COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

S.E.C. Registration Number

4 5 9 2 6

Company Name

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Principal Office (No./Street/Barangay/City/Town)Province)

LAGASCA ST., CENTRO 1, SANCHEZ MIRA, CAGAYAN

Form Type	Department requiring the report	Secondary License Type, If Applicable
AFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number's	Mobile Number
rbsanchezmira@rbap.org	(072) 396-04-35	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
TWENTY SIX	EVERY 31ST DAY OF MARCH	Dec-31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Office of the Corporation

Name of Contact Person	Email Address	Telephone Number	Mobile Number
ALEJANDRO M. PULIDO, JR.		(072) 396-04-35	

Contact Person's Address

Filipino, Centro 1, Sanchez Mira, Cagayan 3518

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commision within thirty (30) calendardays from the occurance thereof with information and complete contact details of the new contact person designated.

2 : All Boxer must be properly and completely filled-up, Failure to do soshall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies, Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

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, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management 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 is responsible for overseeing the Company's financial reporting process.

LAMBERTO D. AN, 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 :

Printed Name of the Chairman of the Board: MICHAEL P. ASANIAS

Signature :

Printed Name of Chief Executive Officer : ALEJANDRO M. PULIDO JR.

Signature :

Printed Name of Chief Financial Officer : THELMA M. DE LA CRUZ

Signed this 17th day of MARCH 2018

LAMBERTO D. AN
Certified Public Accountant
487 4th Fortune Village 5, Valenzuela City
Tel. No. (02) 440-5315; Mobile No. (02) 510-4164; (0927) 6512686
Email : lamb_dan@yahoo.com Tax & Management Consultant * Auditor * Accountant

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC,

AUDITED FINANCIAL STATEMENT

December 31, 2017 and 2016

BUREAU OF INTERNAL REVENUE
RDO-13
COLLECTION SECTION
RECEIVED
4-4-18

LAMBERTO D. AN

Certified Public Accountant

79 4th Fortune Village 5, Valenzuela City

Tel. No.(02) 440-5315; Mobile No. (02) 510-4164; (0927) 6512686

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders (or Other Appropriate Addressee)

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St., Centro 1, Sanchez Mira, Cagayan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years 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 of our 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 other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

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

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

LAMBERTO D. AN

Certified Public Accountant

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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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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.

LAMBERTO D. AN

Certified Public Accountant

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Report on Other Legal and Regulatory Requirements

Report on the Supplementary Information Required Under Revenue Regulation 15-2010 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 my 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 year ended December 31, 2017, on which we have rendered the attached report dated March 17, 2018. The supplementary information shown in the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2017, 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.

BY:

Lamberto D. An
Certified Public Accountant
CPA Reg. Cert. No. 25233
PTR No. VC5082485
Issued at Valenzuela City on Jan 04, 2018
TIN 135-941-825
BOA Cert. of Accreditation No. 3460
Until December 31, 2018
BSP Accreditation March 27, 2015 to March 27, 2018
BIR Accreditation No. 05-005020-001-2017
June 15, 2017 to June15, 2020

March 17, 2018

BUREAU OF INTERNAL REVENUE
RDO-13
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LAMBERTO D. AN
Certified Public Accountant
79 4th Fortune Village 5, Valenzuela City
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Email : lamb_dan@yahoo.com Tax & Management Consultant * Auditor * Accountant

STATEMENT OF REPRESENTATION

TO THE SECURITIES AND EXCHANGE COMMISSION:

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

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

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

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

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

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

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

As a CPA engaged in public practice, I make these representations in my individual capacity.

