Romeo G. Torno & Co., CPA's
4th Blk. DoloresHomesite, Dolores, City of San Fernando, Pampanga
Tel. No. (045)626-5581 Email add: rgt_ops@yahoo.com

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St., cor. Marzan St., Centro 1, Sanchez Mira, Cagayan.

Audited Financial Statement

December 31, 2019 and 2018

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, 2019 and 2018. Management is likewise responsible for all information and representation contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representation contained in all the other tax returns filed for the reporting period, including but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, and any all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2019 and 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** are 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 regulation 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 Regulations 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.

Signature	
Chairman of the Board:	**CARLO A. CACHAPERO**
Signature	
Chief Executive Officer:	**ALEJANDRO M. PULIDO, JR.**
Signature	
Chief Financial Officer	**THELMA M. DE LA CRUZ**

Signed this 14th day of MAY 2020

10 JUN 2020

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 year ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation 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 or Trusteed is responsible for overseeing the Company's financial reporting process.

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

ROMEO G. TORNO & CO., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed its opinion on the fairness of presentation upon completion of such audit.

Signature

Chairman of the Board: **CARLO A. CACHAPERO**

Signature

Chief Executive Officer: **ALEJANDRO M. PULIDO, JR.**

Signature

Chief Financial Officer **THELMA M. DE LA CRUZ**

Signed this 14th day of MAY 2020

Romeo G. Torno & Co.

Certified Public Accountants

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Tel No. (045) 626-5581
email add: rgt_ops@yahoo,com

BOA Accreditation No. 4618
SEC Accreditation Number: 0278-FR-1
February 6, 2017 to February 6, 2020
Section 9 of MC No. 20 Series of 2019

INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
Lagasca St., Cor Marzan 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, 2019 and 2018, and the statement of 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 statement present fairly, in all material respects, the financial position of the**RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** as at December 31, 2019 and 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 audits 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 in the report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The financial statements of the **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** for the year ended December 31, 2018 were audited by another who rendered an unqualified opinion on those statements. These are included in our report for comparative purposes only.

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

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

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

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

We also 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 statement 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 of such communication.

Report on Other Legal and Regulatory Requirements

Report on the Supplementary Information Required Under Revenue Regulation 15-2010 and 19-2011 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic (separate) financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 25 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 information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Statements Required by Rule 68, Part I Section 4 Securities Regulation Code (SRC), as Amended on October 20, 2011

We have audited the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** as at and for the period ended December 31, 2019, on which we have rendered the attached report dated May 14, 2020. The supplementary information shown in **Note 27**the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2019, 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 management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Part I, Section 4 of Rule 68 of the Securities Regulation Code.

The engagement partner on the audit resulting in this independent auditor's report is **ROMEO G. TORNO.**

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 as 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:

- 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. This 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.

Romeo G. Torno & Co.
Certified Public Accountants

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email add: rgt_ops@yahoo,com

BOA Accreditation No. 4618
SEC Accreditation Number: 0278-FR-1
February 6, 2017 to February 6, 2020
Section 9 of MC No. 20 Series of 2019

BY:

ROMEO G. TORNO &CO.,CPAs
BOA Accreditation No. 4618
September 18, 2017 valid until June 15, 2020
SEC No. 0278 – FR – 1 (Group C)
February 2, 2017 valid until February 6, 2020
Section 9 of MC No. 20 Series of 2019
BIR Accreditation No. 04-002375-000-2018
March 5, 2018 valid until March 4, 2021
CDA Accreditation No. 046-AF
October 17, 2017 valid until October 16, 2020

ROMEO G. TORNO, CPA
Managing Partner
CPA Certificate No. 0043083
Tax Identification No. 107-071-246
BIR Accreditation No. 04-002375-001-2018
March 5, 2018, valid until March 5, 2021
SEC No. 1678 – A
May 3, 2018 valid until March 5, 2021
PTR No. SF3579557
January 15, 2020
City of San Fernando, Pampanga

May 14, 2020

City of San Fernando, Pampanga

BUREAU OF INTERNAL REVENUE
RECEIVED
10 JUN 2020

Romeo G. Torno & Co.

Certified Public Accountants

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City of San Fernando, Pampanga
Tel No. (045) 626-5581
email add: rgt_ops@yahoo,com

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February 6, 2017 to February 6, 2020
Section 9 of MC No. 20 Series of 2019

STATEMENT OF REPRESENTATION

TO THE SECURITIES AND EXCHANGE COMMISSION:

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

1. That, our Firm is in the active practice of the accounting profession and duly registered with the Board of Accountancy (BOA) and Bangko Sentral ng Pilipinas (BSP) as accredited external auditor.

2. That the financial statements are presented in conformity with generally accepted accounting principles in the Philippines in all cases where we shall express an unqualified opinion; Except that in case of any departure from such principles, we 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 our Firm 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, we shall comply with the generally accepted auditing standards promulgated by the Board of Accountancy; in case of any departure from such standards or any limitation in the scope of our examination, we shall indicate the nature of the departure and the extent of the limitation, the reasons therefore and the effects thereof on the expression of our opinion or which may necessitate the negation of the expression of an opinion;

5. That we 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 our opinion on the said financial statements, we shall not commit any acts discreditable to the profession as provided under Code of Professional Ethics for CPAs.

We make these representations as a CPA engaged in public practice and our individual capacity in the auditing Firm of **Romeo G. Torno and Co.**

BY:

ROMEO G. TORNO &CO.,CPAs
BOA Accreditation No. 4618
September 18, 2017 valid until June 15, 2020
SEC No. 0278 – FR – 1 (Group C)
February 2, 2017 valid until February 6, 2020
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January 15, 2020
City of San Fernando, Pampanga

May 14, 2020

City of San Fernando, Pampanga

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

STATEMENTS OF FINANCIAL POSITION

	As at December 31	
	2019	2018
ASSETS		
Cash (Note 6.1)	**₱ 2,623,784**	₱ 2,705,766
Due from BSP and Other Banks (Note 6.2)	**30,457,639**	29,536,449
Debt Securities Measured at Amortized Cost (Note 7)	**2,000,000**	2,000,000
Loans & Receivable, Net (Note 8)	**49,372,126**	59,537,646
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 9)	**1,241,996**	1,350,177
Investment Properties (Note 10)	**207,000**	-
Other Assets (Note 11)	**293,346**	123,075
Deferred Tax Asset (Note 23)	**172,887**	76,747
TOTAL ASSETS	**86,368,778**	95,329,860
LIABILITIES & SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 12)	**60,727,170**	67,236,546
Bills Payable (Note 13)	**-**	5,000,000
Accrued Interest, Taxes and Other Expenses Payable (Note 14)	**175,355**	273,152
Other Liabilities (Note 15)	**1,505,764**	928,891
Income Tax Payable (Note 23)	**580,795**	428,939
TOTAL LIABILITIES	**62,989,084**	73,867,528
SHAREHOLDERS' EQUITY		
Share Capital (Note 16)		
Common Stock	**13,944,300**	14,209,200
Retained Earnings	**9,435,394**	7,253,132
TOTAL SHAREHOLDERS' EQUITY	**23,379,694**	21,462,332
TOTAL LIABILITIES & EQUITY ACCOUNTS	**₱ 86,368,778**	₱ 95,329,860
BOOK VALUE PER SHARE	**₱ 167.66**	₱ 151.05

See accompanying Notes to Financial Statements.

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31	
	2019	2018
INTEREST INCOME		
Loans & Receivables (Note 8)	**₱ 9,354,512**	₱ 8,465,497
Due from Other Banks (Note 6.2)	**108,795**	173,406
Debt Securities Measured at Amortized Cost (Note 7)	**52,000**	65,000
TOTAL INTEREST INCOME	**9,515,307**	8,703,903
INTEREST EXPENSE		
Deposit Liabilities (Note 12)	**617,515**	782,830
Bills Payables (Note 13)	**157,083**	-
TOTAL INTEREST EXPENSE	**774,598**	782,830
NET INTEREST INCOME	**8,740,709**	7,921,073
PROVISION FOR CREDIT LOSSES	**320,468**	255,824
NET INTEREST INCOME AFTER PROVISION	**8,420,241**	7,665,249
OTHER INCOME (Note 17)	**2,122,861**	2,460,495
TOTAL INCOME BEFORE OPERATING EXPENSES	**10,543,102**	10,125,744
OTHER OPERATING EXPENSE		
Compensation & Fringe Benefits (Note 18)	**4,997,279**	4,665,731
Other Operating Expenses (Note 20)	**1,565,268**	1,639,479
Taxes & Licenses (Note 25)	**688,329**	686,096
Depreciation & Amortization (Note 21)	**243,868**	173,651
TOTAL OTHER OPERATING EXPENSES	**7,494,744**	7,164,957
NET INCOME BEFORE INCOME TAX	**3,048,358**	2,960,787
INCOME TAX EXPENSE (Note 23)	**886,168**	755,748
NET INCOME AFTER INCOME TAX	**₱ 2,162,190**	₱ 2,205,039
EARNINGS PER SHARE	**₱ 15.51**	₱ 15.52

See accompanying Notes to Financial Statements.

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2019 and 2018

	Capital Stock (Note 16)	Deposit for Stock Subscription	Retained Earnings - Free	Total Equity
Balance at January 1, 2019	**₱13,584,200**	**₱625,000**	**₱7,253,132**	**₱21,462,332**
Issuance of shares	**360,100**	**-**	**-**	**360,100**
Total comprehensive income for the year	**-**	**-**	**2,162,190**	**2,162,190**
Reclassification to Deposit for Stock Subscription	**-**	**(625,000)**	**-**	**(625,000)**
Prior period adjustments	**-**	**-**	**20,072**	**20,072**
Balance at December 31, 2019	**₱13,944,300**	**₱-**	**₱9,435,394**	**₱23,379,694**
Balance at January 1, 2018	₱12,784,700	₱-	₱5,031,093	₱17,815,793
Additional Capital Infusion	799,500	625,000	-	1,424,500
Total comprehensive income for the year	-	-	2,205,039	2,205,039
Prior period adjustments	-	-	17,000	17,000
Balance at December 31, 2018	₱13,584,200	₱625,000	₱7,253,132	₱21,462,332

See accompanying Notes to Financial Statements.

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Income before tax	**₱ 3,048,358**	₱ 2,960,787
Adjustments for:		-
Provision for Credit Losses on Loans and Receivables	**320,468**	255,824
Depreciation and Amortization (Note 21)	**243,868**	173,651
Interest Income	**(9,515,307)**	(8,703,903)
Interest Expense	**774,598**	782,830
Changes in Working Capital:		
Loans & Receivables (Note 8)	**9,845,051**	(10,201,763)
Other Assets (Note 13)	**(170,271)**	(21,668)
Deposit liabilities (Note 12)	**(6,509,376)**	2,004,051
Accrued Interest, Taxes & Other Expenses Payable (Note 14)	**(97,797)**	87,069
Other Liabilities (Note 15)	**(48,127)**	(2,963)
Interest Paid	**(774,598)**	(782,830)
Interest Received	**9,515,307**	8,703,903
Income Tax Paid	**(830,451)**	(613,781)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**5,801,723**	(5,358,793)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of Investment Properties (Note 10)	**(207,000)**	-
Proceeds from Sale of Investment Property (Note 10)	-	973,000
Purchases of Premises, Furniture, Fixtures & Equipment (Note 9)	**(135,687)**	(1,359,095)
NET CASH PROVIDED (USED IN) BY INVESTING ACTIVITIES	**(342,687)**	(386,095)
CASH FLOW FROM FINANCING ACTIVITIES		
Net Charges to Surplus/Prior Period Adjustments	**20,072**	17,000
Proceeds from Capital Stock (Note 16)	**360,100**	1,424,500
Payment of Borrowings/Bills Payable (Note 13)	**(5,000,000)**	
Proceeds from Borrowings/Bills Payable (Note 13)		5,000,000
NET CASH PROVIDED (USED IN) BY FINANCING ACTIVITIES	**(4,619,828)**	6,441,500
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	**839,208**	696,612
CASH & CASH EQUIVALENTS - BEGINNING	**32,242,215**	31,545,603
CASH & CASH EQUIVALENTS - ENDING	**₱ 33,081,423**	₱32,242,215

1. CORPORATE INFORMATION

The **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** was registered with the Security and Exchange Commission (SEC) on November 25, 1971 under SEC Reg. No. 45926. Likewise, the Bank was granted authority to operate by Bangko Sentral ng Pilipinas 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 enterprise, 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 under and in accordance with with Republic Act No. 7353 (Rural Banks of 1992), as it exists or maybe amended; and to do all other things incidental thereto that are necessary and proper in connection with the said purpose and within such territory, as maybe determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

Its authorized capital stock is ₱15,000,000 divided into 150,000 ordinary shares with par value of P100 per share.

