018	**2017**
Capital Stock - Beginning		P 12,784,700.00	P 6,200,700.00
Additional issuance during the year	***Note 16***	1,424,500.00	6,584,000.00
Capital Stock - Ending		14,209,200.00	12,784,700.00
Retained Earnings Free - Beginning		5,031,093.00	9,175,506.00
Net Income for the year	***SI***	2,205,039.00	1,332,255.00
Prior year's adjustments	***Note 16***	17,000.00	(5,476,668.00)
Retained Earnings Free - Ending		7,253,132.00	5,031,093.00
Total Equity - Ending		**P 21,462,332.00**	**P 17,815,793.00**

(See Accompanying Notes to Financial Statements)

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

		Year	
		2018	2017
Operating Activities:			
Net Income	***SI***	P 2,205,039.00	P 1,332,255.00
Adjustments to Net Income:			
Depreciation	***Note 9***	173,651.00	187,391.00
Prior Year's Adjustments	***Note 16***	17,000.00	(5,476,668.00)
Provision for Credit Losses		255,824.00	(518,031.00)
Decrease/(Increase) in Operating Assets:			
Loans and Receivables	***Note 7***	(10,201,763.00)	(4,353,886.00)
Deferred Tax Asset	***Note 10***	(76,747.00)	18,790.00
Other Assets	***Note 11***	(21,668.00)	(17,345.00)
Increase/(Decrease) in Current Liabilities:			
Deposit Liabilities	***Note 12***	2,004,051.00	4,189,067.00
Accrued Interest, Taxes and Other	***Note 14***	305,783.00	116,824.00
Other Liabilities	***Note 15***	(2,963.00)	(32,460.00)
Net Cash Provided/(Used) by Operating Activities		(5,341,793.00)	(4,554,063.00)
Investing Activities:			
Disposal/(Additions) to BPFF&E	***Note 8***	(1,359,095.00)	(90,955.00)
Decrease/(Increase) in Investment Proper	***Note 9***	973,000.00	(691,632.00)
Decrease/(Increase) in HTM Financial	***Note 6***	0.00	0.00
Net Cash Provided/(Used) by Investing Activities		(386,095.00)	(782,587.00)
Financing Activities:			
Additional Borrowings/Bills Payable	***Note 13***	5,000,000.00	0.00
Additional Issuance of Capital Stock	***Note 16***	1,424,500.00	6,584,000.00
Net Cash Provided/(Used) by Financing Activities		6,424,500.00	6,584,000.00
Net Increase/(Decrease) in Cash		696,612.00	1,247,350.00
Cash Balance - Beginning of Year		31,545,603.00	30,298,254.00
Cash Balance - End of Year		**P 32,242,215.00**	**P 31,545,603.00**

DISCLOSURE:

Interest Paid	P 782,830.00	P 608,945.00
Interest Received	9,041,198.00	7,505,518.00
Dividend Received	0.00	0.00
Income Taxes Paid	613,781.00	343,075.00

(See Accompanying Notes to Financial Statements)

BUREAU OF INTERNAL REVENUE
RDO-13
COLLECTION SECTION
RECEIVED
APR 08 2019
DATE
TUGUEGARAO CITY

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

FINANCIAL HIGHLIGHTS

As of December 31, 2018 and 2017

		Year			Percentage
		2018		2017	of Change
For the Year Ended (In Pesos):					
Gross Revenues	P	11,164,398.00	P	9,429,064.00	**18.40%**
Gross Expenses		8,959,359.00		8,096,809.00	**10.65%**
Net Income		2,205,039.00		1,332,255.00	**65.51%**
At Year End (In Pesos):					
Total Assets	P	95,329,860.00	P	84,376,450.00	**12.98%**
Loans and Receivables		59,537,646.00		49,591,707.00	**20.06%**
Deposit Liabilities		67,236,546.00		65,232,495.00	**3.07%**
Equity		21,462,332.00		17,815,793.00	**20.47%**
Number of Branches (Including Head Office):		1		1	
Other Quantitative Indicators:					
Earnings Per Share	P	15.52	P	10.42	**48.94%**
Book Value Per Share		151.05		139.35	**8.40%**
Capital Adequacy Ratio		21.85%		21.54%	**1.44%**
Past Due / ITL Ratio		4.44%		3.83%	**15.93%**
Return on Average Equity		11.23%		8.03%	**39.85%**
Return on Average Assets		2.45%		1.64%	**49.39%**
Net Interest Margin		9.66%		8.69%	**11.16%**
Debt to Equity Ratio		3.44 : 1		3.74 : 1	**-8.02%**

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2018 and 2017

		Year			
		2018		2017	
ASSETS					
Cash and Cash Equivalents	***Note 5***	P	32,242,215.00	P	31,545,603.00
Held-To-Maturity Financial Assets	***Note 6***		2,000,000.00		2,000,000.00
Loans and Receivables	***Note 7***		59,537,646.00		49,591,707.00
Bank Premises, Furniture, Fixtures and Equipment	***Note 8***		1,350,177.00		164,733.00
Investment Property	***Note 9***		0.00		973,000.00
Deferred Tax Assets	***Note 10***		76,747.00		0.00
Other Assets	***Note 11***		123,075.00		101,407.00
Total Assets		**P**	**95,329,860.00**	**P**	**84,376,450.00**
LIABILITIES AND EQUITY					
Deposit Liabilities	***Note 12***	P	67,236,546.00	P	65,232,495.00
Bills Payable	***Note 13***		5,000,000.00		0.00
Accrued Interest, Taxes and Other Expenses Payable	***Note 14***		702,091.00		396,308.00
Other Liabilities	***Note 15***		928,891.00		931,854.00
Total Liabilities			73,867,528.00		66,560,657.00
Equity	***Note 16***				
Capital Stock	***SCE***		14,209,200.00		12,784,700.00
Retained Earnings Free	***SCE***		7,253,132.00		5,031,093.00
Total Equity			21,462,332.00		17,815,793.00
Total Liabilities and Equity		**P**	**95,329,860.00**	**P**	**84,376,450.00**
Book Value Per Share		**P**	**151.05**	**P**	**139.35**

(See Accompanying Notes to Financial Statements)

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

STATEMENTS OF INCOME

For the Years Ended December 31, 2018 and 2017

		Year 2018	Year 2017
Interest Income			
Loans and Receivables		P 8,465,497.00	P 7,120,133.00
Due from Other Banks		173,406.00	150,127.00
Held-To-Maturity Financial Assets		65,000.00	57,010.00
Total Interest Income		8,703,903.00	7,327,270.00
Interest Expenses			
Deposit Liabilities		782,830.00	608,945.00
Borrowed Funds		0.00	0.00
Total Interest Expenses		782,830.00	608,945.00
Net Interest Income		7,921,073.00	6,718,325.00
Provision for Credit Losses	***Note 7***	255,824.00	83,943.00
Net Interest Income After Provision		7,665,249.00	6,634,382.00
Other Operating Income	***Note 17***	2,460,495.00	2,101,794.00
Net Income Before Other Operating Expenses		10,125,744.00	8,736,176.00
Other Operating Expenses			
Compensation and Other Benefits		4,665,731.00	4,546,594.00
Taxes and Licences	***Note 26***	686,096.00	573,826.00
Depreciation / Amortization	***Note 8***	173,651.00	187,391.00
Other Expenses	***Note 18***	1,639,479.00	1,709,878.00
Total Other Operating Expenses		7,164,957.00	7,017,689.00
Net Income Before Income Tax		**2,960,787.00**	**1,718,487.00**
Income Tax Expense	***Note 24***	**755,748.00**	**386,232.00**
Net Income After Income Tax		**P 2,205,039.00**	**P 1,332,255.00**
Earnings Per Share		**P 15.52**	**P 10.42**

(See Accompanying Notes to Financial Statements)

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2018 and 2017

		Year	
		2018	**2017**
Capital Stock - Beginning		P 12,784,700.00	P 6,200,700.00
Additional issuance during the year	***Note 16***	1,424,500.00	6,584,000.00
Capital Stock - Ending		14,209,200.00	12,784,700.00
Retained Earnings Free - Beginning		5,031,093.00	9,175,506.00
Net Income for the year	***SI***	2,205,039.00	1,332,255.00
Prior year's adjustments	***Note 16***	17,000.00	(5,476,668.00)
Retained Earnings Free - Ending		7,253,132.00	5,031,093.00
Total Equity - Ending		**P 21,462,332.00**	**P 17,815,793.00**

(See Accompanying Notes to Financial Statements)

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

		Year			
		2018		2017	
Operating Activities:					
Net Income	***SI***	P	2,205,039.00	P	1,332,255.00
Adjustments to Net Income:					
Depreciation	***Note 9***		173,651.00		187,391.00
Prior Year's Adjustments	***Note 16***		17,000.00		(5,476,668.00)
Provision for Credit Losses			255,824.00		(518,031.00)
Decrease/(Increase) in Operating Assets:					
Loans and Receivables	***Note 7***		(10,201,763.00)		(4,353,886.00)
Deferred Tax Asset	***Note 10***		(76,747.00)		18,790.00
Other Assets	***Note 11***		(21,668.00)		(17,345.00)
Increase/(Decrease) in Current Liabilities:					
Deposit Liabilities	***Note 12***		2,004,051.00		4,189,067.00
Accrued Interest, Taxes and Other	***Note 14***		305,783.00		116,824.00
Other Liabilities	***Note 15***		(2,963.00)		(32,460.00)
Net Cash Provided/(Used) by Operating Activities			(5,341,793.00)		(4,554,063.00)
Investing Activities:					
Disposal/(Additions) to BPFF&E	***Note 8***		(1,359,095.00)		(90,955.00)
Decrease/(Increase) in Investment Proper	***Note 9***		973,000.00		(691,632.00)
Decrease/(Increase) in HTM Financial	***Note 6***		0.00		0.00
Net Cash Provided/(Used) by Investing Activities			(386,095.00)		(782,587.00)
Financing Activities:					
Additional Borrowings/Bills Payable	***Note 13***		5,000,000.00		0.00
Additional Issuance of Capital Stock	***Note 16***		1,424,500.00		6,584,000.00
Net Cash Provided/(Used) by Financing Activities			6,424,500.00		6,584,000.00
Net Increase/(Decrease) in Cash			696,612.00		1,247,350.00
Cash Balance - Beginning of Year			31,545,603.00		30,298,254.00
Cash Balance - End of Year		**P**	**32,242,215.00**	**P**	**31,545,603.00**