BY:

Lamberto D. An
Certified Public Accountant
CPA Reg. Cert. No. 25233
PTR No. VC5082485
Issued at Valenzuela City on Jan 04, 2018
TIN 135-941-825
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BUREAU OF INTERNAL REVENUE
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RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
COMPARATIVE STATEMENT OF FINANCIAL POSITION
(Amounts in Philippine Peso)

	As at December 31	
	2017	2016
ASSETS		
Cash and Other Cash Items (Note 6)	P **3,560,919**	P 1,926,815
Due from BSP (Note 7)	**3,349,645**	2,281,171
Due from Other Banks (Note 7)	**24,635,039**	26,090,268
Loans & Receivable, Net (Note 8)	**49,591,707**	44,719,790
Held to Maturity Investment (Note 9)	**2,000,000**	2,000,000
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 10)	**164,733**	244,169
Investment Properties (Note 11)	**973,000**	298,368
Deferred Tax Assets (Note 23)	**-**	18,790
Other Assets (Note 12)	**101,407**	84,062
TOTAL ASSETS	**84,376,450**	77,663,433
LIABILITIES & SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 13)	**65,232,495**	61,043,427
Accrued Interest, Taxes and Other Expenses Payable (Note 14)	**186,083**	93,628
Other Liabilities (Note 15)	**931,855**	964,314
Income Tax Payable	**210,225**	185,858
TOTAL LIABILITIES	**66,560,657**	62,287,227
SHAREHOLDERS' EQUITY		
Capital Stock (Note 16)		
Common Stock	**12,784,700**	6,200,700
Retained Earnings	**5,031,093**	9,175,506
TOTAL SHAREHOLDERS' EQUITY	**17,815,793**	15,376,206
TOTAL LIABILITIES & EQUITY ACCOUNTS	P **84,376,450**	P 77,663,433
BOOK VALUE PER SHARE	P **21.49**	P 23.21

See accompanying Notes to Financial Statements.

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
COMPARATIVE STATEMENT OF COMPREHENSIVE INCOME
(Amounts in Philippine Peso)

		For the Years Ended December 31		
		2017		2016
INTEREST INCOME				
Loans & Receivables (Note 8)	P	**7,120,133**	P	7,600,541
Due from Other Banks (Note 7)		**150,127**		178,973
Held To Maturity (Note 9)		**57,010**		52,000
TOTAL INTEREST INCOME		**7,327,270**		7,831,514
INTEREST EXPENSE				
Savings Deposits (Note 13)				262,171
Time Deposits (Note 13)		**608,945**		671,845
TOTAL INTEREST EXPENSE		**608,945**		934,016
NET INTEREST INCOME		**6,718,325**		6,897,498
PROVISION FOR CREDIT LOSSES		**83,943**		62,632
NET INTEREST INCOME AFTER PROVISION		**6,634,382**		6,834,866
OTHER INCOME (Note 17)		**2,101,794**		1,518,815
TOTAL INCOME BEFORE OPERATING EXPENSES		**8,736,175**		8,353,681
OTHER OPERATING EXPENSE				
Compensation & Fringe Benefits (Note 18)		**4,546,594**		4,105,409
Other Operating Expenses (Note 20)		**1,709,878**		1,700,457
Taxes & Licenses (Note 25)		**573,826**		537,968
Depreciation & Amortization (Note 21)		**187,391**		279,947
		7,017,689		6,623,781
NET INCOME BEFORE INCOME TAX		**1,718,486**		1,729,900
INCOME TAX EXPENSE (BENEFIT) (Note 23)		**386,232**		360,272
NET INCOME AFTER INCOME TAX	P	**1,332,255**	P	1,369,628
EARNINGS PER SHARE	P	**287.32**	P	260.58

See accompanying Notes to Financial Statements.

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4-4-18

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
COMPARATIVE STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Amounts in Philippine Peso)

	Capital Stock (Note 16)	Retained Earnings (Deficit) - Free	Total
Balance at January 1, 2017	P 6,200,700	P 9,175,506	P 15,376,206
Issuance of shares	6,584,000	-	6,584,000
Total comprehensive income for the year	-	1,332,255	1,332,255
Prior Period Adjustments	-	(5,476,668)	(5,476,668)
Balance at December 31, 2017	**P 12,784,700**	**P 5,031,093**	**P 17,815,793**
Balance at January 1, 2016	P 5,900,800	P 7,795,929	P 13,696,729
Issuance of shares	299,900	-	299,900
Total comprehensive income for the year	-	1,369,628	1,369,628
Prior Period Adjustments	-	9,949	9,949
Balance at December 31, 2016	P 6,200,700	P 9,175,506	P 15,376,206

See accompanying Notes to Financial Statements.