The present principal office of the Bank is located in Lagasca St., cor. Marzan St., Centro 1, Sanchez Mira, Cagayan.

The Bank's Board of Directors is composed of Nine (9) members, two (2) of them are independent directors.

Comparative Figures
The financial statements of the **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** for the year ended December 31, 2018 were audited by another who rendered an unqualified opinion on those statements. These are included in our report for comparative purposes only.

Approval of Submission
The accompanying financial statements of the Bank for the year ended December 31, 2019 were authorized for issue by its Board of Directors on May 14, 2020.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The significant accounting policies applied in the preparation of these financial statements are set out separately below or explained in the respective notes to these financial statements. These policies have been consistently applied to the periods presented, unless otherwise stated.

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivate financial instruments, if any, that have been measured at fair value. The financial statements are presented in Philippine peso ("₱") and all values are rounded to the nearest peso except when otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements provide comparative information in respect to previous period. In addition, the Bank presents an additional statement of financial position at the beginning of the earlier period presented when there is retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements. An additional statement of financial position at January 1, 2018 is presented in these financial statements due to retrospective application of certain accounting policies.

Statement of Compliance

The Bank's financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and relative laws, regulations and industry practices applicable to rural banks. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), Interpretations of the Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) which have been approved and adopted by the Financial Reporting Standards Council (FRSC). and adopted by the SEC. Also, the Bank adopted the new Financial Reporting Package (FRP) prescribed by the Bangko Sentral ng Pilipinas (BSP) as per BSP Circular No 512 dated February 3, 2006 which is updated as of May 31, 2019.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Going Concern Assumption

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial years, except that the Bank has adopted the following new accounting pronouncements beginning January 1, 2019. Adoption of these pronouncements did not have significant impact on the Bank's financial position or performance unless otherwise stated

New Standards, Amendments, and Interpretations Adopted

<u>New Standards</u>

- *PFRS 16, 'Leases'*

  This standard replaces the current guidance in PAS 17 and is a far-reaching change in accounting by lessees in particular.

  Under PAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). PFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for leases is expected to impact negotiations between lessors and lessees.

Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The effect of adopting PFRS 16 as of January 1, 2019 follows:

PFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under PFRS 16, a contract is, or contains, a lease of the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- *IFRIC 23, 'Uncertainty over income tax treatments'*

  This IFRIC clarifies how the recognition and measurement requirements of PAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The PFRS IC had clarified previously that PAS 12, not PAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

Amendments

- *PFRS 2, 'Share based payments', on clarifying how to account for certain types of share-based payment transactions (effective 1 January 2018)*
- *PFRS 4, 'Insurance contracts' regarding the implementation of PFRS 9,* 'Financial instruments'
- PAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 July 2018.
- Amendments to PAS 40, Investment Property, Transfers of Investment Property
- *IFRIC 22, 'Foreign currency transactions and advance consideration'*
- *PFRS 3 and PFRS 11. The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a*

business that is a joint operation, the entity does not re-measure previously held interests in that business.

- *PAS 12. The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.*
- *PAS 23. The amendments clarify that if any specific borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.*

Pronouncement issued but not yet effective

The Bank will adopt the following pronouncement when these become effective except as otherwise indicated; the Bank does not expect that the future adoption of these pronouncements will have a significant impact on its financial statements.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

- *PFRS 17, 'Insurance contracts'*

  This standard replaces PFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. PFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Financial Instruments

Financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial Recognition and Measurement – Prior to effective January 1, 2018.

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Immediately after recognition, an expected credit allowance (ECL) is recognized for financial assets measured at amortized cost.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognizes the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that used only data from observable markets, the difference is difference is recognized as a gain or loss.
b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial Assets

Classification and Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)

- Financial assets at fair value through OCI with recycling of cumulative gains or losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Bank. The Bank measures financial assets at amortized cost if both of the following conditions are met:

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

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is de-recognized, modified or impaired.

The Bank's investments are under this category.

Financial assets at fair value through OCI with recycling of cumulative gains or losses

The Bank measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange re-valuation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon de-recognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Bank has no financial assets under this category.

Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)

Upon initial recognition, the Bank can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the financial assets, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Bank has no financial assets under this category.

Financial Assets at fair value through profit or loss

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term. Notwithstanding the criteria the debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if:

- The economic characteristics and risks are not closely related to the host
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

The Bank has no financial assets under this category.

Impairment of Financial Assets

The bank recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

For trade receivable and contract assets, the Bank applies a simplified approach in calculating ECLs. Therefore, the Bank does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime of ECLs at each reporting date. The Bank has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The bank considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others:

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) it is probable that the borrower will enter bankruptcy or other financial reorganization;
(iv) the disappearance of an active market for that financial asset because of financial difficulties; or,
(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank.

Considering that the Bank is regulated by the Bangko Sentral ng Pilipinas (BSP) which requires a distinct provisioning as well as default provision pursuant to Circular 855, 941 and 1011, then in case of conflict between the standard (PFRS) and special law (which is enacted by BSP such as MORB), then the latter will prevail.

The Bank recognizes impairment loss based on the category of financial assets as follows:

Carried at Amortized Cost – Loans and Receivables and Debt Securities Measured at Amortized Cost (formerly Held-to-Maturity Financial Assets)

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

If there is objective evidence that an impairment loss on loans and receivable or debt securities carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan or debt securities has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible subject to BSP guidelines, it may be written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management, the BOD and the BSP, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are presented as part of Other Income in the statement of profit or loss.

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

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending payment arrangements and the agreement 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 that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses.

Derecognition of Financial Assets

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower or of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial Liabilities

A financial liability is any liability that is:

a. A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or
b. A contract that will or may be settled in the entity's own equity instruments and is:
   i. A non-derivative for which the entity is or may be obliged to deliver a favorable number of the entity's own equity instruments; or
   ii. A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortized cost, except for:

- ***Financial liabilities at fair value through profit or loss:*** this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of the financial asset did not qualify for derecognition, a financial liability is recognized for the consideration received for the transfer. In subsequent period, the Bank recognizes any expense incurred on the financial liability, when continuing involvement approach applies, see note 5.

Derecognition

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

Offsetting of 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's 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 at gross amount in the balance sheet.

Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank subsequently measures all equity instruments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments as FVPL are included in the 'Net trading income' line in the statement of profit or loss.

Financial Assets

This category includes cash and cash equivalents, loans receivable, investments and portion of other assets pertaining to rental deposits.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks that are highly liquid and readily convertible to known

amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are valued at face amount. Cash denominated in foreign currency is translated in peso using the closing rate as of the financial date. If a bank or financial institution holding the funds of the Bank is in bankruptcy or financial difficulty, cash should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount

Cash on Hand
Cash on hand represents the total amount of cash in the bank's vault in the form of notes and coins under the custody of the cashier/cash custodian. This is measured at face value.

Due from Bangko Sentral ng Pilipinas
This represents the balance of the deposit account in local currency maintained with the Bangko Sentral to meet reserve requirement subject to existing rules and regulations. This is measured at face value.

Due from Other Banks
This represents the balance of the deposit accounts maintained with other resident banks. These are stated in the Statement of Financial Position at their face value. Income on interest bearing deposits are credited to and included in the determination of income in the Statement of Comprehensive Income.

Loans and Receivables
Loans and receivable account includes loans extended to clients classified as small and medium enterprise loan, real estate loans, other loans, micro finance loans, and agrarian reform and other agricultural loans. Loans and receivables are recognized when cash is advanced to borrowers. These are recognized initially at fair value plus transaction costs that are directly attributable to the receivable. These are subsequently measured at amortized costs using effective interest method less provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as "Interest Income" in the Statement of Comprehensive Income. The losses arising from impairment are recognized in profit or loss.

Loans & Discounts
Receivables from customers are stated at the outstanding balance reduced by an allowance for probable loan losses.

Interest income on non-discounted term loan is accrued monthly as earned, except in the case of non-accruing loans.

Unearned discounts are recognized as income over the period for which such discount has been collected using the effective interest method. In accordance with the existing BSP regulations no interest income is accrued on accounts classified as past due.

Under existing BSP regulations, non-accruing loans are those that have been defined as being past due and items in litigations, or those for which, in the opinion of management, collection of interest or principal is doubtful. Interest income on these loans is recognized only to the extent of amount collected. Loans are not classified as accruing until interest and/or principal due are collected and the loans are brought to current or are restructured in accordance with existing BSP regulations and future payments appear assured. Collaterals of restructured loans exceeding ₱ 1 million shall be revalued by an independent appraiser acceptable to BSP.

Sec. 304 of the Manual of Regulations for Banks (MORB) states that past due accounts of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at contractual due date.

Sec. 304 states that loans, investments, receivables or any financial asset shall be considered non performing even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date or accrued interest for more than 90 days have been capitalized, refinanced or delayed by agreement. Restructured loans shall be considered performing only, if prior to restructuring, the loans were categorized as performing. Non-performing loans and other receivables shall remain classified as such until a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or b) written off.

The allowance for credit losses is the estimated amount of losses in the Bank's portfolio, based on evaluation of the quality of loans and prior loan loss experience (Appendix 15 of the MORB). Any amount set aside with respect to losses on loans and advances in addition to those losses that have been specifically identified or potential losses are indicatively present in the portfolio of loans and advances, are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period. The allowance is increased by provisions charged to expense and reduced by reasonable write-offs and reversals as determined by the Bank.

The outstanding balance as of December 31, 2019 was tested for impairment. The result of the test is favorable since the allowance for probable losses booked by the Bank higher than the requirement of Attachment 3 of BSP Circular 1011 (Appendix 15 of MORB), "Guidelines for Adoption of PFRS 9'.

Sales Contract Receivable
Sales Contract Receivable (SCR) shall be recorded based on the present value of the installments receivables discounted at the imputed rate of interest. Discount shall be accrued over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PFRS 15 "Revenue". Provided, that SCR shall be subject to impairment provisions of PFRS 9.

SCRs that meet all the requirements or conditions enumerated below are considered performing assets

1. That there has been a down payment of at least twenty percent (20%) of the agreed selling price or in the absence thereof, the installment payments on the principal had already amounted to at least twenty percent (20%) of the agreed selling price;
2. That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one (1) year;
3. That any grace period in the payment of principal shall not be more than two (2) years and;
4. That there is no installment payment in arrear either on principal or interest: Provided, That an SCR account shall be automatically classified "Substandard" and considered non-performing in case of non-payment of any amortization due: Provided, further, That an SCR which has been classified "Substandard" and considered non-performing due to non-payment of any amortization due may only be upgraded restored to unclassified and/or performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established

As at December 31, 2019, the Bank has no sales contract receivable under this category.

Debt Securities Measured at Amortized Cost (formerly Held-to-Maturity Financial Assets)
HTM Financial assets are renamed as 'Debt Securities at Amortized Cost' as required under Annex A of BSP Circular 1011. These are financial assets other than those that are designated at fair value through profit or loss, which meet both of the following conditions:

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

The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in accordance with PFRS 9 and BSP Circular 1011, as shown in Note 6. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

As at December 31, 2019, the Bank has debt securities measured at amortized cost under this category.

Premises, Furniture, Fixtures and Equipment's
The initial cost of premises, furniture, fixtures, and equipment except land, comprises its purchase price including import duties, borrowing costs (during the construction period), and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes the cost of replacing the part of such asset when the recognition criteria are met and the estimated cost of dismantling and removing the asset and restoring the site. Land is stated at cost less any impairment value
Expenditures incurred after the premises, furniture, fixtures, and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly determined that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs.

When major improvement is performed, its cost is recognized in the carrying amount of the premises, furniture, fixtures, and equipment as a replacement if the recognition criteria are satisfied.
For financial reporting purposes, depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

The useful lives and depreciation or amortization method are being reviewed by the Bank periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of premises, furniture, fixtures, and equipment. The residual value, if any, is also reviewed and adjusted if appropriate, at each balance sheet date.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Amortization of leasehold improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter. Land is not depreciated.