DISCLOSURE:

Interest Paid	P	782,830.00	P	608,945.00
Interest Received		9,041,198.00		7,505,518.00
Dividend Received		0.00		0.00
Income Taxes Paid		613,781.00		343,075.00

(See Accompanying Notes to Financial Statements)

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

RECONCILIATION OF AUDITED FINANCIAL STATEMENTS AND SUBMITTED CONSOLIDATED STATEMENT OF CONDITION AND STATEMENT OF INCOME AND EXPENSE

As of December 31, 2018

	Audited FS	Submitted FS	Discrepancy	Reasons for Discrepancy
Cash and Cash Equivalents	P 32,242,215.00	P 32,242,215.00	P 0.00	
Held-To-Maturity Financial Assets	2,000,000.00	2,000,000.00	0.00	
Loans and Receivables	59,537,646.00	59,537,646.00	0.00	
Bank Premises, Furniture, Fixtures and Equipment	1,350,177.00	1,350,177.00	0.00	
Deferred Tax Assets	76,747.00	0.00	76,747.00	*Additional Provision for Credit Losses*
Other Assets	123,075.00	123,075.00	0.00	
Total Assets	P 95,329,860.00	P 95,253,113.00	P 76,747.00	*Net effect of adjustments*
Deposit Liabilities	P 67,236,546.00	P 67,236,546.00	P 0.00	
Bills Payable	5,000,000.00	5,000,000.00	0.00	
Accrued Interest, Taxes & Other Expenses	702,091.00	703,594.00	(1,503.00)	*Adjustment on Income Tax Payable*
Other Liabilities	928,891.00	928,891.00	0.00	
Total Liabilities	73,867,528.00	73,869,031.00	(1,503.00)	*Net effect of adjustments*
Total Equity	21,462,332.00	21,384,082.00	78,250.00	*Adj. on Inc. Tax Exp./Int. Inc./Prov. For Credit Losses*
Total Liabilities and Equity	P 95,329,860.00	P 95,253,113.00	P 76,747.00	*Net effect of adjustments*
Total Gross Income	P 11,164,398.00	P 11,121,727.00	P 42,671.00	*Grossed-up interest income on bank deposits and Adj. on Other Income*
Total Expenses (including income tax expense)	8,959,359.00	9,001,711.00	(42,352.00)	*Net Adj. on Income Tax and Prov. For Creditl Losses*
Net Income After Tax	P 2,205,039.00	P 2,120,016.00	P 85,023.00	*Net effect of adjustments*

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St. Centro 1, Sanchez Mira, Cagayan

ADJUSTING ENTRIES

For the Year Ended December 31, 2018

		Dr	Cr
1	Income Tax Expense - Final	47,681.00	
	Interest Income - Due From Other Banks		34,681.00
	Interest Income - HTM Financial Assets		13,000.00
	to gross up interest income subject to final tax		
2	Retained Earnings Free	11,783.00	
	Provision for Credit Losses		11,783.00
	to adjust reversal of provision for losses credited to retained earnings		
3	Other Income - Miscellaneous	5,010.00	
	Retained Earnings Free		5,010.00
	to adjust inter-bank floating item from Land Bank of the Philippines recorded as current income but already adjusted in the prior year AFS		
4	Deferred Tax Assets - Temporary Difference	76,747.00	
	Accrued Income Tax Payable	1,503.00	
	Income Tax Expense - Normal		78,250.00
	to adjust income tax expense for the year 2018		

SCHEDULE OF PFRS AND PAS

As of December 31, 2018

	STANDARDS	"Adopted", "Not Adopted" or "Not Applicable"
Philippine Financial Reporting Standards (PFRSs)		
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	Adopted
PFRS 2	Share-based Payments	Not Applicable
PFRS 3	Business Combinations	Not Applicable
PFRS 4	Insurance Contracts	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Adopted
PFRS 6	Exploration for and Evaluation of Mineral Resources	Not Applicable
PFRS 7	Financial Instruments: Disclosures	Adopted
PFRS 8	Operating Segments	Not Applicable
PFRS 9	Financial Instruments: Classification and Measurement *(As replacement to PAS 39)*	Adopted
Philippine Accounting Standards (PASs)		
PAS 1	Presentation of Financial Statements	Adopted
PAS 7	Cash Flow Statements	Adopted
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Adopted
PAS 10	Events after the Balance Sheet Date	Adopted
PAS 11	Construction Contracts	Not Applicable
PAS 12	Income Taxes	Adopted
PAS 16	Property, Plant and Equipment	Adopted
PAS 17	Leases	Adopted
PAS 18	Revenue	Adopted
PAS 19	Employee Benefits	Adopted
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	Not Applicable
PAS 23	Borrowing Costs	Adopted
PAS 24	Related Party Disclosures	Adopted
PAS 26	Accounting and Reporting by Retirement Benefit Plans	Adopted
PAS 27	Consolidated and Separate Financial Statements	Not Applicable
PAS 28	Investments in Associates	Not Applicable
PAS 29	Financial Reporting in Hyperinflationary Economies	Not Applicable
PAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions	Adopted
PAS 31	Interests in Joint Venture	Not Applicable
PAS 32	Financial Instruments: Presentation	Adopted
PAS 33	Earnings per Share	Adopted
PAS 34	Interim Financial Reporting	Adopted
PAS 36	Impairment of Assets	Adopted
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Adopted
PAS 38	Intangible Assets	Adopted
PAS 40	Investment Property	Adopted
PAS 41	Agriculture	Not Applicable

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018

Note 1 : Corporate Organization/Information – company registration no. 64042

Rural Bank of Sanchez Mira (Cagayan), Inc. was registered with the Securities and Exchange Commission (SEC) on November 25, 1971 under SEC Registration No. 45926 and started its operations as a banking institution on March 16, 1972. Its primary purpose is to engage in the business of extending rural credits to small farmers and tenants and to deserving industries or enterprises, to have and exercise all authority and powers to do and perform all acts, and to transact all business which may legally be had or done by Rural banks organized in accordance with the Rural Bank's Act, as it exists or maybe amended; and to do all other things incident thereto necessary and proper in connection with the said purpose within such territory, as maybe determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

The bank's registered address is located at Lagasca St. Centro 1, Sanchez Mira, Cagayan.

The bank's products and services are traditional deposits such as: savings deposits and certificate of time deposits. The bank also offers various types of loans such as commercial, agricultural and other consumption loans.

The financial statements of the bank were approved and authorized for issue by the Board of Directors on **March 30, 2019.**

Status of Operation

The financial statements were prepared on a going concern basis. The going concern basis assumes that the bank will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business and there are no events or conditions which indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern.

Note 2 : Summary of Significant Accounting Policies

The accounting and reporting policies of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** conform with the generally accepted accounting principles in the Philippines (Philippine GAAP) and with accounting and reporting guidelines prescribed by the Bangko Sentral ng Pilipinas Manual of Rules and Regulations. The bank also adopts the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) in preparing its financial statements. However, in cases of conflicts between the BSP regulation and the PFRS/PAS, the BSP regulation prevails.

Basis of Measurement in the Preparation of Financial Statements

The financial statements of the bank are carried at historical costs net of any accumulated depreciation/amortization and impairment losses, except for those items specifically provided to be carried at fair value under PFRS 9.

Statement of Compliance with PFRS

The financial statements of the bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Below are the specific accounting policies and procedures adopted by the bank:

- *PAS 1 "Presentation of Financial Statements"*. The objective of the standard is to prescribe the basis for presentation of general purpose financial statements of previous periods and with the financial statements of other entities. To achieve this objective, the standard sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The recognition, measurement and disclosure of specific transactions and other events are dealt with in other standards and interpretations.

- *PAS 7 "Cash Flow Statements"*. The objective of the standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of cash flow statement which classifies cash flow during the period from operating, investing and financing activities.

- *PAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"*. The objective of the standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. The standard is intended to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with the financial statements of other entities.

- *PAS 10 "Events After the Balance Sheet Date"*. The objective of the standard is to prescribe when an entity should adjust its financial statements for events after the balance sheet date; and the disclosures that an entity should give about the date when the financial statements were authorized for issue and about events after the balance sheet date.

- *PAS 12 "Income Taxes"*. The objective of the standard is to prescribe the accounting treatment for income taxes. The major issue in this standard is on how to account for the current and future tax consequence of: (a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's balance sheet; and (b) transactions and other events of the current period that are recognized in an entity's financial statements.

- *PAS 16 "Property, Plant & Equipment"*. This standard prescribes the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about the entity's investment in its plant, property & equipment and the changes in such investment. This standard provides the accounting for the recognition of assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them.

- *PAS 17 "Leases"*. Under this standard, an entity shall adopt the accounting for leases for lessors and lessees including appropriate disclosures thereon. This standard requires an entity to classify its lease contract whether an operating lease or finance lease. Proper accounting treatment for operating and finance lease shall be governed under this standard.

- *PAS 18 "Revenue"*. This standard provides the guidelines in determining when to recognize revenue. Revenue is recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. This standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognized. It also provides practical guidelines on the application of these criteria.

- *PAS 19 "Employee Benefits".* The objective of this standard is to prescribe the accounting and disclosure for employee benefits. The standard requires an entity to recognize: (a) a liability when an employee has provided services in exchange for employee benefits to be paid in the future; and (b) an expense when the entity consumes the economic benefit arising from services provided by an employee in exchange for employee benefits.

- *PAS 23 "Borrowing Costs".* The objective of this Standard is to prescribe the accounting treatment for borrowing cost. This standard generally requires the immediate expensing of borrowing cost. However, the Standard permits, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

- *PAS 24 "Related Party Disclosures".* The objective of this standard is to ensure that the entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

- *PAS 26 "Accounting and Reporting by Retirement Benefits Plans".* Retirement benefit plans are arrangement whereby an entity provides benefits for employees on or after termination of service(either in the form of an annual income or as a lump sum) when such benefits, or the contribution towards them, can be determined, can be determined or estimated in advance of retirement from the provision of a document or from the entity's practices.