4-4-18

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
COMPARATIVE STATEMENT OF CASH FLOWS
(Amounts in Philippine Peso)

		For the Years Ended December 31		
		2017		2016
CASH FLOW FROM OPERATING ACTIVITIES				
Net income	P	**1,332,255**	P	1,369,628
Prior Period Adjustments		**(5,476,668)**		9,949
Provision for Credit Losses on Loans and Receivables		**(518,031)**		(330,665)
Net Changes to Retained Earnings		**-**		-
Depreciation and amortization (Note 10, 11 and 21)		**187,391**		279,947
Adjustment to reconcile Net Income to				
Net cash provided by operating activities:				
Decrease/(Increase) in:				
Due from BSP		**(1,068,474)**		(28,152)
Due from Other Banks		**1,455,229**		458,884
Loans & Receivables (Note 8)		**(4,353,886)**		535,596
Changes on Deferred Tax Assets		**18,790**		(18,790)
Other Assets (Note 12)		**(17,345)**		65,962
Increase / (Decrease) in current liabilities				
Redemption of Redeemable Preferred Shares		**-**		-
Deposit liabilities (Note 13)		**4,189,067**		(2,541,831)
Accrued interest, taxes & other liabilities (Note 14)		**92,457**		(129,199)
Tax Paid		**-**		-
Income Tax Payable		**24,367**		(238,348)
Other liabilities (Note 15)		**(32,460)**		(600,536)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		**(4,167,308)**		(1,167,555)
CASH FLOW FROM INVESTING ACTIVITIES				
Cash Receipts from Non - Real and Other Properties Acquired (Note		**(691,632)**		139,806
Cash Payments on Premises, Furniture, & Equipment (Note 10)		**(90,955)**		(127,553)
NET CASH PROVIDED (USED IN) BY INVESTING ACTIVITIES		**(782,587)**		12,253
CASH FLOW FROM FINANCING ACTIVITIES				
Cash Receipts from Common Stock (Note 16)		**6,584,000**		299,900
NET CASH PROVIDED (USED IN) BY FINANCING ACTIVITIES		**6,584,000**		299,900
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS		**1,634,105**		(855,403)
CASH & CASH EQUIVALENTS - BEGINNING		**1,926,814**		2,782,217
CASH & CASH EQUIVALENTS - ENDING	P	**3,560,919**	P	1,926,814

See accompanying Notes to Financial Statements.

1. GENERAL INFORMATION

The **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** was registered with the Security and Exchange Commission (SEC) on November 25, 1971 under SEC Registration Number 45926 and started its operation as a banking institution on March 16, 1972. Its authorized capital stock is P 15,000,000 divided into 150,000 ordinary shares with par value of P100 per share. The Bank's principal office is located at Lagasca st., Centro 1, Sanchez Mira, Cagayan.

The Rural Bank of Sanchez Mira Board of Directors is composed of Five (5) members; Two (2) of them are independent directors.

The financial Statements of the Bank for the year ended December 31, 2017 were authorized for issue by its Board of Directors on March 17, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

2.1 Basis of Preparation of Financial Statements

Statement of Compliance

The financial Statements of the bank have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippines Board of Accountancy. The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow;

Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) PAS 1, Presentation of Financial Statements – The Bank presents its statement of financial position broadly in order of liquidity. Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Bank.

Functional and Presentation Currency

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

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the bank operates the financial statements of the Bank's Foreign Currency Deposits Units (FCDU) which is reported in its functional currency, the United States (US) dollar, are translated to Philippine peso based on Philippine Dealing System Closing Rate (PDSCR) at the end of reporting period (for the statement of financial position accounts) and at average PDSCR for the period (for profit and loss accounts).