The estimated useful lives of Bank Premises, Furniture, Fixtures and Equipment are as follows:

Buildings	10 years
Furniture and fixtures	3-5 years
Transportation equipment	3-5 years
Information Technology Equipment	3-5 years
Other Equipment	3-5 years

Fully depreciated assets are retained in the accounts at ₱ 1 net value until they are no longer in use and no further charge for depreciation is made with respect to those assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the account and any resulting gain or loss are reflected in the income for the period. Any disposal or deletion of property and equipment from the Bank's book of accounts should be approved by the management.

Impairment of Premises, Furniture, Fixtures & Equipment
An assessment is made at the balance sheet date to determine whether there is any indication that an asset may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists and when the carrying value of an asset exceeds its estimated recoverable amount, the asset is written down to its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value of money and the risk specific to the asset. Recoverable amounts are estimated for individual assets or if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets or investments, the recoverable amount represents the net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against operations in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization for premises, furniture, fixtures, and equipment) had no impairment loss was recognized for the asset in prior years. A reversal for impairment loss is credited to current operations.

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 of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on the derecognition shall be recorded as gain on sale of investment properties in the Statement of Income in the year of disposal.

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 when the costs are incurred.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets of 10 years or shorter from the date of acquisition. Land is not depreciated.

However, under Sec.382c of the BSP MORB, land and building classified as Real and Other Properties Acquired (ROPA) shall be accounted for as Investment Properties under PAS 40.

Intangible Assets
An intangible asset pertains to acquired information technology software capitalized on the basis of the cost incurred to acquire and bring to use the specific software. This asset is stated at historical cost less amortization. However, costs for licenses incurred for maintaining the software are charged to operations. Costs that are directly attributable to the development phase of new customized software for information technology and telecommunications systems are recognized as intangible assets provided they meet the following recognition requirements:

- Demonstration of technological feasibility of the prospective product for internal use or sale;
- The intangible asset will generate probable economic benefits through internal use or sale;
- Sufficient technical, financial and other resources are available for completion; and
- The intangible asset can be reliably measured.

Intangible assets are subject to impairment testing. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install specific software.

Amortization on other computer software is provided on a straight-line method over the estimated useful lives of 5 years.

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 Circular 512 as amended by Circular 520 issued by the Bangko Sentral ng Pilipinas.

Impairment of Non-Financial Assets
The Bank assesses at each reporting date if 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 fair value less costs to sell and value in use. When the carrying value 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 and time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognized in the Income Statement in the expense categories.

The assessment is made at each reporting date. 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 net of depreciation that would have been determined, had no impairment loss have 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.

Financial Liabilities

Financial liabilities include deposit liabilities, bills payable and other accrued expenses and are recognized when the Bank becomes party to the contractual agreement of the instrument. Financial liabilities are initially recognized at their fair value and subsequently measured at amortized cost less settlement payments. The following compose the financial liabilities of the Bank.

Deposit Liabilities

The deposit liability account includes savings deposits and term deposits. Savings deposits are interest bearing or non-interest bearing and are withdraw-able upon presentation of properly accomplished withdrawal slip and passbook. Term deposits refer to interest-bearing deposits with specific maturity dates and evidenced by certificate issued by the Bank.

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 actual costs.

Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available on balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

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

In those cases, where the possible outflow of economic resources as a result of present obligation is considered improbable or remote, or the amount to be provided cannot be measured reliably, no liability is recognized in the financial statements. Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence not recognized in the financial assets.

Contingencies

Contingent liabilities are not recognized in the financial statements but they are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an outflow of economic benefit is probable.

Revenue Recognition
The Bank primarily derives its revenue from interest income on loans. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those goods or services. The Bank assesses its revenue arrangements against specific criteria in order to determine whether it is acting as principal or as an agent. The Bank is acting principal in its revenue arrangements to its customers, revenue is recognized on a gross basis. However, if the Bank is acting as an agent to its customers, only the amount of net commission retained is recognized as revenue.

A contract liability is the obligation to transfer goods or services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Bank transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Bank performs its obligations under the contract.

Contract liabilities also include payments received by the Bank from the customers for which revenue recognition has not yet commenced.

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

Revenue within the scope of PFRS 15:

<u>*Loan Fees and Service Charges*</u>
Loan fees directly related to acquisition and origination of loans are included in the cost of receivables and are amortized using the effective interest rate method over the term of the loan. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower.

Service charges are recognized earned or accrued where there is reasonable degree as to its collectability

Revenue outside the scope of PFRS 15:

<u>*Interest Income*</u>

Interest on Loans
Interest Income on loans and discount with advanced interest are recognized periodically using the effective interest method of amortization. On the other hand, interest income on loans and discount with no advanced interest are recognized on accrual basis. The accrual basis of recognition of interest income, however, ceases when the loans and discount is already past due.

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

Interest Income on Bank deposits and Debt Securities measured at Amortized Cost
Interest on bank deposits and debt securities measured at amortized cost financial assets are recognized using the accrual method.

Other Income
Other income arising from litigation, service charges, membership fee, rental income and others. Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

Leases

Lease Recognition – January 1, 2019

Lessee Accounting

Finance Lease - PFRS 16 provides that at the commencement date, a lessee shall recognize a right of use asset and a lease liability. This simply means that a lessee is required to initially recognize a right of use asset for the right to use the underlying asset over the lease term and a lease liability for the obligation to make payments. All leases shall be accounted for by the lessee as finance lease under the new lease standard.

Initial Measurement of right of use asset
A right of use asset is defined as an asset that represents the right of a lessee to use an underlying asset over the lease term in a finance lease.

The cost of right of use asset comprises:

a. The present value of lease payments
b. Lease payments made to lessor such as lease bonus, less any lease incentive received
c. Initial direct costs incurred by the lessee
d. Estimate of cost of dismantling and restoring the underlying asset for which the lessee has a present obligation.

Subsequent measurement if right of use asset
The lessee shall measure the right of use asset applying the **cost model.** To apply the cost model, the lessee shall measure the right of use asset at cost less any accumulated depreciation and impairment loss.

Presentation of right of use asset
The bank presented the right of use asset as separate line item as noncurrent asset in the statement of financial position.

(As an alternative, the lessee may include the right of use asset in the appropriate line item within which the corresponding underlying asset would be presented if owned.)

Depreciation of right of use asset
The lessee shall apply normal depreciation policy for right of use asset.
PFRS 16 provides that the lessee shall depreciate the right of use asset over the useful life of the underlying asset under the following conditions:

a. The lease transfers ownership of the underlying asset to the lessee at the end of the lease term.
b. The lessee is reasonably certain to exercise a purchase option.

If there is no transfer of ownership to the lessee or if the purchase option is not reasonably certain to exercised, the lessee shall depreciate the right of use asset over the shorter between the useful life of the asset and the lease term.

Measurement of Lease Liability
The lessee shall measure the lease liability at the present value of lease payments.
The lease payments shall be discounted using the interest rate implicit in the lease desired by the lessor.
If the implicit interest rate cannot be readily determined, the incremental borrowing rate of the lessee is used.

Components of lease payments

a. Fixed lease payments or periodic rental.
b. Variable lease payments.
c. Exercise price of a purchase option if the lessee is reasonably certain to exercise the option.
d. Amount expected to be payable by the lessee under a residual value guarantee.
e. Termination penalties if the lease term reflects the exercise of a termination option.

Operating lease model for lessee
PFRS 16 provides that a lessee is permitted to make an accounting policy election to apply the operating lease accounting and not recognize an asset and lease liability in two optional exemptions.

a. Short-term lease
b. Low value lease

Lessor Accounting
PFRS 16 provides that a lessor shall classify leases as either an operating lease or a finance lease.

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

Under PFRS 16, any of the following situations would normally lead to a lease being classified as a finance lease:

a. The lease transfers ownership of the underlying asset to the lessee at the end of the lease term.
b. The lessee has an option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable. At the inception of the lease, it is reasonably certain that the option will be exercised.
c. The lease term is for the major part of the economic life of the underlying asset even if title is not transferred. Under GAAP, a "major part" means at least 75% of the economic life of an asset.
d. The present value of the lease payments amounts to substantially all of the fair value of the underlying asset at the inception of the lease. Under GAAP, "substantially all" means at least 90% of the fair value of the underlying asset.

Lease Recognition – Prior to January 1, 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other lease are classified as operating leases.

i. Operating Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date 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 re-assessment is made after the 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 the fulfillment is dependent on specified asset; or
d. There is a substantial change to the asset.

Where re-assessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the re-assessment for scenarios a, c or d and at the date of renewal or extension period for scenario b.

- The Bank as a Lessor. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in the statement of comprehensive income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.
- The Bank as a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of comprehensive income on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where there another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

As at December 31, 2019, the Bank has no leases under this category.

Employee Benefits

a. Short term benefits

The Bank provides short term benefits to its employees in the form of salaries and wages, 13th month pay, contributions to SSS/PHIC/HDMF and other short term employee benefits and are presented as part of the operating expenses as compensation and fringe benefits -employees.

b. Retirement Benefits

Republic Act (RA) No. 7641 (New Retirement Law) which took effect on January 7, 1993 requires the Bank to provide minimum retirement benefit to qualified retiring employees. Minimum retirement benefit is equivalent to at least one half month salary for every year of service. An employee upon reaching sixty years of age and who has served at least five years may retire and be entitled to retirement benefits. The compulsory retirement age is sixty five (65) years of age.

c. Retirement Cost

The Bank has a non-contributory define benefit retirement plan. The retirement cost of the Bank is determined using the projected unit cost method. Under this method, the current service cost is the present value of retirement obligation in the future with respect to services rendered in the current year.

Income Taxes

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences with exceptions. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carry forward of unused excess MCIT over RCIT and unused NOLCO can be utilized.

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

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

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

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

Current income tax and deferred income tax relating to items recognized directly in equity is recognized in OCI, and not in profit or loss.

Equity

Share Capital
Share Capital is measured at par value for all shares issued and outstanding. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed capital stock is reported in equity less the related subscription receivable not currently collectible. Capital stock consists of common and preferred. Preferred stocks are (a) cumulative, (b) non-voting, and (c) non-redeemable.

Subscribed common stock is recognized at subscribed amount net of subscription receivable.
Subscriptions receivable pertains to uncollected portion of subscribed stocks. The Bank accounted for the subscription receivable as a contra equity account.

Retained Earning
Retained earnings represents the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Dividends
Cash dividends are recognized as liability and deducted from the equity when approved by the Board of Directors (BOD) while stock dividends are deducted from equity when approved by BOD and stockholders. Dividends for the year that are approved after the reporting date are dealt with as subsequent events. Stock issuance costs are accounted for as deduction from equity.

Earnings per Share
Earnings per share (EPS) is computed by dividing net income by the weighted average number of ordinary shares outstanding during the year with retroactive adjustments applicable, if any, to preference shares.

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 ordinary shares outstanding during the year.

Deposit for Stock Subscription
Deposit for stock subscription (DSS) represents payments made on subscription of shares which cannot be directly credited to 'Preferred stock' or 'Common stock' pending registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. In accordance with SEC Financial Reporting Bulletin No. 006 issued in 2012 and Section 123 of the MORB, the Bank does consider a deposit for future subscription as an equity instrument unless all of the following elements are present.

(a). the deposit for stock subscription meets the definition of an equity instrument under Philippine Accounting Standards (PAS) 32 Financial Instruments: Presentation such that the deposit for stock subscription shall not be interest-bearing nor withdrawable by the subscribe; (b). The unissued authorized capital stocks of the Bank are insufficient to cover the amount of shares classified as deposits for future shares subscriptions; (c). the entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; (d). an application for the approval of the increase in capital stock has been presented for filing or filed with the SEC and BSP and (e). the bank must have obtained approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person, natural or juridical, or by one group of persons as provided in Sec. 122 (Transactions involving voting shares of stocks, Item "b"), if applicable

DSS that does not meet the foregoing provisions is treated as a financial liability.

As of December 31, 2019, the Bank DSS recorded under other liabilities amounting to ₱625,000.

Related Party Relationships and 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. Transactions between related parties are based on terms similar to those offered to non-related parties.

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

Philippine Auditing Practice Note No. 001 Series of 2020 - Audit Consideration on the Occurrence Of An Extraordinary Event

In lieu of the occurrence of an extraordinary event, which is the Novel Corona Virus Disease 2019 audit engagement teams may face challenges in conducting the audit of the annual financial statements (AFS). Audit Teams could face significant challenges completing their audits due to the following circumstances, including but not limited to:
A. Barriers to obtaining the information needed to perform procedures and reach conclusions
B. Difficulties accessing client premises to perform procedures
C. Audit procedures not providing the anticipated audit evidence, requiring modifications to the audit approach
D. A need to respond to risk of immaterial misstatement arising from limitations on information and/or management having less time that usual to prepare the financial information
E. A need to perform additional work to respond to risks of immaterial misstatement arising from the potential financial effects of the outbreak
F. Impediments to completing the audit as a result of the engagement team having to work remotely.