- *PAS 30 "Disclosure on Financial Statements of Banks and Similar Financial Institution".* The objective of this Standard is to ensure that the entity's financial statements disclose the amounts of the specific items on the financial statements. The Standard also requires disclosure of various contingencies and commitments, information relating losses on loans and advances and other disclosures as prescribed by this standard.

- *PAS 32 "Financial Instrument: Presentation".* The objective of this standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instrument from perspective of the issuer, into financial asset, financial liabilities and equity instrument; the classification of related dividends, interests, losses and gains; and the circumstances where financial asset and financial liabilities should be offset.

- *PAS 33* "*Earnings Per Share".* This standard prescribes the principles for the determination and presentation of earnings per share so as to improve the performance comparison between different entity in the same accounting period and between different reporting periods for the same entity.

- *PAS 34 "Interim Financial Reporting".* The objective of this standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity.

- *PAS 36 "Impairment of Assets".* This standard prescribes the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying value exceeds the amount to be recovered through use or sale of asset. The standard also specifies when an entity should reserve an impairment loss and prescribes disclosures.

- *PAS 37 "Provisions, Contingent Liabilities and Contingent Assets".* The objective of this standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent assets and contingent liabilities and that sufficient information are properly disclosed in the notes to financial statements to enable users to understand their nature, timing and amount.

- *PAS 38 "Intangible Assets"*. The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This standard also provides the guidelines and criteria to recognize an intangible asset, as well as the measurement and disclosure of the intangible assets.

- *PAS 40 "Investment Property"*. This Standard prescribes the guidelines when to recognize the Investment Property. Also, the Standard sets accounting treatment on measurement at/after recognition and disposal and related disclosure requirements

- *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for annual periods beginning on or after January 1, 2009).* The amendment allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- *PFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations"*. The objective of the standard is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations.

- *PFRS 7 "Financial Instrument: Disclosures"*. The objective of the standard is to provide disclosures in their financial instruments that enable users to evaluate: (a) the significance of financial instruments for the entity's financial position and performance; (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

- *PFRS 9 "Financial Instrument: Classification and Measurement"*. The objective of this standard is to establish new principle for recognizing and measuring financial assets and liabilities. The standard adds new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income (FVTOCI) category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test. This standard supersedes PAS 39.

<u>Financial Assets</u>

Financial Assets include cash and cash equivalents and other financial instruments. Financial Assets, other than hedging instruments, are classified into the following categories: financial assets through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Cash and Cash Equivalents

For the purpose of cash flow statement and balance sheet presentation, cash and cash equivalents includes cash on hand, due from other banks, due from Bangko Sentral ng Pilipinas, checks and other cash items under the definition per BSP regulation and short term treasury bills with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Loans and Receivables

Loans and Receivables are initially recognized at fair value. After initial recognition, Loans and Receivables are stated at amortized cost wherein outstanding principal balances were reduced by unamortized loan and receivable discounts and related allowance for credit losses.

Loans and Receivable Discounts are recognized as income over the term of the loans, using the effective interest method. Interest Income on non discounted loans is accrued as earned, except in the case of past due accounts as required by the existing regulations of the Bangko Sentral ng Pilipinas (BSP). Interest Income on these past due accounts is recognized only upon the actual collection. Loan fee income that represents as an adjustment of yield on respective loans, if any, is included in interest income on loans in the statement of income.

Under *BSP MORB Section 305* loans are generally classified as non-accruing or non-performing when the principal or interest is unpaid for thirty (30) days or more after due date or they have become past due in accordance with existing rules and regulations. Restructured loans are generally considered past due and non-performing in case of default of any principal or interest payment.

BSP MORB Section 305 provides that in the case of loans payable quarterly, semestrally, and annually, the total balance thereof is considered past due when one installment is in arrears. Accordingly, such loans become non-performing thirty days after such installments fall in arrears.

Held-To-Maturity Financial Assets (HTM)

Held to Maturity Financial Assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the bank has the positive intention and ability to hold to maturity. Where the bank sells other than an insignificant amount of HTM financial assets, the entire category would be tainted and reclassified as AFS financial assets.

HTM financial assets shall be measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the securities. After initial measurement, the bank shall measure HTM financial assets at their amortized cost using the effective interest rate method less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in 'Interest Income' in the statement of income.

Gains and losses arising from the change in the fair value of the HTM financial assets are recognized in the income statement when the securities are derecognized and impaired, and through the amortization process using the effective interest rate method. Losses arising from impairment of such financial assets are recognized in the statement of income. The effects of restatement on foreign currency denominated HTM financial assets are recognized in the statement of income.

Unquoted Debt Securities Classified as Loans

This refers to debt securities, with fixed or determinable payments that are not quoted in an active market. Unquoted Debt Securities Classified as Loans shall be measured upon initial recognition at their fair value plus transaction costs that are directly attributable to the acquisition of the securities. After initial recognition, the bank shall measure these securities at their amortized cost using the effective interest method.

A gain or loss arising from the change in the fair value of Unquoted Debt Securities Classified as Loans shall be recognized in statement of income when the security is derecognized or impaired, and through the amortization process.

Investment in Non-Marketable Equity Securities (INMES)

Investment in Non-Marketable Equity Securities includes equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. INMES shall be measured upon initial recognition at its fair value plus transaction costs that are directly attributable to the acquisition of the securities. After initial recognition, the bank shall measure INMES at cost.

A gain or loss arising from the change in fair value of the INMES shall be recognized in statement of income when the security is derecognized or impaired.

Other Investments and Other Financial Assets

Financial Assets covered by PFRS 9 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial Liabilities

Financial Liabilities includes deposit liabilities, bills payable and other accrued expenses.

Financial Liabilities are recognized when the bank becomes a party to the contractual agreements of the instrument.

Financial Liabilities are initially recognized at fair value and subsequently measured at amortized cost less settlement payments, except when these are payable within one year which case they are measured at their nominal value. The following are the compositions of the financial liabilities of the bank:

Deposit Liabilities

The deposit liability account includes demand deposits, regular and special savings deposit and time certificates of deposits. Demand deposits refer to those which are subject to withdrawal either by check or thru the automated tellering machines which are otherwise known as current or checking accounts. This account is usually non-interest bearing but the bank may opt to pay interest on these accounts. Regular savings deposits refer to those which earn a lower interest rate while special saving deposits earn a higher interest rate and are both withdrawable either upon presentation of a properly accomplished withdrawal slips together with the corresponding passbook or thru the automated tellering machines. Lastly, time certificates of deposits refer to interest-bearing deposits with specific maturity dates and evidenced by certificates issued by the bank.

Bills Payable

The bills payable account refers to obligations availed by the bank from other financial institutions thru rediscounting which requires the issuance of borrowers' promissory notes and their corresponding collaterals.

Accrued Expenses and Other Liabilities

These refer to obligations already incurred by the bank which are not yet paid as of the balance sheet date. These are normally measured at their nominal values.

<u>Derecognition of Financial Assets and Financial Liabilities</u>

Financial Asset

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

- The rights to receive cash flows from the asset have expired;

- The bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- The bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the bank's continuing involvement is the amount of the transferred asset that the bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 statement of income.

<u>Impairment of Financial Assets</u>

The bank assesses at each balance sheet date 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 deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that lost event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost

For financial asset carried at amortized cost, the bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets 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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collaterals have been realized.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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. 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 for impairment.

If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. 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 such credit risk characteristics as industry, collateral type and past due status.

Financial Assets Carried at Cost

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

Restructured Loans

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the arrangement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and the future payments are likely to occur. The loans continuously to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in 'Provision for impairment and credit losses' in the statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are initially measured at cost less any subsequent accumulated depreciation, amortization and any impairment in value. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. 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 the statement of income in the year the item is derecognized.

Depreciation and amortization of these assets are calculated on a straight-line basis over the useful lives of the assets and, on the same basis as other property assets, commences when the assets are ready for their intended use.

The useful life of each of the bank premises, furniture, fixtures and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice and experience with similar assets.

Under BSP Circular 494, bank premises, furniture, fixtures and equipment shall be accounted for using the **cost model** under *PAS 16 "Property, Plant and Equipment"*.

Real and Other Properties Acquired (ROPA)

This account represents real and movable properties other than those used for operational purposes or those held in the investment portfolio. These assets were acquired by the bank in settlement of those delinquent loans and/or other unpaid accounts. Valuation of this account is based on loan balances net of allowance for probable losses. Capital gains tax, documentary stamp tax and other expenses relative to the litigation and/or foreclosure process are capitalized as part of the carrying values, provided that such carrying values do not exceed appraised values.

Real and Other Properties Acquired are classified as Land, Building, Financial Assets and Other Non-Financial Assets. Foreclosed property which composed of land and improvements shall be allocated based on the fair value of the land and the improvements thereon.

However, under BSP circular 520, Real and Other Properties Acquired shall be accounted for as **Investment Properties** under *PAS 40*.

Sales Contract Receivables

This refers to the amortized costs of assets acquired in settlement of loans through foreclosure or "dacion en pago" subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price. This shall be recorded initially at present value of the installment receivable discounted at the imputed rate of interest. Discount shall be amortized over the term of the SCR by crediting interest income using effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in the income statement at the date of sale in accordance with *PAS 18*.

Non-Current Assets Held for Sale

An entity shall measure a non- current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less cost to sell.

An entity shall classify as Non-Current Assets Held for Sale when an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it shall classify the non-current asset (or disposal group) as held for sale at the acquisition date only if the one-year requirement is met.

When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable *PFRSs*.

On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of this *PFRS*, but are included in a disposal group classifies as held for sale, shall be remeasured in accordance with applicable *PFRSs*, before the fair value less costs to sell of the disposal group is remeasured.