2.2 Adoption of Specific Accounting Policies and Procedures

The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following applicable accounting standards, amendments and interpretations to existing and new standards.

PAS 1 (Amendment), Financial Statements Presentation – Presentation of Items of Other Comprehensive Income (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met.

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

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

PAS 10 Events after the Balance Sheet Date provides a limited clarification of the accounting for dividends declared and other events that have taken place after the balance sheet date.

PAS 12 Income Taxes-Deferred Taxes: Recovery of Underlying Assets (Amendments)
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, Investment Property, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model with an objective to consume substantially all economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, Property, Plant and Equipment, shall always be measured on a sale basis of the asset.

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

PAS 17 Leases provides a limited revision to clarify the classification of leases of land and buildings or leasehold improvements as operating lease or finance lease including the appropriate disclosures thereon. It also prohibits expensing of initial direct costs in the financial statements of the lessee.

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

PAS 19 Employee Benefits (Revision)-Effective from January 1, 2013, the revision made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows: (a)eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period; (b) streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and re-measurement; and (c) enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed through participation in those plans.

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

PAS 32 Financial Instruments: Presentation (Amendment) – Offsetting Financial Assets and Financial Liabilities Effective January 1, 2014, the amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable in the normal course of business; in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of gross settlement system with characteristics that will satisfy the criterion for net settlement.

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

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

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

PAS 38 Intangible Assets, This standard prescribes the accounting treatment for intangible assets that are not dealt with specifically in another standard. It also provides the guidelines and criteria to recognize an intangible asset, its measurement and disclosures.

PAS 39 Financial Instrument: Recognition & Measurement, The objective of this standard is to establish principle for recognizing & measuring financial assets, financial liabilities & some contracts to buy or sell non-financial items.

PAS 40 Investment Property, The objective of the standard is to prescribe the accounting treatment for investment property and the related disclosure requirements. Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such asset cannot be measured; in which case, the investment property acquired is measured at carrying amount of asset given up. Any gain or loss is recognized in the statement of income.

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

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

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

2.3 Recognition of Financial Assets

Financial assets in the scope of PAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in case of investments, directly attributable transaction costs.

The Bank determines the classification of its financial assets at initial recognition, when allowed and appropriate, reevaluates this designation at each balance sheet date. It recognizes a financial asset or a financial liability in the balance sheet when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date when the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulations or conventions in the market place.

2.3a Cash & 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 convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

2.3b Held to Maturity Investments (HTM)

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'.

If the Bank sells more than an insignificant amount of HTM investments prior to maturity (other than in specific circumstances) the entire category would be tainted and reclassified as AFS investments. Furthermore, the Bank would be precluded from using the HTM investment category for the following two years. Under current regulations, investment in bonds and other debt instruments shall not exceed 50% of the adjusted net-worth plus 40% of the total deposit liabilities.

2.3c Loans & Receivables

This accounting policy relates to the statement of financial position captions 'Loans and receivables', 'Due from BSP', 'Due from other banks' and refundable rental deposits under 'Other assets'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at FVPL;
- those that the Bank, upon initial recognition, designates as AFS investments; or
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

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

2.3d Other Investments & Other Financial Assets

Financial Assets covered by PAS 39 are classified as either financial assets at fair value through profit or loss, loans or receivables, held-to-maturity financial assets and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments, at fair value through profit or loss plus directly attributable transaction costs. The Bank determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

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

2.4 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:

2.4a Deposit Liabilities

The deposit liability account includes demand deposits, savings deposits and term deposits. Demand deposits refer to those which are subject to withdrawal by check which are otherwise known as current or checking accounts. Savings deposits may be 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 passbook or certificate issued by the Bank.

2.4b 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.

2.5 Derecognition of Financial Assets and Financial Liabilities

2.5a Financial assets

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

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

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

2.5b Financial Liabilities

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

2.6 Impairment of Financial Assets

Impairment is determined as follows:

a.) For assets carried at amortized cost such as receivables from customers, impairment is based on estimated cash flows discounted at the original effective interest rate.
b.) For assets carried at fair value, impairment is the difference between cost and fair value.
c.) For assets carried at cost, impairment is the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
d.) For available for sale equity investments, reversal of impairment loss is recorded as increase in cumulative change in fair value through equity.