Due to these challenges it has cause significant delays in the completion of our audit and may also impact the ability of the auditors to obtain sufficient appropriate audit evidence.
In line with this, an alternative ways to acquire our needed documents and information for the required disclosure to complete the said financial statements (such as audit evidence in scanned documentary form sent thru electronic mail).

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities, if any. Future events may occur which will cause the judgments used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

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

Revisions to accounting estimates are recognized in the period in which the estimate is revisited 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.

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

a. Classification of financial instruments
The Bank exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

b. Determination of Functional currency
PAS 21, the effects of Changes in Foreign Exchange Rates requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

b.1. The currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b.2. The currency in which funds from financing activities are generated; and
b.3. The currency in which receipts from operating activities are usually retained.

The Bank has determined that its functional currency is the Philippine Peso which is the currency of the primary environment in which the Bank operates.

c. Recognition of Provision and Contingencies
Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are presented in the Notes to the Financial Statements.

d. Classification of Acquired Properties and Fair Value Determination of Non-current Assets Held for Sale and Investment Property
At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

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

a. Determination of Fair Values of Financial Assets and Liabilities
PFRS requires certain financial assets and liabilities to be carried and disclosed at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e. foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Bank utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would directly affect the Bank's statement of comprehensive income and statement of changes in equity.

b. Allowance for Credit Losses
The allowance for credit losses, which includes both specific and general loan loss reserve represents management's estimate of probable losses inherent in the portfolio, after considering the prevailing and anticipated economic conditions, prior loss experience, estimated recoverable value based on fair market values of underlying collaterals and prospect of support from guarantors, subsequent collections and evaluations made by the BSP. The BSP observes certain criteria and guidelines in establishing specific loan loss reserves for classified loans and other risk assets a provided under Sec. 143 and Appendix 15 of the Manual of Regulations for Banks.

Individually assessed loans and other credit accommodations (which include other credits such as accounts receivables, sales contract receivables, accrued interest receivables and advances):

Loans and other credit accommodation with unpaid principal and/or interest is being classified and provided with allowance for credit losses (ACL) based on the number of days missed payments as follows:

For unsecured loans and credit accommodations:

Number of days Unpaid/with missed payments	Classification	Minimum ACL	Stage
31 - 90 days	Substandard (Underperforming)	10%	2
91 - 120 days	Substandard (Non Performing)	25%	3
121 - 180- days	Doubtful	50%	3
180 days and over	Loss	100%	3

For secured loans and other credit accommodations:

Number of days Unpaid/with missed payments	Classification	Minimum ACL	Stage
31 - 90 days*	Substandard (Underperforming)	10%	2
91 - 180 days	Substandard (Non-Performing)	10%	3
181 - 365- days	Substandard (Non-Performing)	25%	3
Over 1 year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3
*When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%			

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

Loans and other credit accommodations that exhibit the characteristics for classified account is being provided with allowance for credit losses as follows: Classified Loans

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3*
Substandard – Unsecured	25%	2 or 3*
Doubtful	50%	3
Loss	100%	3

**The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).*

Unsecured loans and other credit accommodations classified as "substandard" in the last two (2) internal credit reviews which have been continuously renewed or extended without reduction in principal and is not in process of collection, is downgraded to "doubtful" classification and provided with 50% allowance for credit losses.

Loans and other credit accommodations under litigation which have been classified as "pass" prior to litigation process is classified as 'substandard" and provided with 25% ACL.

Loans and other credit accommodations that were previously classified as "pass" but were subsequently restructured shall have a minimum classification of "especially mentioned" and provided with a 5% ACL, except for loans which are considered non-risk under existing laws, rules and regulations.

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

Collectively Assessed Loans and Other Credit Accommodations which includes microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other types of loan which fall below the Bank's materiality threshold for individual assessment:

Current "pass" loans and other credit accommodations is provided with ACL based on the number of days of missed payments as follows:

For unsecured loans and other credit accommodations:

Number of days Unpaid/with missed payments	Classification	Minimum ACL	Stage
1-30 days	Especially Mentioned	2%	2
31-60 days/1st restructuring	Substandard	25%	2 or 3
61-90 days	Doubtful	50%	3
91 days and over/ 2nd restructuring	Loss	100%	3

For secured loans and other credit accommodations:

No. of Days Unpaid/With Missed Payments	Classification	Allowance for Credit Losses (ACL)		STAGE
		Other types of collateral	Secured by real estate	
31 - 90 days	Substandard (Underperforming)	10%	10%	2
91 - 120 days	Substandard (Non-performing)	25%	15%	3
121 - 360 days	Doubtful	50%	25%	3
361 days - 5 years	Loss	100%	50%	3
Over 5 years	Loss	100%	100%	3

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

For unclassified loans:	
Unclassified restructured loans	5% of the borrower's outstanding loan
Unclassified other than restructured	1% of the borrower's outstanding loan

Outstanding loans that were already subjected to specific provisioning were no longer included in the general loan loss provisioning as shown above.

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 collectibles 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.

c. Useful lives of Bank Premises, Furniture, Fixtures & Equipment
The useful lives of Bank Premises, Furniture, Fixtures and Equipment are estimated based on the period over which these assets are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of Bank Premises, Furniture, Fixtures and Equipment are reviewed periodically and are updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the Bank Premises, Furniture, Fixtures and Equipment. 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.

There were no changes in the estimated useful lives of Bank Premises, Furniture, Fixtures and Equipment.

d. Useful life of Depreciable Investment Property
The assumptions and estimates used by the Bank in the useful life of Investment Property are made to objectively determine the productivity or use of the assets. The BSP however in its Circular 494 provided that Investment Property -building and Investment Property -Other Non-Financial Assets specifically 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 BSP regulation shall prevail.

e. Determination of Impairment of Nonfinancial Assets
An impairment review should be performed when certain impairment indicators are present.
Determining the value in use of Bank Premises, Furniture, Fixtures and Equipment which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that Bank Premises, Furniture, Fixtures and Equipment are impaired.

Any resulting impairment loss could have a material adverse impact on the Bank's financial position and financial performance.

f. Recognition of Retirement Costs.
The determination of the obligation and cost for pension and other retirement benefits is dependent on the selection of certain assumptions used by an actuary in calculating such amounts. Those assumptions include among others, discount rates and salary rate increase. Actual results that differ from the assumptions generally affect the recognized expense and recorded obligation in such future periods. While the Bank believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

g. Recognition of Deferred Tax Assets
Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which the deferred tax assets can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 validity and good financial position in the market.

The inherent risks which can arise 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 on policies for managing each of these risks and are summarized as follows:

Credit Risk

Credit risk is the risk of financial loss due to the other party's failure to discharge an obligation cited in a binding financial instrument. 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 and enters into either market-traded or over-the-counter derivatives, through implied or actual contractual agreements. The Bank manages the level of credit risks it accepts through comprehensive credit risk policy setting assessment and determination of what constitutes credit risk for the Bank; setting up exposure limits by each counterparty or group of counterparties, geographical and industry segments; guidelines on obtaining collateral guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2019 and 2018:

Credit quality per class of financial assets

The tables below show the credit quality per class of financial assets as at December 31, 2019 and 2018:

2019				
Financial Assets	**Neither Past Due nor impaired**	**Past due but not impaired**	**Past due and impaired**	**Total**
Due from BSP	**₱ 2,220,846**	**₱ -**	**₱ -**	**₱ 2,220,846**
Due from other banks	**28,236,793**	**-**	**-**	**28,236,793**
Financial Assets at Amortized Cost	**2,000,000**	**-**	**-**	**2,000,000**
Loans & Receivables	**48,047,816**	**2,897,243**	**-**	**50,945,059**
	₱78,505,455	**₱ 2,897,243**	**₱ -**	**₱ 83,402,698**

2018				
Financial Assets	Neither Past Due nor impaired	Past due but not impaired	Past due and impaired	Total
Due from BSP	₱ 3,336,952	₱ -	₱ -	₱ 3,336,952
Due from other banks	26,199,497	-	-	26,199,497
Financial Assets at Amortized Cost	2,000,000	-	-	2,000,000
Loans & Receivables	58,110,976	2,699,207	-	60,810,183

	₱ 89,647,425	₱ 2,699,207	₱ -	₱ 94,346,632

**Amount is net of Unamortized Discount*

Aging analysis of past due but not impaired loans and receivables

The following tables show the total aggregate amount of loans and receivables that are contractually past due but not considered impaired per delinquency bucket as at December 31, 2019 and 2018.

	2019			
	31 to 60 Days	**61 to 90 Days**	**91 days to 180 day**	**Total**
Receivable from customers:				
Loans receivable	**₱ 1,368,815**	**₱ 684,292**	**₱ 109,496**	**₱ 2,162,603**
TOTAL	**₱ 1,368,815**	**₱ 684,292**	**₱ 109,496**	**₱ 2,162,603**

	2018			
	31 to 60 Days	61 to 90 Days	91 days to 180 day	Total
Receivable from customers:				
Loans receivable	₱ 1,062,124	₱ 443,771	₱ 207,000	₱ 1,712,895
TOTAL	₱ 1,062,124	₱ 443,771	₱ 207,000	₱ 1,712,895

Market Risk
Market risk is the risk of loss that may result from the changes in price of a financial product. The value of a financial product may change as a result of changes in interest 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 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.

Interest rate risk
The Bank's loans receivables earn effective interest rates ranging from 9.50% to 24.00% for 2019 and 2018, respectively. The shortest term of loan is four (4) months while the longest term is three (3) years. The Bank's interest rate on its deposit liabilities is 0.50% for Regular Deposits, 1.25% to 2.50% for Gold Savings Deposit amounting to ₱100k to ₱1 Million, and 1.50% to 3.00% for Gold Savings Deposit amounting to above ₱1 Million.

However, the Bank earns 3.25% from its debt securities measured at amortized cost. It also earns 0.10% on its savings and current deposits with other Banks and 1.00% on its high-yield savings account.

Fair Value Interest Rate Risk
Fair value interest rate risk is the risk that the value of the financial instruments will fluctuate because of changes in interest rates. The Bank's cash equivalents 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.

Loan receivables and interest bearing liabilities are sized as to interest rate and maturity to make a reasonable analysis of the degree of risk associated with lending and borrowings.

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. Fluctuation results in a change in effective interest rate of a financial instrument usually without a corresponding change in its fair value.

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs. It may result from either inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of contractual obligation; or inability to generate cash inflows as anticipated.

The Bank monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Bank maintains a level of cash deemed sufficient to finance operations and to mitigate the effects of fluctuations in cash flows and a balance between continuity of funding and flexibility through the use of short-term debt and advances from related parties and an arrangement for a stand-by credit line facilities with any reputable bank and in case of emergency. Interest rate and maturity matching analysis is used to quantify monitoring of liquidity position.