Investment Properties

Initially, investment properties are measured at cost including certain transaction costs. Investment properties acquired through a nonmonetary 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 measured. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

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

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

Depreciation is calculated in straight-line basis using the following useful lives from the time of acquisition of the investment properties.

Other Assets

Other assets account represents residual accounts which were not classified as a separate line item in the manual of accounts as provided in the BSP Circular 512 as amended by BSP Circular 520.

Impairment of Non-Financial Assets

The bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those form other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the transaction will generate future economic benefits to the bank and the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Interest Income

Interest on loans and service charges are booked as loans and receivables discounts and shall only be recognized as income through amortization using effective interest rate method. Effective interest rate method of amortization recognizes the timing of outflow and future inflows relating to the financial asset.

Interest and other charges on past due loans and loans in litigation are recognized as income only upon collection.

Other Income

Other income comprises flow of economic benefits to the enterprise other than income arising from its principal operation.

Determination of Provisions and Allowances for Credit Losses

Loans and Receivables

Computation of Allowance for Credit Losses presented in Note 7 is based on BSP Circular 855. BSP Circular 855 adopted the "expected loss" concept, methodology that reasonably estimate provision for loans and other credit accommodations and risk assets in a timely manner which is in accordance with PFRS 9.

Other Risk Assets

Other risk assets such as accounts receivable are also given allowance after considering the nature of the transaction and the degree of collectibility of the accounts.

* Provisions for losses (expense account) on the above cited risk assets are determined by the required allowance at the end of the year less the beginning allowance for a particular year adjusted by write-off and recovery, if any.

Leases

The determination of whether an arrangement as to whether be classified as operating or finance lease is based on the substance of the arrangement. This requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or

(d) There is substantial change to the asset.

The Bank as Lessee:

In a lease where the lessor retains substantially all the risk and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

The Bank as Lessor:

Leases where the bank does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Employee Benefits

The bank recognizes a liability when an employee has provided service in exchange for employee benefits to be paid in the furutre and an expense when the entity consumes the economic benefits arising from service provided by an employee in exchange for employee benefits. Employee benefits are short-term employee benefits; post-employment benefits; other long-term employee benefits and termination benefits.

Short Term Benefits:

Short-term employee benefits are employee benefits which fall due within twelve months after the end of the period in which the employees render the related service. The bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the bank to its employees include salaries and wages, social security contributions, short-term compensated absences, and other non-monetary benefits. Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the balance sheet date. These are included in the salaries and wages at the undiscounted amount that the bank expects to pay as a result of the unused entitlement.

Termination/Resignation 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 twelve months after the balance sheet date are discounted to present value.

Retirement Benefits:

The bank has funded non-contributory retirement benefit plan covering all its qualified regular employees. Retirement benefits are equivalent to sum equal to a percentage of the latest monthly salary for every year of creditable service in accordance with the benefit schedule as defined in the plan.

Any employee on a permanent appointment as of the effective date shall automatically become a participant in the plan and Bank employee not covered by the plan as of the effective date or those hired by the Bank subsequent to the effective date shall automatically become participant in the plan on the first day of the month following their designation as permanent employees.

Retirement cost is determined using the years of service method. This method reflects services rendered by employees up to the date of valuation and incorporates latest employees' salaries.

The liability recognized in the balance sheet in respect of the plan is the cumulative amount of the benefit obligation at the balance sheet date. The benefit obligation is calculated using the years of service of the employees and the value of the benefit obligation is determined based on the latest monthly salary of the employees.

Any adjustments and changes in the amount of the obligation are credited to or charged to income.

Beginning with the effective date of the Plan, the Bank shall set aside every calendar year a benefit obligation for the Retirement of the Bank Employees, which account shall be funded out of bank funds.

The Retirement Pay shall be paid in one lump sum upon clearance of the separated employee and shall be computed from the date of permanent appointment. Provided, however, that a participant separated from the service for carelessness in the performance of duty which has caused loss or impairment of the assets of the Bank, for dishonesty, for acts involving moral turpitude, shall forfeit the privilege of the Retirement Pay herein established.

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when the bank has a present obligation, either legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. When the bank expects reimbursement of some or all of the expenditure required to settle a provision, the entity recognizes a separate asset for the reimbursement only when it is virtually certain that reimbursement will be received when the obligation is settled.

The amount of the provision recognized is the best estimated of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Contingent liabilities and assets are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities, if any, are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are disclosed only when an inflow of economic benefits is probable.

Income Taxes

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of balance sheet dates.

Deferred Tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for (a) all deductible temporary differences, (b) carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and (c) unused net operating loss carry over (NOLCO) to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not business combination and at the time of transaction, affect neither the accounting income nor taxable income.

The carrying amount of deferred tax asset is reviewed at each balance sheet dates 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 assets to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets 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 substantially enacted at the balance sheet date.

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statement of income.

Generally, deferred tax assets and deferred tax liabilities cannot be offset unless a legally enforceable right exist to offset current tax asset against current tax liabilities and deferred taxes relates to the same entity and the same taxation authority.

Earnings per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

The bank has no outstanding dilutive potential common shares.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the bank. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Book Value per Share

The book value per common share is derived from the total stockholders' equity net of preferred shares and dividends (for cumulative shares) divided by the total number of common shares outstanding during the year.

Subsequent Events

The bank identifies subsequent events as events that occurred after the balance sheet date but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the bank's financial position at the balance sheet date are reflected in the financial statements. Events that are not adjusting events are disclosed in the notes to financial statements when material.

Related Party Transactions and Relationships

Parties are considered to be related if one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise and its key management personnel, directors, or its stockholders. Transactions between related parties are accounted for at arm's length prices or on terms similar to those offered to non-related entities in an economically comparable market.

Note 3 : Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with the Philippine Financial Reporting Standards (PFRS) requires the Bank to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and contingent liabilities. Future events may occur when the assumptions used previously by the management become irrelevant that it will affect significantly the present valuation of the assets. The effects of any changes in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

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

In the application of the bank's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The estimates and assumptions used in the financial statements are based on the evaluation of relevant and reliable facts. The following represents a summary of the significant estimates and judgments and related impact and associated risks in the bank's financial statements:

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the bank, the functional currency of the bank had been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the bank operates. It is the currency that mainly influences the revenue and expenses of the bank.

Deferred Tax Assets

The bank reviews the carrying amounts of deferred tax assets at each balance sheet date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

Estimated Useful Life of Bank Premises, Furniture, Fixtures and Equipment

The useful lives of bank premises, furniture, fixtures and equipments are based on the estimates provided by the management on the best possible expected use of the assets in its operation. These estimates were reviewed periodically and shall be updated if expectations may differ from that of the prior years. The evaluation shall be made in accordance with such factors that may affect the productivity of the assets such as wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of bank premises, furniture, fixtures and equipment is based on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

A reduction in the useful lives of the bank premises, furniture, fixtures and equipment would increase the recorded expenses and decrease the noncurrent assets.

The depreciation method in depreciating these assets is based on the evaluation of the expected pattern of benefits to be derived by the bank. Depreciation is computed using the straight line method, spread out over the useful life of the assets. Below are the estimated useful lives of the assets used in the calculation of depreciation expense:

Bank Premises, Furniture, Fixtures and Equipment	Estimated Useful Life
Building	10 years
Transportation Equipment	5 years
Furniture, Fixtures and Equipment	1 to 5 years

The foregoing estimated useful lives and depreciation method are reviewed from time to time to ensure that these are consistent with the expected economic benefits of the bank premises, furniture, fixtures and equipment.

The carrying values of bank premises, furniture, fixtures and equipment amounted to P1,350,177.00 and P164,733.00 as of December 31, 2018 and 2017 respectively. (see Note 8)

Useful Life of Depreciable Investment Property (ROPA)

The assumptions and estimates used by the bank in the useful life of ROPAs are made to objectively determine the productivity or use of the assets. The BSP however in its Circular 494 provided that *ROPA-Building* and *ROPA-Other Non-Financial Assets* specifically on those that were accounted for as *Investment Property* under *PAS 40* shall be depreciated only for a period of not more than 10 and 3 years respectively reckoning from the date of foreclosure. Thus, the lower between the estimate of the bank and the BSP regulation shall prevail.

Residual Value of Depreciable Assets

The residual value of an asset is the estimated amount that an entity would obtain from the disposal of the asset, after deducting the estimated costs of disposal. The management's estimate on the residual values of its assets is based on a conservative approach where residual values assigned to each asset are nil.

Estimate Used in Determining Fair Values of Financial Assets

Reasonable estimate of the management on the fair value of the financial instrument is the responsibility of the management when reference costs and/or values is not quoted in the stock market.

An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial asset is impaired. The threshold and materiality level in *PAS 36 and PFRS 9* to impair a financial asset is provided on a non-quantitative basis thus, the use of judgments in objectively examining the financial asset is required. In such case, the top management of the bank shall be responsible for the reasonable judgments pertaining to the valuation of this financial instrument.

Allowance for Doubtful Accounts

The bank assesses whether objective evidence of impairment exist for receivables and due from related parties that are individually significant and collectively for receivables that are not individually significant. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables.

Contingencies

The adoption of accounting for contingencies in the *PAS 37* requires the management's prudent judgment and expectation on the outcome of particular contingencies. The relevance of this item becomes of paramount significance when it will materially affect the financial standing of the bank.

Note 4 : Financial Risk Management

The bank's principal financial instruments consist of cash and cash equivalents, receivables and payables which arise from operations, and long term investments. The bank's activities are principally related to the profitable use of financial instruments. Risks are inherent in these activities but are managed by the bank through a rigorous, comprehensive and continuous process of identification, measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits, process controls and monitoring, and independent controls. The bank has placed due importance to expanding and strengthening its risk management process and considers it as a vital component to the bank's continuing profitability and financial stability. Central to the bank's risk management process is its adoption of a risk management program intended to avoid unnecessary risks, manage and mitigate unavoidable risks and maximize returns from taking acceptable risks necessary to sustain its business viability and good financial position in the market.