In addition, a provision is made to cover impairment for specific groups of assets where there is measurable decrease in estimated future cash flows.

2.7 Financial Assets Carried at Amortized Cost

For financial asset carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for significant financial assets or collectively for insignificant financial assets.

It there is objective evidence that an impairment loss 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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the Statement of Income & Expenses. Interest income continues to be recognized within a period specified in the instrument or by regulation using the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collaterals have been realized.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset whether significant or not, the asset so included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimate of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized, are not included in a collective assessment for impairment.

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

The present value of the future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure or other mode of acquisition reduced by costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are group on the basis of such credit risk characteristics as industry, collateral type and past due status.

2.8 Financial Assets Carried at Cost

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

2.9 Restructured Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment period and the arrangement of new loan terms and conditions. Once the terms renegotiated have been finalized, the loan is classified as restructured loan. Management continuously reviews restructured loans to ensure that all criteria are met and the future payments are likely to occur. The loan is continuously subject to an individual or collective impairment assessment calculated using the loan's original effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in "Provision for Impairment and Credit Losses" in the Statement of Income & Expenses.

2.10 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.

2.11 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 P1Million shall be revalued by an independent appraiser acceptable to BSP.

Sec. X306 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 maturity. BSP Circular No. 248 classified the past due loans as follows:

"For loans or receivable which are payable in installment, the total outstanding balance thereof shall be considered past due when installment due is not paid in accordance with the following schedule:

Mode of Payment		Minimum No. of installment in Arrears
Monthly	-	3
Quarterly	-	1
Semi-Annually	-	1
Annually	-	1

Installment refers to principal and/or interest amortizations that are due on several dates as indicated in the loan documents. The allowance for loan losses is the estimated amount of losses in the Bank's portfolio, based on evaluation of the collectability of loans and prior loan loss experience. "

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.

2.12 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.

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/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 on other property and equipment is provided on a straight-line method over the estimated useful lives (or lease term, if shorter) of each part of an item of property and equipment as follows:

Premises, Furniture, Fixture and Equipments	Estimated useful life in years
Building	10 years
Furniture & Fixtures	3-5 years
Office Equipment	3-5 years
Information Technology Equipment	3-5 years
Transportation Equipment	3-5 years

Fully depreciated assets are retained in the accounts at P1.00 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, plant and equipment from the Bank's book of accounts should be approved by the management.

Leasehold improvements and intangibles are amortized over the term of the lease or life of the improvements or intangibles, whichever is shorter.

2.13 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.

2.14 Investment Properties

Investment Properties in settlement of loans through foreclosure or dacion in payment shall be booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discounts less allowance for probable losses computed based on PAS 39 provisioning requirements) plus booked accrued interest receivable less allowance for probable losses plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property). Provided, that where the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up.

An in-house appraisal of all Investment Properties shall be made at least every other year; provided that immediate reappraisal shall be conducted on Investment Properties which materially decline in value.

The carrying amount of Investment Properties shall be allocated to land, building, other non-financial assets and financial assets (e.g., receivables from third party or equity interest in an entity) based on their fair values, which allocated carrying amounts shall become their initial costs. Improvements on land shall be depreciated using the straight line method.

Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of Investment Properties to be booked exceeds P5 million, the appraisal must be conducted by an independent appraiser acceptable to the BSP.

2.15 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.

2.16 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. 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.

2.17 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.

2.18 Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Bank and the amount of the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

A. *Interest Income*

Interest income on receivables from customers is recognized based on the accrual method of accounting, except in the case of non-accruing receivables. Unearned discount is recognized as income over the term of the receivable or discount using the effective interest method.