The tables below summarize the maturity profile based on contractual undiscounted cash flows of the Bank's financial liabilities and related financial assets used for liquidity purposes:

	2019					
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to 12 months**	**Beyond 1 year**	**Total**
Financial Liabilities						
Deposit liabilities	₱-	₱49,335,027	₱3,400,950	₱7,991,193	₱-	₱60,727,170
Bills Payable	-	-	-	-	-	-
Other Liabilities:						
Accrued expenses	-	-	175,355	-	-	175,355
Accounts payable	-	-	70,329	-	-	70,329
Total Financial Liabilities	-	49,335,027	3,646,634	7,991,193	-	60,972,854
Financial Assets						
Cash and other cash items	2,623,784	-	-	-	-	2,623,784
Due from BSP	2,220,846	-	-	-	-	2,220,846
Due from other banks	28,236,793	-	-	-	-	28,236,793
Debt Securities Measured at Amortized Cost	2,000,000	-	-	-	-	2,000,000
Loans and receivable	-	3,365,651	5,213,274	13,891,073	28,475,062	50,945,060
Other Receivable	-	-	204,100	-	-	204,100
Total Financial Assets	35,081,423	3,365,651	5,417,374	13,891,073	28,475,062	86,230,583
Liquidity Position (Gap)	₱(35,081,423)	₱45,969,376	₱(1,770,740)	₱(5,899,880)	₱(28,475,062)	₱(25,257,729)

	2018					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities						
Deposit liabilities	₱-	₱53,139,506	₱5,892,051	₱7,643,512	₱561,477	₱67,236,546
Bills Payable	-	-	-	-	5,000,000	5,000,000
Other Liabilities:						
Accrued expenses	-	-	273,152	-	-	273,152
Accounts payable	-	-	125,388	-	-	125,388
Total Financial Liabilities		53,139,506	6,290,591	7,643,512	5,561,477	72,635,086
Financial Assets						
Cash and other cash items	2,705,766	-	-	-	-	2,705,766
Due from BSP	3,336,952	-	-	-	-	3,336,952
Due from other banks	26,199,497	-	-	-	-	26,199,497
Debt Securities Measured at Amortized Cost	2,000,000	-	-	-	-	2,000,000
Loans and receivable	-	2,896,338	7,165,512	17,900,554	32,847,779	60,810,183
Other Receivable	-	-	74,750	-	-	74,750
Total Financial Assets	34,242,215	2,896,338	7,240,262	17,900,554	32,847,779	95,127,148
Liquidity Position (Gap)	₱(34,242,215)	₱50,243,168	₱(949,671)	₱(10,257,042)	₱(27,286,302)	₱(22,492,062)

Operational Risks
Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with the Bank's involvement in financial instruments, personnel, technology and infrastructure and external factors other than market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. The Bank's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Minimum Liquidity Ratio (MLR)
Minimum Liquidity Ratio (MLR) for Stand-Alone TBs, RBs and Coop Banks. To promote short-term resilience to liquidity shocks, banks shall maintain a stock of liquid assets proportionate to their on- and off-balance sheet liabilities. The prudential MLR requirement applies to all TBs, RBs and Coop Banks and QBs that are not subsidiaries of UBs/KBs.

A prudential MLR Minimum requirement of twenty percent (20%) shall apply to banks on an ongoing basis absent a period of financial stress. The liquidity ratio is expressed as a percentage of a bank's eligible stock of liquid assets to its total qualifying liabilities in accordance with MORB Section 145.

Minimum Liquidity Ratio (MLR) as of December 31, 2019

PART 1. MINIMUM LIQUIDITY RATIO (MLR)	
A. Stock of Liquid Assets	₱ 33,081,423
B. Qualifying Liabilities	62,163,496
Minimum Liquidity Ratio	**53.21%**
PART II. STOCK OF LIQUID ASSETS	
Cash on Hand	2,623,784
Bank Reserves in the BSP	2,220,846
Debt Securities representing claims on or guaranteed by the Philippine National Government and the BSP	-
Deposits in Other Banks	28,236,793
Total	**₱ 33,081,423**
PART III. QUALIFYING LIABILITIES	
A. Qualifying Liabilities	
1 Retail current and regular savings deposits with outstanding balance per account of ₱500,000 and below (₱118,476,355 * 50%)	
2. Obligations arising from operational expenses	175,355
3. Total on Balance Sheet Liabilities	62,338,851
4. Deduct: Sum of A1 to A2	62,163,496
B. Other non-balance sheet liabilities (Item A.3 less A.4)	-
C. Irrevocable obligations under off-balance sheet items	-
D. Total (Sum of Adjusted Amount of Item A(1), A(2), B and C)	**₱ 62,163,496**

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the reporting period as shown in the statements of cash flows can be reconciled to the related items in the statements of financial position as follows:

	2019	2018
6.1. Cash and Other Cash items		
Cash on Hand and in Vault	₱ **2,623,784**	₱ 2,705,766
Total cash and other cash items	***2,623,784***	*2,705,766*

6.2. Due from BSP and other Banks		
Due from Bangko Sentral ng Pilipinas	**2,220,246**	3,336,952
Due from Other Banks	**28,236,793**	26,199,497
Total due from BSP and other banks	**30,457,639**	29,536,449
Total Cash and Cash Equivalent	**₱ 33,081,423**	₱ 32,242,215

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers. Checks and other cash items include cash items (other than currency and coins on hand) such as checks drawn on the other banks or other branches after the Bank's clearing cut-off time until the close of the regular banking hours. For the purpose of the statements of cash flows, cash and cash equivalents include cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

The balance of Due from BSP account serves as the Bank's reserve for its deposit liabilities. Under the Manual of Regulations for Banks, a Bank is required to maintain its reserve requirements for its deposit liabilities in the form of deposits with the BSP Section 252 of MORB further provides that such deposit account with the BSP is not considered as a regular current account. Drawings against such deposits shall be limited to: (a) settlement of obligations with the BSP; and, (b) withdrawals to meet cash requirements.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its operating funds. Breakdown of this account follows:

Name of Banks		2019	%		2018	%
Landbank of the Philippines	₱	**26,561,548**	**94.07%**	₱	25,241,874	96.34%
Philippine National Bank		**1,675,245**	**5.93%**		957,623	3.66%
Total	₱	**28,236,793**	**100%**	₱	26,199,497	100%

Under Sec.362g of the Manual of Regulations for Banks, 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 Single Borrower's Limit of 25% of the Net worth as herein prescribed or ₱100 Million whichever is higher. Provided that the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

As of December 31, 2019, the Bank's SBL was registered at ₱ 5,844,924 and as per BSP Manual of Regulations, bank are exempted on the ceiling of single borrower's limit (SBL) on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for clearing operation.

As of December 31, 2019, none of the Banks has exceeded the prescribed limit or ₱ 100 million under Circular No. 734 Series of 2011.

Cash in bank represents current and saving deposits account in local bank. Current account and savings account earn interest at 0.10%. While, high-yield savings account earn interest at 1.00% in 2019 and 2018.

Due from other banks generally earns interest at prevailing bank deposit rates. Total interest income earned amounted to ₱ 108,795 and ₱ 173,406 for the years ended December 31, 2019 and 2018, respectively. Deposit with the BSP is non-interest bearing.

The Bank reconciles the books and bank balances regularly as part of its cash monitoring and internal control measures.

The Bank holds no cash and cash equivalents in 2019 and 2018 which are not available for use by Bank.

7. DEBT SECURITIES MEASURED AT AMORTIZED COST

This account is consisting of:

This account consists of:

	2019	2018
Treasury Bills-BTr	₱ 2,000,000	₱ 2,000,000
Total	**₱ 2,000,000**	₱ 2,000,000

The following are the breakdown of debt securities measured at amortized cost:

Issuer Bank	Interest Rate Yield	Term/Date Issued Maturity	Face Value	Potential Gain/Loss Per Annum Net of 20% W-Tax
Philippine National Bank Sale No.38146	3.25%	**10 years 8/15/2013**	**₱2,000,000**	**₱52,000**
Transaction No.: 4161266		**To 8/15/2023**		
Total			**₱2,000,000**	**₱52,000**

Debt Securities Measured at Amortized Cost earn interest income amounting to ₱52,000 and ₱65,000 for 2019 and 2018.

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.

8. LOANS AND RECEIVABLES

The loan receivables are stated at outstanding balances, net of estimated allowance for credit losses and unearned income/discounts, broken down as follows:

	2019	%	2018	%
Current Loans	**₱ 49,266,846**	**94.43%**	₱ 58,110,976	95.56%
Past Due - performing	**1,999,729**	**3.83%**	2,699,145	4.44%
Past Due -Non performing	**553,723**	**1.07%**	-	0.00%
Items in Litigation	**350,386**	**0.67%**	62	0.00%
Total	**52,170,684**	**100.00%**	60,810,183	100.00%
Less: Unamortized Discounts	**1,225,624**		-	
Total, net of discount	**50,945,060**		60,810,183	
Less: Allowance for Credit Losses				
Specific	**988,786**		692,142	
General	**584,148**		580,395	
Total Loans Receivable-net	**₱ 49,372,126**		₱ 59,537,646	

The Bank's loan accounts are stated at the outstanding balance, reduce by estimated allowance for credit losses and unearned interest and discounts. These receivables can be received either by cash or check payments.

Loans and receivables earn interest income at interest rates ranging 9.50% to 24% for 2019 and 2018, respectively. Total earned interest amounts to ₱9,354,512 and ₱8,465,497 for 2019 and 2018, respectively.

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

Movements in the allowance for credit losses related to loans and receivables follow:

	2019	2018
Balance at beginning of year	₱ 1,272,537	₱ 1,475,546
Provision (IS)	360,429	255,824
Adjustment	(20,072)	(440,833)
Balance at end year	₱ 1,572,934	₱ 1,272,537

The total Allowance for Credit Losses of ₱ 988,786 which composed of general and specific loan loss provisions as stated above is in compliance with the BSP Manual of Regulations (Sec. 143 Appendix 15) or Circular No. 1011.

In compliance with the regulations of the BSP, the Bank strictly adheres to the setting up of the valuation allowance for risk assets based on Circular 1011 and Appendix 15 of the MORB. The Bank reviews the quality of its loan portfolio and prepares a quantitative classification of its risk assets including loans.

Classification of loans: (amount is net of unamortized discounts)

As to Maturity:

	2019	%	2018	%
Due within one (1) year	₱ 21,650,641	42.50%	₱ 28,120,454	46.24%
Due beyond one (1) year	29,294,419	57.50%	32,689,729	53.76%
Total Loan Portfolio	₱ 50,945,060	100%	₱ 60,810,183	100%

As to Status

	2019	%	2018	%
Current Loans	₱ 48,047,816	94.31%	₱ 58,110,976	95.56%
Past Due Loans	2,546,858	5.00%	2,699,145	4.44%
Items in Litigation	350,386	0.69%	62	0.00%
Total Loan Portfolio	₱ 50,945,060	100%	₱ 60,810,183	100%

As to Security:

	2019	%	2018	%
Secured	₱ 36,806,234	72.25%	₱ 44,674,514	73.47%
Unsecured	14,138,826	27.75%	16,135,669	26.53%
Total Loan Portfolio	₱ 50,945,060	100%	₱ 60,810,183	100%

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

2019	%	2018	%

Agriculture, Forestry and Fishing	**₱ 9,296,616**	**18.25%**	₱ 12,240,428	20.13%
Whole and Retail trade, Repair of Motor vehicle, Motorcycle	**13,189,261**	**25.89%**	16,488,332	27.11%
Real Estate	**12,213,766**	**23.97%**	16,342,045	26.87%
Other Service Activities	**1,292,040**	**2.54%**	1,515,367	2.49%
Household Consumption	**14,953,376**	**29.35%**	14,224,011	23.39%
Total Loan Portfolio	**₱ 50,945,060**	**100%**	₱ 60,810,183	100%

The BSP considers that loan concentration exists when total loan exposure to a particular economic sector exceeds 30% of the total loan portfolio except for the real estate loans. As of December 31, 2019, no credit concentration exists in the portfolio of the Bank.