The main risk arising from the bank's financial instruments are credit risk, market risk (i.e. interest rate risk, currency risk and price risk) and liquidity risk. The bank's risk management objective is primarily focused on controlling and mitigating these risks. The Board of Directors reviews and agrees policies for managing each of these risks and are summarized as follows:

Credit Risk

Credit risk is the risk of financial loss due to one party to a financial product failing to discharge an obligation. The bank faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers or enters into either market-traded or over-the-counter derivatives, through implied or actual contractual agreements. The bank has risk limits setting for purposes of monitoring and managing credit risk from individual counterparties and groups of counterparties. It also conducts periodical assessment of the creditworthiness of its counterparties. In addition, the bank obtains collaterals where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

In compliance with BSP requirements, the bank established an internal credit risk rating system for the purpose of measuring credit risk for corporate and individual borrowers in a consistent manner, as accurately as possible, and thereafter uses the risk information for business and financial decision making.

The following table shows the maximum exposure to credit risk for the components of the bank's balance sheet:

		Year 2018	Year 2017
COCI and Due From Other Banks	P	26,199,497.00	24,635,039.00
Held-To-Maturity Financial Assets		2,000,000.00	2,000,000.00
Loans and Receivable		59,537,646.00	49,591,707.00
Financial Assets Recognized in the Balance S	P	87,737,143.00	76,226,746.00

Market Risk

Market risk is the risk of loss that may result from the changes in the price of a financial product. The value of a financial product may change as a result of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) and market prices (price risk). Interest rate risk is the risk that the value of financial instrument will fluctuate because of changes in market interest rates. Currency risk on the other hand is the risk that the value of financial instrument will fluctuate because of changes in foreign exchange rates. And finally, price risk is the risk that the value of instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The bank structures levels of market risk it accepts through a market risk policy (a) determines what constitutes market risk for the bank; (b) basis used to fair value financial assets and liabilities; (c) asset allocation and portfolio limit structure; (d) diversification benchmarks by type of instrument; (e) sets out the net exposure limits by each counterparty or group of counterparties; (f) reporting of market risk exposures; and (g) monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment.

Liquidity Risk

Liquidity risk is the risk that the bank will not be able to meet its financial obligations as they fall due. The bank manages liquidity risk by forecasting projected cash flows and maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the bank's future and contingent obligations and set up required cash reserves as necessary in accordance with internal requirements.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow report, as well as an analysis of available liquid assets. Furthermore, an internal liquidity ratio has been set up to determine sufficiency of liquid assets over currently maturing liabilities.

The following table analyzes the financial assets and financial liabilities of the bank into their relevant maturity groups based on the remaining period at the balance sheet date to their contractual maturities or expected repayment dates as of December 31, 2018:

	Up to a year	1 - 5 years	Total
Financial Assets:			
Cash and Cash Equivalents	P 32,242,215.00	P 0.00	P 32,242,215.00
Held-To-Maturity Financial Assets	0.00	2,000,000.00	2,000,000.00
Loans and Receivable	28,120,454.00	32,689,729.00	60,810,183.00
Total	P 60,362,669.00	P 34,689,729.00	P 95,052,398.00

	Up to a year	1 - 5 years	Total
Financial Liabilities:			
Deposit Liabilities	P 67,236,546.00	P 0.00	P 67,236,546.00
Bills Payable	5,000,000.00	0.00	5,000,000.00
Accrued Expenses and Other Liabilities	1,630,982.00	0.00	1,630,982.00
Total	P 73,867,528.00	P 0.00	P 73,867,528.00

Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of the financial instrument will fluctuate because of changes in interest rates. The bank's cash equivalents and held-to-maturity financial assets are mostly invested in fixed interest rates on its duration and therefore exposed to fair value interest rate risk but not to cash flow interest rate risk.

Cash Flow Interest Rate Risk

This is the risk that future cash flows of the financial instrument will fluctuate because of changes in market interest rates. In the case of a floating rate debt instrument, for example such fluctuation results in a change in effective interest rate of a financial instrument, usually without a corresponding change in its fair value.

The following table demonstrates the sensitivity of risk based on the past experience and the industry as a whole:

Affected Financial Instrument	Market Risk	Credit Risk	Liquidity Risk	Cash Flow Interest Rate Risk
Held-to-Maturity Financial Assets	low	low	low	low
Loans and Receivables	low	moderate	moderate	low

Risk Management Plan:

The bank management adopts a strict policy of review and evaluation in engaging business with various financial instruments in the market. And to be able to cope-up with the erratic behavior of various risks that may affect the liquidity and profitability of the bank leading to devaluation in the value of its assets particularly the financial instruments, the management has created a committee of three members of the board whose main functions are geared towards the monitoring of the following:

1) Market Risk - to monitor the fluctuation of foreign currency risks, the changes in market interest rates due to volume of currencies in the market together with the other factors that are specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. Market risk is highly affected by the movements of this risk as it embodies not only the potential loss, but also the potential for gain.

2) Credit Risk - it is of paramount importance that this risk is highly evaluated by the committee to determine the extent of the obligation of one party to the financial instrument, i.e., his/her financial capability to discharge obligation, his present financial position and viability as this will cause the other party to incur a financial loss as a result of the failure of the latter.

3) Liquidity Risk - to monitor this area of concern which deals with the factors affecting the financial capability of the party to be able to raise funds to meet commitments that is associated with the financial instruments. There are situations wherein the party is unable to liquefy his financial assets quickly, and sometimes even below the asset's fair market value.

4) Cash Flow Interest Rate Risk- this concern pertains to the future cash flow that a financial instrument may generate at a normal value because of the erratic behavior affecting the market interest rates. It is also the committees' task to monitor the floating rate debt instruments because such changes in the interest rates result to dramatic changes in the effective interest rates of the financial instruments, but without corresponding appreciation in its fair value.

Capital Management:

The primary objectives of the bank's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. The bank maintains sufficient capital necessary to support its primary purpose and/or undertakings which the bank has initiated, promoted or conducted. The bank management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the bank's business operations or unanticipated events created by customer behavior or capital market conditions. The bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

Hedging Activities:

The bank had no transactions in the hedging activities of its financial assets.

Fair Values of Financial Assets and Financial Liabilities:

Under *PAS 32* Paragraph 86, an entity shall present the fair values in aggregate amount of each class of financial instrument in a way that the readers of financial statements can compare their corresponding values vis a vis the other instruments.

Below are comparisons of fair values of the financial instruments of the bank:

		Year 2018		Year 2017
Cash and Cash Equivalents				
Carrying Values	P	32,242,215.00	P	31,545,603.00
Fair Values		32,242,215.00		31,545,603.00
Held-To-Maturity Financial Assets				
Carrying Values	P	2,000,000.00	P	2,000,000.00
Fair Values		2,000,000.00		2,000,000.00
Loans and Receivables				
Carrying Values	P	59,537,646.00	P	49,591,707.00
Fair Values		59,537,646.00		49,591,707.00
Deposit Liabilities				
Carrying Values	P	67,236,546.00	P	65,232,495.00
Fair Values		67,236,546.00		65,232,495.00
Bills Payable				
Carrying Values	P	5,000,000.00	P	0.00
Fair Values		5,000,000.00		0.00
Accrued Expenses and Other Liabilities				
Carrying Values	P	1,630,982.00	P	1,328,162.00
Fair Values		1,630,982.00		1,328,162.00

Since the fair values of financial assets and financial liabilities are not readily measurable due to lack of available and/or published quotations, the fair values of the financial assets and financial liabilities are simply measured through the yearly provisions of credit losses and periodic impairment testing.

Note 5 : Cash and Cash Equivalents

This account consists of following:

		Year 2018	Year 2017
Cash on Hand	P	2,705,766.00	3,560,919.00
Checks and Other Cash Items		0.00	0.00
Due from Bangko Sentral ng Pilipinas		3,336,952.00	3,349,645.00
Due from Other Banks		26,199,497.00	24,635,039.00
Total	P	32,242,215.00	31,545,603.00

Due from Banko Sentral ng Pilipinas represents the balance of the deposit account maintained against deposit liabilities. This is the accumulated total required reserves paid by the bank against its deposit liabilities.

The Due from Other Banks account consists of deposits to various depository banks which are used for the bank's operations. The breakdown of which are as follows:

Name of Bank		Year 2018		Year 2017	
		Amount	%	Amount	%
Land Bank of the Philippines	P	25,241,874.00	96.34%	23,010,838.00	93.41%
Philippine National Bank		957,623.00	3.66%	1,624,201.00	6.59%
Totals	P	26,199,497.00	100%	24,635,039.00	100%

As of December 31, 2018, the bank's SBL was registered at P5,365,583.00 and as per BSP Manual of Regulations Section 362, banks are exempted on the ceiling of single borrowers limit (SBL) of 25% on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for check clearing in connection with its business operations and as per BSP Circular No. 734, "Loans and other credit accommodations **as well as deposits** and usual guarantees by a bank to any other bank, whether locally or abroad, shall be subject to the limits as herein prescribed or P100.0 million, whichever is higher".

Note 6 : Held-To-Maturity Financial Assets

This account is composed of the following:

		Year 2018	Year 2017
Philippine National Bank	P	2,000,000.00	2,000,000.00
Total	P	2,000,000.00	2,000,000.00

The above account represents 100% risk free investment placed at the Philippine National Bank in the form of treasury bills interest rate of 3.25% per annum. Maturity period of the above financial instrument is presented in Note 4 of the Notes to Financial Statements.

The bank does not provide any allowance for credit losses and impairment as the management believes that these investments are reasonably collectible and their fair market values may not be materially affected by the present economic behavior.

Note 7 : Loans and Receivables

The loans and receivables account are stated at amortized cost computed as outstanding loan balances, reduced by loans and receivables discounts and related allowance for credit losses, broken down as follows:

		Year 2018		Year 2017	
As to Status:					
Current	P	58,110,976.00	95.56%	50,173,022.00	96.17%
Past Due		2,699,145.00	4.44%	1,933,535.00	3.71%
Items in Litigation		62.00	0.00%	62,456.00	0.12%
Total Loan Portfolio		60,810,183.00	100%	52,169,014.00	100.00%
Loans and Receivable Discounts		0.00		(1,119,761.00)	
Allowance for Credit Losses		(1,272,537.00)		(1,457,546.00)	
Loans and Receivables (Net)	P	59,537,646.00		49,591,707.00	

The *Allowance for Credit Losses* of P1,272,537.00 is composed of general and specific loan loss provisions amounting to P580,395.00 and P692,142.00 respectively.