B. *Loan Fees and Service Charges*

Loan commitment fees are collected from each credit line granted to each borrower and recognized as earned over the period for which it was collected. Service charges and other penalties are recognized only upon collection or accrued where there is reasonable degree of certainty as to its collection.

C. *Other and Miscellaneous Income*

2.19 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.

2.20 Employee Benefits

(a) Short term benefits
The Company 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) Post – Employment Benefits
The bank has not yet established a formal retirement plan. Hence, it does not make any contribution to any such plan. However, the bank accrues the estimated cost of retirement benefit under a defined benefit plan required by the provision of Republic Act. 7641. The "Retirement Pay Law" after it was determined that certain employees of the bank have already qualified for retirement benefit under the provisions of RA 7641. The accrued retirement costs include the normal and estimated past service cost.

2.21 Equity

Capital stock 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 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.

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.

2.22a 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.

2.22b 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.

2.23 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.

3. Significant Accounting Judgments and Estimates

The preparation of the Bank's financial statements in accordance with PFRS requires the management to make judgments and estimates 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 and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Judgments

In the process of applying the Company'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 Company 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.

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

b. *Classification of leases*
Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Company. Lease contracts which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased items, are capitalized. Otherwise, they are considered as operating leases.

c. *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 Company considers the following:

a. 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. The currency in which funds from financing activities are generated; and
c. The currency in which receipts from operating activities are usually retained.

3.2 Estimates

3.2a Allowance for Probable Losses

The allowance for probable loan 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 as follows:

For unsecured loans and other credit accommodations:

No. of days unpaid/ with Missed payment	Classification	ACL%
1-30 days	EM	2%
31-60 days	Substandard	25%
61-90 days	Doubtful	50%
91 days and over	Loss	100%

For secured loans and other credit accommodations:

No. of days unpaid/ with Missed payment	Classification	Other types of collateral	Secured by REM
31-90 days	Substandard	10%	10%
91-120 days	Substandard	25%	15%
121-360 days	Doubtful	50%	25%
361 days - 5 years	Loss	100%	50%
Over 5 years	Loss		100%

Loans and Receivables - General Provision

Unclassified Loans:

The total loan portfolio net of the outstanding balance of those loans that were already subjected to specific provision shall be segregated and subject to the following rates based on the borrower's outstanding balance:

Unclassified Restructured Loans	5.00%
Unclassified Other Than Restructured	1.00%

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.

3.2b Recognition of deferred tax assets

The amount of deferred tax assets recognized by the Bank is based on the estimate of future taxable income. Significant management judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning.

The Bank reviews the carrying amount of deferred tax asset at each reporting date and reduces this to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. The recognized and unrecognized deferred tax assets for the Bank are disclosed in Note 23.

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.

3.2c Useful lives of Premises, Furniture, Fixtures & Equipment

The estimated useful lives of the Bank's premises, furniture, fixtures, and equipment are based on the period over which the assets are expected to be available for use, and on the collective assessment of the industry practice, internal technical evaluation and experience with similar assets. The estimates are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits in the use of the premises, furniture, fixtures, and equipment.

3.2d Useful life of Depreciable Investment Properties

The assumptions and estimates used by the Bank in the useful life of Investment Properties are made to objectively determine the productivity or use of the assets. The BSP however in its Circular 494 provided that Investment Properties-building and Investment Properties-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.

3.2e Residual Value of Depreciable Assets

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

3.2f Estimate Used in Determining Fair Value of Financial Assets

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

An entity shall asses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial asset is impaired. The threshold and materiality level in PAS 36 and 39 to impair a financial asset is provided on a non-quantitative basis thus, the use of judgments in objectively examining the financial asset is required. In such case, the top management of the Bank shall be responsible for the reasonable judgment pertaining to the valuation of this financial instrument.