9. Bank Premises, Furniture, Fixtures and Equipment

This account is consists of:

	Land	Building	Furniture, Fixtures and Equipment	Other Office Equipment	Information Technology Equipment	Transportation Equipment	Total
December 31, 2019							
Cost	₱ 3,500	₱ 2,066,337	₱ 211,818	₱ 255,039	₱ 760,388	₱ 1,645,006	₱ 4,912,088
Accumulated Depreciation	-	950,501	199,209	166,296	728,515	1,625,571	3,670,092
Net carrying amount	₱ 3,500	₱ 1,115,836	₱ 12,609	₱ 58,743	₱ 31,873	₱ 19,435	₱ 1,241,996
December 31, 2018							
Cost	₱ 3,500	₱ 2,066,337	₱ 359,200	₱ -	₱ 702,358	₱ 1,645,006	₱ 4,776,401
Accumulated Depreciation	-	792,353	340,037	-	679,368	1,614,466	3,426,224
Net carrying amount	₱ 3,500	₱ 1,273,984	₱ 19,163	₱ -	₱ 22,990	₱ 30,540	₱ 1,350,177

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2019 and 2018 is shown below:

	2019						
	Land	Building	Furniture, Fixtures and Equipment	Other Office Equipment	Information Technology Equipment	Transportation Equipment	Total
Cost							
Balance at beginning of year	₱ 3,500	₱ 2,066,337	₱ 359,200	₱ -	₱ 702,358	₱ 1,645,006	₱ 4,776,401
Additions	-	-	13,156	64,501	58,030	-	135,687
Reclassification	-	-	(160,538)	160,538	-	-	-
Balance at end of year	₱ 3,500	₱ 2,066,337	₱ 211,818	₱ 255,039	₱ 760,388	₱ 1,645,006	₱ 4,912,088
Accumulated Depreciation							
Balance at beginning of year	₱ -	₱ 792,353	₱ 340,037	₱ -	₱ 679,368	₱ 1,614,466	₱ 3,426,224

	Land	Building	Furniture, Fixtures and Equipment	Other Office Equipment	Information Technology Equipment	Transportation Equipment	Total
Additions	-	**158,148**	**17,615**	**7,853,**	**49,147**	**11,105**	**243,868**
Reclassification	-	-	**(158,443)**	**158,443**	-	-	-
Balance at end of year	**₱ -**	**₱ 950,501**	**₱ 199,209**	**₱ 166,296**	**₱ 728,515**	**₱ 1,625,571**	**₱ 3,670,092**
Net Book Value	**₱ 3,500**	**₱ 1,115,836**	**₱ 12,609**	**₱ 58,743**	**₱ 31,873**	**₱ 19,435**	**₱ 1,241,996**

2018							
	Land	Building	Furniture, Fixtures and Equipment	Other Office Equipment	Information Technology Equipment	Transportation Equipment	Total
Cost							
Balance at beginning of year	₱ 3,500	₱ 766,337	₱ 175,590	₱ -	₱ 663,009	₱ 1,645,006	₱ 3,253,442
Additions	-	1,300,000	19,746	-	39,349	-	1,359,095
Disposal/Reclassification	-	-	163,864	-	-	-	163,864
Balance at end of year	₱ 3,500	₱ 2,066,337	₱ 359,200	₱ -	₱ 702,358	₱ 1,645,006	₱ 4,776,401
Accumulated Depreciation							
Balance at beginning of year	₱ -	₱ 694,687	₱ 158,301	₱ -	₱ 634,263	₱ 1,601,458	₱ 3,088,709
Additions	-	97,666	17,872	-	45,015	13,008	173,651
Disposal/Reclassification	-	-	163,864	-	-	-	163,864
Balance at end of year	₱ -	₱ 792,353	₱ 340,037	₱ -	₱ 679,368	₱ 1,614,466	₱ 3,426,224
Net Book Value	₱ 3,500	₱ 1,273,984	₱ 19,163	₱ -	₱ 22,990	₱ 30,540	₱ 1,350,177

Depreciation amounting to ₱243,867 and ₱173,651 in 2019 and 2018, respectively, are shown as separate components of operating expenses in the Statements of Comprehensive Income.

No additions to property and equipment during the year are treated as non-cash transactions for cash flows.

The value of the Bank premises, furniture, fixtures and equipment of ₱1,241,996, net of accumulated depreciation, as of December 31, 2019 is 5.31% of the Bank's total net worth. This is lower than the 50% maximum ratio required under BSP regulation (MORB Section 109).

The Bank, after due consideration of the assessment of its impairment, believes that there are no indications that the property and equipment as of December 31, 2019 and 2018 are impaired or its carrying amount cannot be recovered

10. INVESTMENT PROPERTY

This account is consisting of real estate properties acquired by the Bank in settlement of loans which were recognized as ROPA and accounted for as investment properties to conform with PAS 40. Under Sec. 382, ROPA shall be booked initially at the carrying amount of the loan plus booked accrued interest less allowance for credit losses plus transaction costs such as capital gains tax and documentary stamp tax.

This account is consist of:	2019	2018
Land	₱ 207,000	₱ -
Net Carrying Amount	**₱ 207,000**	₱ -

A reconciliation of the carrying amounts of the Bank's investment property at the beginning and end of 2019 and 2018 is shown in below:

	2019	2018
Balance at beginning	₱ -	₱ 973,000
Disposal	-	(973,000)
Acquisition	207,000	-
Balance at end of year net of accumulated dep. and impairment loss	₱ 207,000	₱ -

As at December 31, 2019, the Bank did not provide allowance for credit losses on Investment Property.

As of December 31, 2019 and 2018, no amount of investment in property was used as collateral for liabilities.

Additions to investment property during the year are through transfer of loans receivables to ROPA account.

11. OTHER ASSETS

This account is consists of:	2019	2018
Financial Assets		
Accounts Receivables	₱ 204,100	₱ 74,750
Non-Financial Assets		
Prepaid Expenses	17,782	-
Petty Cash Fund	10,000	10,000
Stationery and Supplies on Hand	61,464	38,325
Net Other Assets	₱ 293,346	₱ 123,075

The Accounts Receivable represents various advances and payments made by the Bank of various expenses and/or transactions and were charged to the respective accounts of the beneficiaries subject to liquidation. Prepaid Expenses are future expenses that have been paid in advance.

As at December 31, 2019 and 2018, the Bank did not provide allowance for credit losses on Accounts receivable.

12. DEPOSITS LIABILITIES

This account is consists of:

	2019	%	2018	%
Saving Deposit	₱ 60,727,170	100%	₱ 66,736,546	99.26%
Time Deposit	-	-%	500,000	0.74%
Total Deposit Liabilities	**₱ 60,727,170**	**100%**	₱ 67,236,546	100%

Savings Deposits are composed of regular savings accounts which are withdrawable upon demand and those with special terms and withdrawable at certain period of time. Total deposits for the year decreased by ₱ 6,509,376 or 9.68% over the figures of 2018.

The Bank's interest rate on its deposit liabilities is 0.50% for Regular Deposits, 1.25% to 2.50% for Gold Savings Deposit amounting to ₱100k to ₱1 Million, and 1.50% to 3.00% for Gold Savings Deposit amounting to above ₱1 Million.

On April 3, 2014, the BSP issued Circular No. 830 which took effect on April 11, 2014 increased the reserve requirements from 4% to 5% for demand deposits and from 2% to 3% for regular savings, special savings deposits and time deposits.

On November 21, 2019, the BSP issued Circular No. 1063 which took effect on December 6, 2019 Reduction in Reserve Requirements of 3% for savings deposits The required reserve as of December 31, 2019 amounting to ₱ 1,821,815 or 3% of the total deposit liabilities. This amount is in the form of deposit with Bangko Sentral ng Pilipinas which has a balance of ₱ 2,220,846 as at December 31, 2019.

Interest expense on deposit liabilities charged to profit or loss in 2019 and 2018 amounted to ₱617,515 and ₱782,830, respectively.

13. BILLS PAYABLE

This account consists of:

	2019	2018
Land Bank of the Philippines	₱ -	₱ 5,000,000
Total	**₱ -**	₱ 5,000,000

The above bills payable was fully paid during the year.

Interest expense on Bills Payables charged to statement of comprehensive income in 2019 amounted to ₱157,083.

14. ACCRUED INTEREST, TAXES AND OTHER EXPENSES PAYABLE

This account is consists of:

	2019	2018
Accrued Other Expenses Payable	₱ 175,355	₱ 273,152
Total	**₱ 175,355**	₱ 273,152

Accrued other expenses payable are expenses payable on the following year.

15. OTHER LIABILITIES

This account is consists of:

	2019	2018
Accounts Payable	₱ 70,329	₱ 125,388
Withholding Tax Payable	26,516	25,749
SSS, Medicare and Pag-ibig Contribution Payable	42,015	37,365
SSS/Pag-ibig loan Payable	5,933	4,419
Deposit for Stock Subscription	625,000	-
Dividends Payable	733,097	733,097
Due to the Treasurer of the Philippines	2,873	2,873
Total	**₱ 1,505,763**	₱ 928,891

The above liabilities are settled either by cash or check payments. As December 31, 2019 and 2018, no amount of assets was used as collateral, security or guarantee for the above liabilities.

Accounts Payable represents various liabilities incurred by the Bank for its own account and the third parties arising from short term indebtedness/obligations still outstanding at the cut-off/ reporting date.

Withholding tax payable represents tax withheld on interest expense on deposits, on compensation and other transactions on which the bank is obliged to withhold as a withholding agent of the government.

SSS, Medicare and Pag-ibig Contribution are employee's contribution which are to be remitted by the Bank on January 2020.

Deposit for stock subscription represents the stockholders' initial subscription to the new capital increase plan pending formal approval of the BSP and subsequently the SEC. The payment of deposit includes the new set of stockholders interested in restoring and improving the operation of the bank.

Due to Treasurer of the Philippines are deposit account balances which are dormant for ten years or longer which are due for transfer to the Treasurer of the Philippines due to absence of claimant.

16. EQUITY

Share Capital

Ordinary Shares

The ordinary shareholders of the bank are given less priority as to assets liquidation compared to outside creditors and preferred shareholders. Ordinary shares are given equal rights and preference as among ordinary shareholders. The availability of dividends shall be determined by the net income after deducting any restriction for reserve requirements and preferred dividends, if any.

Authorized ordinary share capital as of December 31, 2019 amounted to ₱ 15,000,000 or 150,000 shares with a par value of ₱ 100 each. Total subscribed ordinary shares amounted to ₱ 13,944,900 or 139,443 shares and paid up ordinary shares amounted to ₱ 13,944,900 or 139,443 shares as of December 31, 2019.

Under Section 121: *Minimum Required Capital,* Rural Banks with head office only in all other areas outside NCR are required to comply with the minimum capital of ₱ 20 Million within five (5) years. A capital build up program is also required to be submitted to the BSP within one (1) year from date of the circulars effectively.

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

	2019		2018	
Common stock	**Shares**	**Amount**	Shares	Amount
Common stock - 100 par value 150,000 authorized shares	**150,000**	**15,000,000**	**150,000**	**15,000,000**
Issued & Outstanding at the beginning of the year	**142,092**	**₱ 14,209,200**	127,847	₱ 12,784,700
Additional Capital Infusion	**3,601**	**360,100**	14,245	1,424,500
Reclassification/Adjustment	**(6,250)**	**(625,000)**	-	-
Common stock at the end of the year	**139,443**	**₱ 13,944,300**	142,092	₱ 14,209,200

The reconciliation of surplus during the period is as follows:

Retained Earnings - Free

	2019	2018
Balance, Beginning	**₱ 7,253,132**	₱ 5,031,093
Net Income	**2,162,190**	2,205,039
Prior Period Adjustment*	**20,072**	17,000
Balance, Ending	**₱ 9,435,395**	₱ 7,253,132

**Adjustments on allowance of general loan loss provision of ₱20,072 and accumulated depreciation on ROPA of ₱17,000.*

The declaration of stock dividend is summarized below:

Date of Declaration	Date of Record	Date of Distribution	BSP Date of Approval	Amount of Stock Dividend
August 9, 2019	August 9, 2019	March 11, 2020	March 10, 2020	₱ 1,055,700

As of December 31, 2019, such dividend declaration was entered in the books as Memorandum Entry only. On the date of BSP Approval, it will be debited directly to the retained earnings free under the equity account in the statements of financial condition.

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 it has initiated and promoted. The Bank management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Bank's business operations of unanticipated events created by consumer behavior or capital market conditions.

The Bank manages its capital structure and makes adjustment 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.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects.

BSP Circular No. 688, Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks, rural banks and cooperative banks which took effect on January 1, 2012 represents BSP's commitment to align existing prudential regulations with international standards, which is consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole. BSP Circular No. 688 replaced BSP Circular No. 280 which is primarily based on Basel 1.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10.00%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excludes:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations to directors, officers, stakeholders and related interests (DOSRI);
- deferred tax asset or liability; and
- other regulatory deductions.

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

Under BSP Circular No. 360, effective July 1, 2003, the risk-based capital adequacy ratio (CAR) is to be inclusive of a market risk charge. BSP Circular No. 560 dated January 31, 2007, which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

Under Section 121 of the MORB, which states that rural banks with head offices only in areas outside the National Capital Region are required to comply with the minimum capital requirement of ₱ 20.00 million. The Bank is compliant with the minimum capital as of December 31, 2019.

The CAR of the Bank as at December 31, 2019, as reported to the BSP, is shown in the table below:

	2019
Tier 1 capital	**₱ 23,070,119**
Tier 2 capital	**584,148**
Total qualifying capital	**23,654,267**
Risk weighted assets	**₱ 92,781,465**
Tier 1 Capital Ratio	**24.87%**
Tier 2 Capital Ratio	**0.63%**
Total CAR	**25.50%**

The Bank's Total Qualifying Capital as at December 31, 2019 was computed as follows:

	2019
A. Calculation of Qualifying Capital	
A.1 Tier 1 Capital	
Core Tier 1 Capital	
Paid-Up Capital - Ordinary	**₱ 13,944,300**
Retained Earnings	**9,435,394**
Deductions from Core Tier 1 Capital	
Deferred Tax Assets, Net of Deferred Tax Liability	**172,887**
Total outstanding unsecured credit accommodations to DOSRI	**136,688**
Total Tier 1 Capital	**23,070,119**
A.2 Tier 2 Capital	
Upper Tier 2 Capital	
General Loan Loss Provision	**584,148**
Total Upper Tier 2 Capital	**584,148**
Total Qualifying Capital	**₱ 23,654,267**

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios adopted by the BSP in supervising the Bank.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. As at December 31, 2019 and 2018, the Bank was in compliance with CAR requirement.