Below is the detailed computation of allowance for credit losses, both specific and general provision:

Specific Provision

	Rate		Loan Balance	Required Allowance
Loans Especially Mentioned	2%	P	1,272,861.00	25,457.00
Substandard Secured	10%		687,954.00	68,795.00
Substandard Secured	15%		49,850.00	7,478.00
Substandard Unsecured	25%		221,408.00	55,352.00
Doubtful	50%		7,112.00	3,556.00
Loss	100%		531,504.00	531,504.00
Allowance for Credit Losses-Specific		P	2,770,689.00	692,142.00
Booked Allowance				692,142.00
Excess/(Deficiency)				0.00

General Provision

Unclassified Restructured	5%	P	0.00	0.00
Unclassified Other Than Restructured	1%		58,039,494.00	580,395.00
Allowance for Credit Losses-General		P	58,039,494.00	580,395.00
Booked Allowance				580,395.00
Excess/(Deficiency)				0.00
Total Allowance for Credit Losses		P	60,810,183.00	1,272,537.00
Booked Allowance				1,272,537.00
Excess/(Deficiency)				0.00

Interest rates on loans and receivables ranged from 7% to 32% per annum.

The following table presents the reconciliation of the movement of the allowance for credit losses for loans and receivables:

		Year 2018	Year 2017
At January 1	P	1,457,546.00	1,919,268.00
Provisions during the year		255,824.00	83,943.00
Accounts written off/Adjustments		(440,833.00)	(545,665.00)
At December 31	P	1,272,537.00	1,457,546.00

The management believes that the bank had substantially complied with the loan loss provisioning as required by the BSP.

As to Maturity

		Year 2018		Year 2017	
Short Term - 1 year or Less	P	28,120,454.00	46.24%	22,986,716.00	44.06%
Medium Term - Over 1 year to 5 years		30,911,069.00	50.83%	26,876,797.00	51.52%
Long Term - Over 5 years		1,778,660.00	2.92%	2,305,502.00	4.42%
Total Loan Portfolio	P	60,810,183.00	100.00%	52,169,015.00	100.00%

As to Security:

		Year 2018		Year 2017	
Secured	P	44,674,514.00	73.47%	40,709,804.00	78.03%
Unsecured		16,135,669.00	26.53%	11,459,210.00	21.97%
Total Loan Portfolio	P	60,810,183.00	100.00%	52,169,014.00	100.00%

The total secured loans of the bank are further classified as follows:

		Year 2018		Year 2017	
Real Estate Mortgage	P	43,552,934.00	97.49%	39,335,713.00	96.62%
Chattel Mortgage		1,006,094.00	2.25%	700,001.00	1.72%
Others		115,486.00	0.26%	674,090.00	1.66%
Total Secured Loans	P	44,674,514.00	100.00%	40,709,804.00	100.00%

As to Concentration of Credit to Certain Industry / Economic Sector:

		Year 2018		Year 2017	
Agriculture, Forestry and Fishing	P	12,240,428.00	20.13%	4,033,684.00	7.73%
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles		16,488,332.00	27.11%	8,603,619.00	16.49%
Transportation and Storage		0.00	0.00%	24,674,986.00	47.30%
Real Estate Activities		16,342,045.00	26.87%	12,546,299.00	24.05%
Other Service Activities		1,515,367.00	2.49%	2,310,426.00	4.43%
Activities of Households as Employers, Undifferentiated Goods- and -Services- -Producing Activities of Households		14,224,011.00	23.39%	0.00	0.00%
Total Loan Portfolio	P	60,810,183.00	100.00%	52,169,014.00	100.00%

Utilization of Loanable Funds for the year 2018

Total Loanable Funds Generated as of December 31, 2018	P	80,046,301.00
Less: Total Loanable Funds Generated as of April 20, 2010		36,331,061.00
Increase / (Decrease)	P	43,715,240.00
Distribution of Compliance		
10% Agrarian Reform Loan	P	4,371,524.00
15% Other Agricultural Credit Loans		6,557,286.00
Total	P	10,928,810.00
Report of Utilization / Compliance		
Agrarian Reform Loan	P	5,346,718.00
Other Agricultural Credit Loans		6,893,710.00
Total	P	12,240,428.00
Excess / (Deficiency)		
Agrarian Reform Loan	P	975,194.00
Other Agricultural Credit Loans		336,424.00
Total	P	1,311,618.00

BSP Circular No. 531 allows banks to exclude from non-performing classification receivables classified as "Loss" in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued and that such receivables shall be deducted from the total receivable portfolio for purposes of computing non-performing loans.

Analysis of Past Due/Items in Litigation

Aging of accounts as of December 31, 2018 are as follows:

30 days and below	P	1,068,067.00
31-90 days		654,843.00
91-180 days		173,051.00
181-360 days		736,358.00
361 days and above		66,888.00
Total	P	2,699,207.00

MORB Section 305 provides that no interest income is allowed if loan has become non – performing as defined under Section 304. Likewise, interest income shall not be accrued on past due and unmatured loans/receivables with indications that collectibility thereof has become doubtful.

DOSRI Accounts

Below are selected ratios relative to the bank's DOSRI as of December 31, 2018

Total DOSRI to Total Loans	P	665,063.00 / 60,810,183.00	1.09%
Unsecured DOSRI to Total DOSRI	P	227,449.00 / 665,063.00	34.20%
Past Due DOSRI to Total DOSRI	P	0.00 / 665,063.00	0.00%
Non Performing DOSRI to Total DOSRI	P	0.00 / 665,063.00	0.00%

The bank's total DOSRI loan of P665,063.00 as of December 31, 2018 was equivalent to 1.09% of the total loan portfolio. Also, as at year-end, the unsecured DOSRI of P227,449.00 was equivalent to 34.20% of the total DOSRI loan.

Note 8 : Bank Premises, Furniture, Fixtures and Equipment

The reconciliation of the changes of this account as of **December 31, 2018** follows:

		Land	Building	FFE	IT Equipment	Transportation Equipment	Total
Cost							
At January 1	P	3,500.00	766,337.00	175,590.00	663,009.00	1,645,006.00	3,253,442.00
Additions		0.00	1,300,000.00	19,746.00	39,349.00	0.00	1,359,095.00
Adjustments		0.00	0.00	163,864.00	0.00	0.00	163,864.00
At December 31	P	3,500.00	2,066,337.00	359,200.00	702,358.00	1,645,006.00	4,776,401.00
Accumulated Depreciation							
At January 1	P	0.00	694,687.00	158,301.00	634,263.00	1,601,458.00	3,088,709.00
Depreciation		0.00	97,666.00	17,872.00	45,105.00	13,008.00	173,651.00
Adjustments		0.00	0.00	163,864.00	0.00	0.00	163,864.00
At December 31	P	0.00	792,353.00	340,037.00	679,368.00	1,614,466.00	3,426,224.00
Net Book Value at December 31	**P**	**3,500.00**	**1,273,984.00**	**19,163.00**	**22,990.00**	**30,540.00**	**1,350,177.00**

The value of bank premises, furniture, fixtures and equipment of P1,350,177.00 net of accumulated depreciation was 6.29% of the bank's total net worth. This is lower than the 50% maximum ratio required under *BSP MORB Section 109.*

Total Depreciation/Amortization Expense amounting to P173,651.00 presented in the income statement was composed of depreciation expense on bank premises, furniture, fixtures and equipment.

The reconciliation of the changes of this account as of **December 31, 2017** follows:

		Land	Building	FFE	IT Equipment	Transportation Equipment	Total
Cost							
At January 1	P	3,500.00	766,337.00	339,455.00	597,084.00	1,645,006.00	3,351,382.00
Additions		0.00	0.00	(163,865.00)	65,925.00	0.00	(97,940.00)
Adjustments		0.00	0.00	0.00	0.00	0.00	0.00
At December 31	P	3,500.00	766,337.00	175,590.00	663,009.00	1,645,006.00	3,253,442.00
Accumulated Depreciation							
At January 1	P	0.00	694,687.00	150,526.00	596,378.00	1,532,380.00	2,973,971.00
Depreciation		0.00	0.00	7,775.00	37,885.00	69,078.00	114,738.00
Adjustments		0.00	0.00	0.00	0.00	0.00	0.00
At December 31	P	0.00	694,687.00	158,301.00	634,263.00	1,601,458.00	3,088,709.00
Net Book Value at December 31	**P**	**3,500.00**	**71,650.00**	**17,289.00**	**28,746.00**	**43,548.00**	**164,733.00**

Note 9 : Investment Property

This account is broken down as follows:

		Year 2018	Year 2017
ROPA - Land	P	0.00	990,000.00
ROPA - Building		0.00	0.00
Total		0.00	990,000.00
Accumulated Depn. - ROPA - Bldg.		0.00	(17,000.00)
Allowance for Losses		0.00	0.00
ROPA - net	P	0.00	973,000.00

Movements of this account for the year 2018 are as follows:

		Land	Building	Total
Cost				
At January 1	P	990,000.00	0.00	990,000.00
Additions /(Disposal)		(990,000.00)	0.00	(990,000.00)
Adjustments		0.00	0.00	0.00
At December 31	P	0.00	0.00	0.00
Accumulated Depreciation				
At January 1	P	0.00	17,000.00	17,000.00
Depreciation		0.00	0.00	0.00
Adjustments		0.00	(17,000.00)	(17,000.00)
At December 31	P	0.00	0.00	0.00
Allowance for Losses				
At January 1	P	0.00	0.00	0.00
Provisions		0.00	0.00	0.00
Adjustments		0.00	0.00	0.00
At December 31	P	0.00	0.00	0.00
Net Book Value at December 31	**P**	**0.00**	**0.00**	**0.00**

This account represents Real and Other Properties Acquired to conform to PFRS amounting to **P973,000.00** net of accumulated depreciation on ROPA-Building and Allowance for Impairment on ROPA - Land in 2017 which composed of foreclosed properties by the bank from its delinquent borrowers in settlement of the unpaid loan obligations through foreclosure or dation in payment and/or for other reasons, whose carrying amount will be recovered principally through a sale transaction. This was already sold in 2018.

Note 10 : Deferred Tax Assets

		Year 2018	Year 2017
Balance as at January 1	P	0.00	0.00
Increase arising from:			
Future Deductible Temporary Difference		76,747.00	0.00
Deferred Tax Assets, December 31	P	76,747.00	0.00

The deferred tax assets of P76,747.00 comprises deductible temporary difference arising from provision for credit losses. The management can only utilize said deferred tax assets against writing-off of a particular loan account.

Note 11 : Other Assets

Hereunder are the compositions of *Other Assets* account:

		Year 2018	Year 2017
Accounts Receivable	P	74,750.00	41,800.00
Petty Cash Fund		10,000.00	10,000.00
Stationeries and Supplies Unused		38,325.00	49,607.00
Total	P	123,075.00	101,407.00

Accounts Receivable represents receivable arising from POS transactions which are still outstanding as of the end of the reporting period.

Note 12 : Deposit Liabilities

This account consists of the following:

		Year 2018		Year 2017	
Regular Savings Deposits	P	42,561,872.00	63.30%	39,417,113.00	60.43%
Special Savings Deposits		24,674,674.00	36.70%	25,815,381.00	39.57%
Total Deposit Liabilities	P	67,236,546.00	100.00%	65,232,495.00	100.00%

Total deposits for the year had increased by P2,004,051.00 or 3.07% over the figures of 2017. Biggest percentage of contribution for the increase was derived from regular savings deposits representing 7.98% while the special savings deposits account decreased by 4.42%. The overall deposit mix was 63.30% for low cost deposits and 36.70% for high cost deposits which is favorably indicative of low cost of funds for better interest margin.

Regular savings deposit earns interest of a 0.50% on a tiered-rate basis based on the total amount of average daily balance (ADB) of the deposits. Interest expense arising from savings deposits amounted to P782,830.00 and P608,945.00 for the years ended December 31, 2018 and 2017, respectively.

Interest rates on Special Savings Deposits ranged from 1.25% to 3.00% per annum.

Regular Savings Deposits are withdrawable upon demand, while Special Savings Deposits have different maturity dates from: 30, 60, 90, 180 and 360 days and bear different interest rates based on the amount of deposits and term of placements.

		Year 2018	Year 2017
Due within one (1) year	P	24,674,674.00	25,815,381.00
Due beyond one (1) year		0.00	0.00
Total Special Savings Deposits	P	24,674,674.00	25,815,381.00

		Year 2018	Year 2017
Taxable	P	24,674,674.00	25,815,381.00
Non-Taxable		0.00	0.00
Total Time Deposits	P	24,674,674.00	25,815,381.00

Non-taxable deposits are those placements with term of five (5) years or more and those that are exempt in accordance with the BIR regulation. It is a government incentive for those placements of five (5) years and above so that these funds are continuously rolled-back into the financial system to help our country's economic activity. These deposits become taxable when withdrawn before maturity dates and the pretermination policy of the bank shall apply.

As to Deposit Size:

	Total Savings Deposits
P15,000 and below	2,364,735.00
over P15,000 up to P80,000	9,527,878.00
over P80,000 up to P500,000	27,129,518.00
over P500,000	28,214,415.00
Total	67,236,546.00

Note 13 : Bills Payable

This account consists of borrowings from the following:

		Year 2018	Year 2017
Land Bank of the Philippines	P	5,000,000.00	0.00

The above borrowings are secured by client's promissory note together with their corresponding collaterals. Outstanding balance of assets pledged as collaterals as of December 31, 2018 amounted to **P5,417,802.00**. These accounts are being reduced thru payment of loans by the borrowers wherein the corresponding collaterals are also retrieved by the bank/borrowers. Maturity period of this borrowing is less than one (1) year from the balance sheet date with annual interest in accordance with the prevailing LBP lending rate at the time of availment while its fair values is presented in Note 4 of the Notes to Financial Statements.

Note 14 : Accrued Interest, Taxes and Other Expenses Payable

This account represents the following:

		Year 2018	Year 2017
Accrued Income Tax Payable	P	428,939.00	210,225.00
Accrued Other Expenses Payable		273,152.00	186,083.00
Total	P	702,091.00	396,308.00

All accruals made by the bank at the end of the year will be debited/paid in the following year.

Note 15 : Other Liabilities

This account is composed of the following:

		Year 2018	Year 2017
Accounts Payable	P	125,388.00	131,476.00
Dividends Payable		733,097.00	733,097.00
Withholding Taxes Payable		25,749.00	22,535.00
SSS, Med. and Pag-ibig Prem. Payable		37,365.00	41,873.00
SSS and Pag-ibig Loans Payable		4,419.00	0.00
Due to the Treasurer of the Philippines		2,873.00	2,873.00
Total	P	928,891.00	931,854.00

Accounts Payable items include various claims by other parties as of the year end. Withholding Taxes Payable represents tax withheld on interest expense on deposits and bills payable, on compensation and other transactions on which the bank is obliged to withhold as a withholding agent of the government. This amount had been remitted by the bank in January 2019.

Note 16 : Equity Accounts

Capital Stock

Ordinary Share Capital

The ordinary share holders of the bank are given least priority as to asset liquidation compared to outside creditors and preferred share holders. Ordinary shares are given equal rights and preference as among the ordinary share holders. The availability of dividends shall be determined by the net income after deducting any restrictions for reserve requirement and preferred dividends, if any.

Authorized ordinary share capital as of December 31, 2018 amounted to P15,000,000.00 divided into 150,000 shares with a par value of P100.00 each. Total subscribed and paid-up ordinary shares amounted to P14,209,200.00 or 142,092 shares as of December 31, 2018.

The bank has no dividend declaration during the year.

The reconciliation of number of ordinary shares issued and outstanding during the period is as follows:

	Year 2018		Year 2017	
Balance at January 1	127,847	shares	62,007	shares
Additional Issuance	14,245	shares	65,840	shares
Stock Dividend Distribution	0	shares	0	
Balance at December 31	142,092	shares	127,847	shares

Surplus

The nature of **prior year's adjustments** for the year 2018 follows:

Reversal of Accumulated Depreciation on Sold ROPA	P	17,000.00
Totals	P	17,000.00

As to capital requirements, the bank had more than complied per Section 122 of the Manual of Regulations for Banks.

Note 17 : Other Income

This account consists of the following:

		Year 2018	Year 2017
Fees and Commission Income	P	322,655.00	215,056.00
Service Charges and Fees		1,566,242.00	1,160,425.00
Recovery on Charged-Off Assets		106,410.00	112,432.00
Gain/(Loss) from Sale of ROPA		371,460.00	507,101.00
Miscellaneous Income		93,728.00	106,779.00
Totals	P	2,460,495.00	2,101,794.00

Gain on Sale of ROPA represents the difference between the net carrying amount and selling price of ROPA. Miscellaneous Income represents other charges and fees collected by the bank other than income from its ordinary business operations. These items are recognized when collected.

Note 18 : Other Expenses

This account consists of the following:

		Year 2018	Year 2017
Power, Light and Water	P	91,626.00	101,277.00
Fuel, Oil and Lubricants		76,880.00	71,460.00
Travelling		28,946.00	30,651.00
Repairs and Maintenance		68,889.00	65,883.00
Janitorial and Security Services		122,359.00	136,604.00
Postage, Telephone and Telegram		59,397.00	57,479.00
Stationeries and Supplies		72,241.00	79,470.00
Representation and Entertainment		24,378.00	0.00
Advertising and Publicity		48,290.00	51,100.00
Membership Fees and Dues		5,520.00	5,520.00
Donations and Charitable Contributions		18,828.00	42,400.00
Information Technology Expense		79,239.00	82,381.00
Management and Other Professional Fees		330,934.00	179,556.00
Insurance Expenses		256,908.00	270,587.00
Banking Fees		12,153.00	12,086.00
Litigation Expenses		11,827.00	180,237.00
Fines and Penalties		23,490.00	21,518.00
Miscellaneous		307,574.00	321,670.00
Totals	P	1,639,479.00	1,709,878.00

Note 19 : Quantitative Indicators and Other Ratios

Below are selective quantitative indicators and other ratios relative to the bank:

			2018	2017	Increase/ (Decrease)
Capital Adequacy Ratio	= Total Qualifying Capital / Net Risk Weighted Assets	=	***21.85%***	***21.54%***	1.44%
Return on Average Equity	= Net Income / Average Equity	=	***11.23%***	***8.03%***	39.85%
Return on Average Assets	= Net Income / Average Assets	=	***2.45%***	***1.64%***	49.39%
Net Interest Margin	= Net Interest Income / Average Interest Earning Assets	=	***9.66%***	***8.69%***	11.16%
Debt to Equity	= Total Liabilities / Total Equity	=	***3.44 : 1***	***3.74 : 1***	-8.02%

Capital Adequacy Ratio was derived by dividing the bank's total qualifying capital over the bank's net risk weighted assets. The bank's CAR had increased to 21.85% from 21.54% in 2017 brought about by the increase in the bank's capital. The rate of 21.85% is an indicator that the bank is highly capable to absorb risks in proportion to its capital exposures. All other profitability indicators also increased as a result of the increase in the bank's net income. Debt to equity ratio registered a decrease of 8.02% over the last year's figure, an indication of the bank's less dependence to debt capital.

Note 20 : Leases

The bank has no outstanding lease agreements as of December 31, 2018.

Note 21 : Retirement Plan

The bank has a defined benefit plan provided for the retirement plan required to be paid under RA No. 7641. Under PAS 19, "Employee Benefits", the cost of defined benefit plan including those mandated under RA No. 7641 should be determined using the term or years of service of an employee. The accumulated balance of retirement obligation amounted to P2,687,519.00 which was deposited in a separate account registered as Rural Bank of Sanchez Mira (Cagayan), Inc. Retirement Plan.