Financial Performance

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

	2019	2018
A. Return on average equity (ROE)	**9.64%**	11.23%
B. Return on average assets (ROA)	**2.38%**	2.45%
C. Net interest margin	**10.45%**	9.66%
D. Debt Equity Ratio	**2.69:1**	3.44:1

The Bank's ROE, ROA and Net Interest Margin Ratio as at December 31, 2019 and 2018 was computed as follows:

A. Return on average equity (ROE)

Formula: ROE = Net Income after Tax / Average Capital

		2019	2018
Net Income		**₱ 2,162,190**	₱ 2,205,039
Average Equity			
	2019	**23,379,694**	
	2018	**21,462,332**	21,462,332
	2017		17,815,793
Total		**₱ 44,482,026**	₱ 39,278,125
Average Equity		**₱ 22,421,013**	₱ 19,639,063
Return on Average Equity		**9.64%**	11.23%

B. Return on average assets (ROA)

Formula: ROA = Net Income after Tax / Average of Total Assets

		2019	2018
Net Income		**₱ 2,162,190**	₱ 2,205,039
Average Assets			
	2019	**86,368,778**	
	2018	**95,329,860**	95,329,860
	2017		84,376,450
Total		**₱ 181,698,638**	₱ 179,706,310
Average Assets		**₱ 90,849,319**	₱ 89,853,156
Return on Average Assets		**2.38%**	2.45%

C. Net Interest Margin Ratio

Formula: Net Interest Margin Ratio = Net Interest Income/ Average Earning Assets

Formula: Average Earning Assets = Due from BSP + Due From Other Banks+ Loans + Debt Securities Measured at Amortized Cost

	2019	2018
Net Interest Income	₱ 8,740,709	₱ 7,921,073
Average Interest Earnings Assets		
2019	79,608,919	
2018	87,737,143	87,737,143
2017		76,226,746
Total	₱ 167,346,062	₱ 163,963,889
Average Interest Earnings Assets	₱ 83,673,031	₱ 81,981,945
Net Interest Margin	10.45%	9.66%

D. Debt to Equity Ratio

Formula: Debt to Equity = Total Liabilities / Total Equity

	2019	2018
Total Liabilities	62,989,084	73,867,528
Total Equity	23,379,694	21,462,332
Debt to Equity	2.69:1	3.44:1

17. OTHER INCOME

This account is consists of:

	2019	2018
Fees and Commission	₱ 327,020	₱ 322,655
Miscellaneous Income	95,229	93,728
Service Charges and Fees	1,614,312	1,566,242
Recovery on Charge-off Assets	86,300	106,410
Gain on Sale/Derecognition of NFA-ROPA	-	371,460
Total	₱ 2,122,861	₱ 2,460,495

18. COMPENSATION AND BENEFITS

This account is consists of:

	2019	2018
Salaries and Wages	₱ 2,589,026	₱ 2,571,135
Director's and Committee Fees	298,000	274,000
SSS, Philhealth and Employees Compensation Premium and PAGIBIG Fund Contribution	289,397	264,977
Fringe Benefits - Officers and Employees	1,535,965	1,353,073
Contribution to Retirement Fund	284,891	202,546
Total	₱ 4,997,279	₱ 4,665,731

19. RETIREMENT BENEFITS

This account is consists of:

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 contribution 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 ₱2,972,410 which was deposited in a separate account registered as Rural Bank of Sanchez Mira (Cagayan), Inc. Retirement Plan.

	2019	2018
Pension and Other Post Retirement Benefit Obligation	**₱ 2,972,410**	₱ 2,687,519

Movements of retirement obligation movement as follow:

	2019	2018
Balance at beginning of year	**₱ 2,687,519**	₱ 2,673,602
Additions during the year	**284,891**	214,636
Adjustment		(200,719)
Balance at end year	**₱ 2,972,410**	₱ 2,687,519

The pension liability was computed by the management using the simplified approach, as the management deemed that the difference between this approach and projected unit credit method will not differ significantly.

20. OTHER OPERATING EXPENSE

This account is consists of:

	2019	2018
Miscellaneous	**₱ 239,562**	₱ 307,574
Management and Other Professional Fees	**234,411**	330,934
Insurance - PDIC	**131,415**	132,887
Training and Seminars	**128,117**	-
Security, Messenger and Janitorial Service	**118,457**	122,359
Power, Light & Water	**110,620**	91,626
Litigation Expenses	**70,969**	11,827
Insurance - Others	**64,189**	124,021
Fuel & Lubricants	**63,245**	76,880
Stationeries & Supplies Used	**62,113**	72,241
Information Technology Expense	**60,794**	79,239
Postage, Telephone, Cables & Telegram	**60,111**	59,397
Repairs and Maintenance	**55,345**	68,889
Traveling Expenses	**54,018**	28,946
Advertising & Publicity	**46,613**	48,290
Donations and Charitable Contributions	**19,500**	18,828
Representation and Entertainment	**18,172**	24,378
Supervision Fees	**14,756**	-
Membership Fees & Dues	**9,520**	5,520
Fines and Penalties	**3,341**	23,490
Fees and Commission	**-**	12,153
Total	**₱ 1,565,268**	₱ 1,639,479

21. DEPRECIATION AND AMORTIZATION EXPENSE

This account is consists of:

	2019	2018
Depreciation Expense - Building	**₱ 158,148**	₱ 97,666
Depreciation Expense - Furniture and Fixtures	**17,615**	12,872
Depreciation Expense - Transportation Equipment	**11,105**	13,008
Depreciation Expense - Information Technology	**49,147**	45,105
Depreciation Expense – Other Office Equipment	**7,853**	5,000
Total	**₱ 243,868**	₱ 173,651

22. COMMITMENT AND CONTINGENCIES

The Bank has no outstanding lease agreements as of December 31, 2019.

Other 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. The amount of loans and receivables under litigation amounted to ₱ 350,386 as of December 31, 2019.

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.) As of December 31, 2019 and 2018, The Bank has a no contingent accounts for the year 2019 and 2018.

22. INCOME 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 principally of gross receipts tax and documentary stamp taxes.

Income taxes also include RCIT, as discussed below and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

Republic Act No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 30.00%, and deductible interest expense shall be reduced by 33.00% of interest income subjected to final tax. Current tax regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Further, current tax regulations set a limit for entertainment, amusement and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services. The Bank recorded EAR expenses amounted to ₱ 18,172 and ₱ 24,378, in 2019 and 2018, respectively.

Provision for income tax consists of:

	2019	2018
Current	₱ 982,308	₱ 832,495
Deferred	(96,140)	(76,747)
Tax Expenses reported in Statement of Comprehensive Income	₱ 886,168	₱ 755,748

The current and deferred tax is computed as follows: (Amount is converted to statutory income tax rate of 30%).

Current Tax

	2019	2018
Statutory income tax :	₱ 914,509	₱ 888,236
Income tax effects of:		
Provision for Credit Losses on Loans and Receivables	96,140	76,747
NOLCO		
Interest income subject to final tax	(48,239)	(23,840)
Interest expense reduced by 33% income subject to final tax	19,898	23,602
Bad Debts written-off	-	(132,250)
Current Tax Expense	₱ 982,308	₱ 832,495

Computation of Income Tax:

		2019
Income before tax per books		₱ 3,048,360
Add: Non-deductible Expenses/Taxable Other Income		
Provision for Credit Losses on Loans and Receivables		320,468
Interest expense reduced by 33% income subject to final tax		66,328
Total		386,796
Less: Non-taxable Income and Income Subjected to Final Tax		
NOLCO		-
Accounts Written off		-
Interest Income Subject to Final Tax		160,795
Total		160,795
Net Taxable Income (Loss)		3,274,361
Tax Rate		30%
Normal Corporate Income Tax		982,308
Minimum Corporate Income Tax		112,513
Income Tax Due		982,308
Less: Payments/Tax Credits		
Payments for the three (3) quarters		401,513
Income Tax Still Due/(Overpayment)	₱	580,795

***Below is the computation of Minimum Corporate Income Tax (MCIT) for the year ended December 31, 2019.*

	2019
Revenue	₱ 9,515,307
Cost of Services	5,851,720
Gross Income	3,663,588
Add: Other Income	2,122,861
Less: Interest Income Subjected to Final Tax	(160,795)

Total Gross Income		**5,625,653**
MCIT Rate		**2%**
Minimum Corporate Income Tax	**₱**	**112,513**

Deferred Tax Assets

As at December 31, 2019 and 2018, net deferred tax assets are as follows:

	2019	2018
Deferred Tax Asset - Beginning	**₱ 76,747**	₱ -
Provision for expected credit losses	**96,140**	76,747
Deferred Tax Asset - Ending	**₱ 172,887**	₱ 76,747

24. 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. Entities are considered to be related if they are subjected under common control or significant influence. The Bank's related parties include:

- key management personnel, close family members of key management personnel and entities
- which are controlled, significantly influenced by or for which significant voting power is held
- by key management personnel or their close family members,
- post-employment benefit plans for the benefit of the Bank's employees, and

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Remunerations of Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the senior management to constitute key management personnel for purposes of PAS 24.

The compensation of key management personnel included under 'Compensation and benefits' in the statement of income are as follows:

	2019	2018
Short-term Employee Benefits	**₱ 4,712,387**	₱ 3,006,514
Post-employment Benefits	**284,891**	147,156
Total	**₱ 4,997,278**	₱ 3,813,409

The Bank also provides banking services to directors and other key management personnel and persons connected to them. These transactions are presented in the tables that follow.

Regulatory Reporting
As required by BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank.

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. As at December 31, 2019 and 2018, the Bank is in compliance with the regulatory requirements.

Below are the selected ratios relative to the Banks' DOSRI loan accounts.

	2019	2018
A. Aggregate Ceiling		
1. Total Loan Portfolio	₱ 52,170,684	₱ 60,810,183
2. 15% of #1	7,825,603	9,121,527
3. Adjusted Capital per FRP	23,379,694	21,462,332
4. Item A.2 or A.3 whichever is lower	₱ 7,825,603	₱ 9,121,527
B. Ceiling on Unsecured Loans		
1. Secured DOSRI loans	₱ 467,409	₱ 437,614
2. Unsecured DOSRI loans	136,688	227,449
3. Total	614,097	665,063
4. 30% of Item A.4	2,347,681	2,736,458
5. 30% of B.3	184,229	199,519
6. Item B.4 or B.5 whichever is lower	₱ 184,229	₱ 199,519
C. Compliance with Aggregate Ceiling (Item A.4 -B.3)	₱ 7,211,505	₱ 8,456,464
D. Compliance with Ceiling on Outstanding Unsecured Loans (Item B.6-B.2)	₱ 47,541	₱ (27,930)
E. Percent of DOSRI loan to total loan portfolio		
DOSRI loan	₱ 614,097	₱ 665,063
Total loan portfolio	52,170,684	60,810,183
	1.18%	1.09%
F. Percent of unsecured DOSRI loans to total DOSRI loans		
Unsecured DOSRI loan	₱ 136,688	₱ 227,449
Total DOSRI loan	614,097	665,063
	22%	34%
G. Percent of past due DOSRI loans to total DOSRI loans		
Past Due DOSRI loan	₱ -	₱ -
Total DOSRI loan	614,097	665,063
	0.00%	0.00%
H. Percent of non-performing DOSRI loans to total DOSRI loans		
Non-performing DOSRI loan	₱ -	₱ -
Total DOSRI loan	614,097	665,063
	0.00%	0.00%

25. SUPPLEMENTARY INFORMATION REQUIRED UNDER RR 15 2010 and RR 19-2011

Revenue Regulation (RR) No 15-2010

On November 25, 2010, the BIR issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes and licenses paid or accrued during the year.

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 receipt 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, profit from exchange and all other items treated as gross income under Section 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%

GRT in 2019 consists of taxes on:

Interest income on loans and other related income from lending operations	**₱ 475,765**
Other income	**148,600**
Total	**₱ 624,365**

Documentary Stamp

Pursuant to revenue regulation No. 13-2004 dated December 23, 2004 " Implementing provisions of Republic Act No.9243, an act rationalizing the provisions of the documentary stamp tax of the Internal Revenue Code of 1997 (as amended), below are some of the circular affecting the operation of bank and non-bank financial intermediaries:

Section 51 of Republic Act No 10963: New Rate of DST on Original Issuance of Shares of Stock
There shall be one peso (₱2.00) on each two hundred pesos (₱ 200.00) or fractional part thereof of the par value of such shares of stock. Provided that in case of original issue of shares of stocks without par value, the amount of documentary stamp herein prescribed shall be based upon the actual consideration for the issuance of such shares of stocks. Provided further that in the case of stock dividends, or the actual value represented by each share.

Section 55 of Republic Act No 10963: New Rate of DST on all Debt Instruments (Documents, Loan Agreements, Instruments and Papers)
One peso and fifty centavos (₱1.50) on each two hundred pesos (₱ 200.00) or any fractional part thereof of the issue price of any such debt instrument. If the debt instrument has a maturity date of less than one (1) year, the DST due shall be computed based on the number of days the instrument is outstanding as a fraction of 365 days.

The components of 'Taxes and licenses' recognized in the statement of comprehensive income for the year ended December 31, 2019, follow:

Taxes and Licenses

a. Local	
Business Permit	₱ 53,390
Others	10,074
b. National	
Gross Receipts Tax	624,365
Annual Registration - BIR	500
Total-Taxes and Licenses	₱ 688,329

Withholding taxes in 2019 are categorized into:

Paid:	
Final withholding tax on interest expense	₱123,503
Withholding taxes on compensation and benefits	127,570
Expanded withholding tax	27,070
Total	₱278,143

Tax Assessments and Cases
As at December 31, 2019, the Bank has no outstanding assessment notice from the BIR or cases in court or bodies outside the BIR.

Revenue Regulation (RR) No 19-2011
The Bank reported the following schedules and information on taxable income and deductible expenses to be taken in 2019:

Sale of Services
The Bank's taxable sale of services amounted to ₱9,354,512 and income subject to final income tax and are exempt from tax amounted to ₱160,795 for the year ended December 31, 2019.

Cost of Services

	2019
Details of the Bank's tax deductible cost of services accounts are as follows:	
Direct Charges - Salaries and wages	₱ 4,997,279
Direct Charges - Insurance (PDIC)	131,415
Direct Charges – Supervision Fee	14,756
Direct Charges - others (interest expense net of 33% limit)	
Interest expense	774,598
Less: Limit (33% of interest income subj. to final tax)	(66,328)
Total	₱ 5,851,720

Itemized Deductions

Details of the Bank's itemized deductions are as follows:	2019
Security, Messenger and Janitorial Service	₱ 118,457
Traveling Expenses	54,018
Litigation Expenses	70,969
Power, Light & Water	110,620
Representation and Entertainment	18,172
Miscellaneous	239,562
Insurance - Others	64,189
Postage, Telephone, Cables & Telegram	60,111
Management and Other Professional Fees	234,411
Fuel & Lubricants	63,245

Stationeries & Supplies Used	62,113
Fines and Penalties	3,341
Repairs and Maintenance	55,345
Training and Seminars	128,117
Information Technology Expense	60,794
Advertising & Publicity	46,613
Donations and Charitable Contributions	19,500
Membership Fees & Dues	9,520
Taxes and Licenses	688,329
Depreciation Expense	243,867
Total	**₱ 2,351,293**

Total Deductible Expense	₱ 8,203,013
Expense Reported in Audited Financial Statements	8,589,807
Difference*	₱ (386,796)
*Reconciliation of Difference:	
Interest Limit	₱ 66,328
Provision for Credit losses	320,468
Total	₱ 386,796

26. OTHER MATTERS

1. Anti-Money Laundering Act (AMLA)

   The Bank had completely satisfied the reporting requirements as required by the Bangko Sentral ng Pilipinas (BSP) and RA 9160 as amended by RA 9194 otherwise known as the Anti-Money Laundering Act.

2. As of December 31, 2019, all of the bank's directors had undergone the requirements for corporate governance as confirmed by the Monetary Board as mandated by MORB Section 911.

3. Report Liabilities that the report is fully covered with insurance and compliant with PDIC.

27. RECLASSIFICATION OF ACCOUNTS

Certain amounts in the comparative financial statements and note disclosures have been reclassified to conform to the current year's presentation. Management believes that the reclassifications resulted to a better presentation of accounts and did not have any impact on prior year's profit or loss.

28. LIST OF EFFECTIVE STANDARDS AND INTERPRETATION

In compliance with the requirements of Part 1 Section 4(J) of SRC Rule 68, as amended, as of December 31, 2019 and 2018, below is the list of all the effective standards and interpretations under PFRS that are either "Adopted", "Not Adopted" or "Not Applicable".

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✔		
PFRSs Practice Statement Management Commentary				✔
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✔		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✔		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✔		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✔		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✔
	Amendments to PFRS 1: Government Loans			✔
PFRS 2	Share-based Payment	✔		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✔		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✔		
PFRS 3 (Revised)	Business Combinations			✔
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✔
	Amendments to PFRS 3: Scope Exceptions for Joint Ventures			✔
PFRS 4	Insurance Contracts			✔
	Amendments to PFRS 9 and PFRS 4: Financial Guarantee Contracts			✔
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✔
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✔
	Amendments to PFRS 5: Changes in methods of			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Adopted	Not Adopted	Not Applicable
	disposal			
PFRS 6	Exploration for and Evaluation of Mineral Resources			✔
PFRS 7	Financial Instruments: Disclosures	✔		
	Amendments to PFRS 7: Transition	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✔		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✔		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✔		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✔		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✔		
	Servicing Contracts			✔
	Applicability of the Amendments to PFRS 7 to condensed interim financial statements			✔
PFRS 8	Operating Segments			✔
PFRS 9	Financial Instruments: Recognition and Measurement	✔		
	Amendments to PFRS 9: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✔		
	Amendments to PFRS 9: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✔
	Amendments to PFRS 9: The Fair Value Option	✔		
	Amendments to PFRS 9 and PFRS 4: Financial Guarantee Contracts	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✔		
	Amendments to Philippine Interpretation IFRIC–9 and PFRS 9: Embedded Derivatives	✔		
	Amendment to PFRS 9: Eligible Hedged Items	✔		
PFRS 10*	Consolidated Financial Statements			✔
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✔
PFRS 11*	Joint Arrangements			✔
	Amendments to PFRS 11: Accounting for Acquisition of Interests in Joint Operations		✔	
PFRS 12*	Disclosure of Interests in Other Entities with transition guidance	✔		
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✔
	Clarification of the Scope of the Standard			✔
PFRS 13*	Fair Value Measurement	✔		
PFRS 14*	Regulatory Deferral Accounts			✔
PFRS 15*	Revenue from Contracts with Customers	✔		
	Clarifications to PFRS 15	✔		
PFRS 16	Leases	✔		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✔		
	Amendment to PAS 1: Capital Disclosures	✔		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✔		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✔		
	Amendments to PAS 1: Disclosure Initiative		✔	
PAS 2	Inventories			✔
PAS 7	Statement of Cash Flows	✔		
	Amendments to PAS 7: Disclosures Initiative	✔		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✔		
PAS 10	Events after the Balance Sheet Date	✔		
PAS 11	Construction Contracts			✔
PAS 12	Income Taxes	✔		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✔		
PAS 16	Property, Plant and Equipment	✔		
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation			✔
	Clarification of Acceptable Methods of Depreciation and Amortization	✔		
PAS 18	Revenue	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Adopted	Not Adopted	Not Applicable
PAS 19 (Amended)	Employee Benefits	✔		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✔		
	Plan Amendment, Curtailment or Settlement	✔		
	Defined Benefit Plans: Employee Contributions			✔
	Discount Rate: Regional Market Issue			✔
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✔
PAS 21	The Effects of Changes in Foreign Exchange Rates			✔
	Amendment: Net Investment in a Foreign Operation			✔
PAS 23 (Revised)	Annual Improvements: Borrowing Costs	✔		
PAS 24 (Revised)	Related Party Disclosures	✔		
	Key Management Personnel	✔		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✔		
PAS 27 (Amended)	Consolidated and Separate Financial Statements			✔
	Separate Financial Statements			✔
	Amendments to PAS 27: Equity Method on Separate Financial Statements			✔
PAS 28 (Amended)*	Investment in Associates	✔		
	Investments in Associates and Joint Ventures	✔		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and Its Associate or Joint Ventures			✔
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation exception			✔
PAS 29	Financial Reporting in Hyperinflationary Economies			✔
PAS 31	Interests in Joint Ventures			✔
PAS 32	Financial Instruments: Disclosure and Presentation	✔		
PAS 33	Earnings per Share	✔		
PAS 34	Interim Financial Reporting			✔
	Amendments to PAS 34: Disclosure of Information elsewhere in the Interim Financial Report			✔
PAS 36	Impairment of Assets	✔		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✔		
PAS 38	Intangible Assets	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 38 Revaluation Method- Proportionate Restatement of Accumulated Amortization			✔
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✔
PAS 40	Investment Property	✔		
PAS 41	Agriculture			✔
	Amendments to PAS 41: Bearer Plants			✔
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✔
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✔
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✔		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✔
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✔
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✔
IFRIC 8	*Scope of PFRS 2*			✔
IFRIC 9	Reassessment of Embedded Derivatives			✔
	Amendments to Philippine Interpretation IFRIC–9 and PFRS 9: Embedded Derivatives			✔
IFRIC 10	*Interim Financial Reporting and Impairment*			✔
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✔
IFRIC 12	Service Concession Arrangements			✔
IFRIC 13	Customer Loyalty Programmes			✔
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✔
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✔
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✔
IFRIC 17	Distributions of Non-cash Assets to Owners	✔		
IFRIC 18	Transfers of Assets from Customers			✔
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Adopted	Not Adopted	Not Applicable
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✔
IFRIC 21	Levies			✔
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✔
IFRIC 23	Uncertainty over Income Tax Treatments	✔		
SIC-7	Introduction of the Euro			✔
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✔
SIC-12	Consolidation - Special Purpose Entities			✔
	Amendment to SIC - 12: Scope of SIC 12			✔
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✔
SIC-15	Operating Leases - Incentives			✔
SIC-21	Income Taxes – Recovery of Revalued Non-Depreciable Assets			✔
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✔
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✔
SIC-29	Service Concession Arrangements: Disclosures.			✔
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✔
SIC-32	Intangible Assets - Web Site Costs			✔

-END OF REPORT-

Romeo G. Torno & Co.

Certified Public Accountants

4th Block Dolores Homesite
City of San Fernando, Pampanga
Tel No. (045) 626-5581
email add: rgt_ops@yahoo,com

BOA Accreditation No. 4618
SEC Accreditation Number: 0278-FR-1
February 6, 2017 to February 6, 2020
Section 9 of MC No. 20 Series of 2019

SUPPLEMENTAL STATEMENT

The Stockholders and Board of Directors

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

We have examined the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** for the year ended December 31, 2019 on which we have rendered the attached report dated May 19, 2020.

In connection with our audit, we obtained a certification from the Company's corporate secretary as to the number of stockholders and their corresponding shareholdings as at December 31, 2019 and conducted certain tests necessary to validate the related Company's entries and balances.

In compliance with SRC Rule 68, we are stating that said company has a total number of Twenty (20) stockholders owning one hundred (100) or more shares each.

BY:

ROMEO G. TORNO &CO.,CPAs
BOA Accreditation No. 4618
September 18, 2017 valid until June 15, 2020
SEC No. 0278 – FR – 1 (Group C)
February 2, 2017 valid until February 6, 2020
Section 9 of MC No. 20 Series of 2019
BIR Accreditation No. 04-002375-000-2018
March 5, 2018 valid until March 4, 2021
CDA Accreditation No. 046-AF
October 17, 2017 valid until October 16, 2020

ROMEO G. TORNO, CPA
Managing Partner
CPA Certificate No. 0043083
Tax Identification No. 107-071-246
BIR Accreditation No. 04-002375-001-2018
March 5, 2018, valid until March 5, 2021
SEC No. 1678 – A
May 3, 2018 valid until March 5, 2021
PTR No. SF3579557
January 15, 2020
City of San Fernando, Pampanga

May 14, 2020

City of San Fernando, Pampanga