		Year 2018	Year 2017
Retirement Fund Payable - beginning	P	2,673,602.00	2,238,734.00
Additions during the year		214,636.00	430,000.00
Disbursements during the year		0.00	0.00
Adjustments		(200,719.00)	4,868.00
Retirement Fund Payable - end	P	2,687,519.00	2,673,602.00

Note 22 : Commitments and Contingencies

a.) The bank is a plaintiff to various cases arising from the collection suits pending in courts for claims against delinquent borrowers of the bank. The final decision of which cannot be determined at present. Total amount of loans and receivables under litigation amounted to P62.00 as of December 31, 2018. Though the amounts were recognized in the assets caption, the result of the case would not materially affect the financial statements of the bank.

b) The bank has no pending legal cases arising from its normal operation that will put the bank as defendant as a result of violation of transactions against its clients/depositors.

c) The bank had no outstanding issuances of bank guarantee and other similar credit instruments that will put the bank into obligation in case of non-compliance by the buyer.

d) The bank had no outstanding outward and inward bills for collection at the end of the year.

Note 23 : Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

In the ordinary course of business, the bank has credit accommodations to its directors, officers, stockholders and related interests (DOSRI) amounting to P665,063.00 as of December 31, 2018. Under the bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the bank. In the aggregate, loans to DOSRI generally should not exceed the bank's total capital funds or 15% of the bank's total loan portfolio, whichever is lower. As of December 31, 2018, the bank has not exceeded with the ratios pertaining to DOSRI except for the unsecured which registered at 34.20% as presented in Note 7 of the Notes to Financial Statements.

The remuneration of directors and key management personnel (included under Compensation and Fringe Benefits in the Statement of Income) of the bank as of December 31, 2018 and 2017 are as follows:

		Year 2018	Year 2017
Short-term benefits	P	3,006,514.00	3,643,131.00
Post-employment benefits		147,156.00	170,278.00
Totals	P	3,153,670.00	3,813,409.00

Note 24 : Taxes

Under Philippine tax laws, the bank is subject to percentage and other taxes (presented as Taxes and Licenses in the Statements of Income) as well as income taxes. Percentage and other taxes paid consist primarily of gross receipts tax (GRT) and documentary stamp tax (DST).

Income Taxes

Income taxes include the corporate income tax and final tax paid at the rate of 20% on gross interest income from government securities and other deposit substitutes. These income taxes are presented as Income Tax Expense in the Statement of Income.

Under Republic Act No. 9337, *An Act Amending National Internal Revenue Code*, provides that the regular corporate income tax (RCIT) rate shall be 35% until January 1, 2009. Starting January 1, 2009, the RCIT rate shall be 30%. It also provides for the change in gross receipts tax (GRT) rate from 7% to 5% which took effect on November 1, 2005. Starting November 1, 2005, interest allowed as a deductible expense is reduced by an amount equivalent to 42% of interest income subjected to final tax and shall be reduced to 33% effective January 1, 2009. A minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the regular income tax (RCIT). Any excess of the MCIT over the RCIT is deferred and can be used as tax credit against future income tax liability for the next three (3) years from the year of inception. In addition, the net operating loss carry-over (NOLCO) is allowed as a deduction from taxable income in the next three (3) years from the year of inception.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1% of the company's net revenue.

Reconciliation of statutory net income versus net income reported under Philippine Financial Reporting Standards:

		Year 2018	Year 2017
Net Income (Philippine GAAP)	**P**	**2,960,787.00**	**1,718,487.00**
Reconciling Items:			
Interest income subject to final tax		(238,406.00)	(207,137.00)
Interest expense reduced by 33% of income subject to final tax		78,674.00	85,444.00
Bad Debts Written-Off		(440,833.00)	(393,297.00)
Net Income After Permanent Differences		**2,360,222.00**	**1,203,497.00**
Future Deductible Temporary Difference:			
Provision for credit losses		255,824.00	83,943.00
Taxable Net Income		**2,616,046.00**	**1,287,440.00**
Tax Rate		30%	30%
Income Tax Due		**784,814.00**	**386,232.00**
Less: Payment for the first 3 quarters		355,875.00	176,007.00
Income Tax Still Due	**P**	**428,939.00**	**210,225.00**

Income tax expense presented in the income statement consists of the following:

		Year 2018	Year 2017
Income Tax Expense- Final	P	47,681.00	0.00
Income Tax Expense- Normal		708,067.00	386,232.00
Total Income Tax Expense	P	755,748.00	386,232.00

Below are the computations of Minimum Corporate Income Tax (MCIT) for the years ended December 31, 2018 and 2017:

		Year 2018	Year 2017
Gross Revenues	P	10,925,992.00	9,221,927.00
Cost of Services		5,812,599.00	5,204,717.00
Gross Profit	P	5,113,393.00	4,017,210.00
MCIT Rate		2%	2%
Minimum Corporate Income Tax	P	102,268.00	80,344.00

The cost of services of the bank comprises of salaries and wages, interest expense, depreciation, insurance and other cost/expenses directly attributable to the lending operation of the bank.

Percentage Taxes (Gross Receipt Tax)

Under Section 121 of the National Internal Revenue Code, there shall be tax on gross receipts derived from all sources within the Philippines by all banks and non-bank financial intermediaries in accordance with the following rates:

a. On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

   Maturity period of five (5) years or less……………………………….……..5%

   Maturity period is more than five (5) years……………………….……….1%

b. On dividends ………………………..…………………………..……...…0%

c. On royalties, rentals of property, real or personal profits from exchange and all other items treated as gross income under Sec 32 of the NIRC……………………………………………………….…...7%

d. On net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments………..7%

Documentary Stamp Tax

Pursuant to Revenue Regulation No. 4-2018 dated January 15, 2018 "Implementing provisions of Republic Act No. 10963 (TRAIN Law), an act which provides for the adjustment of documentary stamp tax rates under Republic Act No. 9243 and of the National Internal Revenue Code of 1997 (as amended), below are some caption of the circular affecting the operation of banks and non-bank financial intermediaries:

Section 174: Stamp Tax on Original Issue of Shares of Stock

On every original issue, whether on organization, reorganization or for any lawful purpose, of shares of stock by any association, company, or corporation, there shall be collected a documentary stamp tax of Two pesos (P2.00) on each Two hundred pesos (P200.00), or fractional part thereof, of the par value, of such shares of stock: *Provided*, That in the case of the original issue of shares of stock without par value, the amount of the documentary stamp tax herein prescribed shall be based upon the actual consideration for the issuance of such shares of stocks: *Provided*, *further*, That in the case of stocks dividends, on the actual value represented by each share.

Section 178: Stamp Tax on Bank Checks, Drafts, Certificates of Deposit not Bearing Interest, and Other Instruments

On each bank check, draft, or certificate of deposit not drawing interest, or order for the payment of any sum of money drawn upon or issued by any bank, trust company, or any person or persons, companies or corporations, at sight or on demand, there shall be collected a documentary stamp tax of Three pesos (P3.00).

Section 179: Stamp Tax on All Debt Instruments (Documents, Loan Agreements, Instruments and Papers)

On every original issue of debt instruments, there shall be collected a documentary stamp tax of One peso and fifty centavos (P1.50) on each Two hundred pesos (P200.00), or fractional part thereof, of the issue price of any such debt instruments: *Provided,* That for such debt instruments with terms of less than one (1) year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to three hundred sixty-five (365): *Provided, further*, That only one documentary stamp tax shall be imposed on either loan agreement, or promissory notes issued to secure such loan.

Section 195: Stamp Tax on Mortgages, Pledges and Deeds of Trust

On every mortgage or pledge of lands, estates, or property, real or personal, heritable or movable, whatsoever, where the same shall be made as a security for the payment of any definite and certain sum of money lent at the time of previously due and owing or forborne to be paid, being payable, and on any conveyance of land, estate, or property whatsoever, in trust or to be sold, or otherwise converted into money which shall be and intended only as security, either by express stipulation or otherwise, there shall be collected a documentary stamp tax at the following rates:

a. When the amount secured does not exceed Five thousand pesos (P5,000.00), Forty pesos (P40.00).

b. On each Five thousand pesos (P5,000.00), or fractional part thereof in excess of Five thousand pesos (P5,000.00), an additional tax of Twenty pesos (P20.00).

Note 25 : Other Matters

1. Anti-Money Laundering Act (AMLA)

   Though there were no indication of money laundered by any depositor, periodic reports were being rendered by the bank as being required by the BSP and RA 9160 as amended by RA 9194.

2. As of December 31, 2018, all of the bank's directors had undergone the requirements for corporate governance as confirmed by the Monetary Board as mandated by MORB Section 131.

3. There were no significant events that took place after the balance sheet date that would warrant major adjustments in the bank's financial statements (*PAS 10).*

Note 26 : Supplementary Information Required Under Revenue Regulations No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to financial statements shall include information on taxes and licenses paid or accrued during the year.

The bank reported and/or paid the following types of taxes for 2018:

Gross Receipt Tax

Under the Philippine Tax Laws, financial institutions are subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid by the bank consists principally of gross receipts tax (GRT) and documentary stamp tax (DST).

Details of the Bank's income and GRT accounts in 2018 are as follows:

	Gross Receipts	GRT
Total Income	P 11,164,398.00	P 605,396.00

Other Taxes and Licenses

In 2018, other taxes and licenses of the Bank consist of:

	Amount
Annual Registration	P 500.00
Business Permit and Licenses	50,173.00
Real Property Tax	4,145.00
Documentary Stamps	20,020.00
Registration of Motor Vehicles	5,862.00
Total	P 80,700.00
Total Taxes and Licenses	**P 686,096.00**

Withholding Taxes

Details of total remittances in 2018 and balance of withholding taxes as of December 31, 2018 are as follows:

	Remittances	Withholding Taxes Payable
Final Withholding Taxes	P 140,403.00	P 16,164.00
Withholding Taxes on Compensation and Benefits	128,700.00	1,168.00
Expanded Withholding Taxes	29,365.00	8,417.00
Total	P 298,468.00	P 25,749.00

Tax Assessments and Cases

As of December 31, 2018, the Bank has no deficiency tax assessments and has no tax cases, litigation and/or prosecution.

- ***End of Report*** -