3.2g Allowance for Doubtful Accounts

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

3.2h Contingencies

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

4. 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, 2017 and 2016:

	2017				
	Loans and Receivables	Due from BSP and Other Banks	HTM Investments	Other Assets	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	P 8,603,619	P 3,349,645	P 2,000,000	P 101,407	P 14,054,671
Agriculture, hunting and forestry	4,033,684	-	-	-	4,033,684
Transportation and storage	24,674,986	-	-	-	24,674,986
Real estate activities	12,546,299	-	-	-	12,546,299
Other service activities	2,310,426	-	-	-	2,310,426
Less: Allowance for Credit Losses	1,457,546	-	-	-	1,457,546
Total	P 50,711,468	P 3,349,645	P 2,000,000	P 101,407	P 56,162,520

	2016				
	Loans and Receivables	**Due from BSP and Other Banks**	**HTM Investments**	**Other Assets**	**Total**
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	P 12,783,461	P 28,371,439	P 2,000,000	P 85,624	P 43,240,524
Agriculture, hunting and forestry	10,572,703	-	-	-	10,572,703
Transportation and storage	6,597,102	-	-	-	6,597,102
Real estate activities	10,637,841	-	-	-	10,637,841
Other service activities	6,047,951	-	-	-	6,047,951
Less: Allowance for Credit Losses	1,469,829	-	-	-	1,469,829
Total	P 45,169,229	P 28,371,439	P 2,000,000	P 85,624	P 75,626,292

Credit quality per class of financial assets
The description of the financial assets grading used by the Bank is as follows:

- *High grade* – These are financial assets which have a high probability of collection or are invested or deposited with reputable financial institutions. The counterparty has the apparent ability to satisfy its obligation and the securities on the receivables are readily enforceable.
- *Standard grade* –These are financial assets where collections are probable due to the reputation and the financial ability of the counterparty to pay but with experience of default.

The tables below show the credit quality per class of financial assets (gross of allowance for credit and impairment losses) as at December 31, 2017 and 2016:

	2017		
	High grade	**Past due but not impaired**	**Total**
Due from BSP	P 3,349,645	P -	P 3,349,645
Due from other banks	24,635,039	-	24,635,039
Receivable from customers:			
Other loans	49,591,707		49,591,707
Accounts receivable	41,800	-	41,800
HTM investments	2,000,000	-	2,000,000
	P 79,618,191	P -	P 79,618,191

	2016		
	High grade	**Past due but not impaired**	**Total**
Due from BSP	P 2,281,171	P -	P 2,281,171
Due from other banks	26,090,268	-	26,090,268
Receivable from customers:			
Other loans	44,943,886	1,695,172	46,639,058
Accounts receivable	2,855	-	2,855
HTM investments	2,000,000	-	2,000,000
	P 75,318,180	P 1,695,172	P 77,013,352

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 as impaired per delinquency bucket as at December 31, 2017 and 2016.

	2017			
	Less than 30 Days	**31 to 60 Days**	**61 to 90 Days**	**Total**
Receivable from customers:				
Other loans	P 1,933,535	P -	P -	P 1,933,535
Other receivables:	-	-	-	-
Accounts receivable	41,800	-	-	41,800
	P 1,975,335	P -	P -	P 1,975,335

	2016						
	Less than 30 Days	31 to 60 Days		61 to 90 Days		Total	
Receivable from customers:							
Other loans	P 882,332	P	22,266	P	118,857	P	1,023,454
Other receivables:	-		-		-		-
Accounts receivable	2,855		-		-		2,855
	P 885,186	P	22,266	P	118,857	P	1,026,309

Carrying amount per class of loans and receivables which terms have been renegotiated
Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. When the receivable account becomes past due and is being restructured or extended, the approval of the BOD is required before loan booking and is always governed by the BSP rules on restructuring. No loans were restructured as at December 31, 2017 and 2016.

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.

The Bank structures levels of market risk it accept through a market risk policy such as (a) determining what constitutes market risk for the Bank; (b) establishing basis to be used to fairly value financial assets and liabilities; (c) asset allocation and portfolio limit structure; (d) diversification benchmarks by type of instrument; (e) setting out the exposure limits by each counterparty or group of counterparties; (f) reporting of market risk exposures, (g) monitoring compliance with market risk policy and (h) reviewing of market risk policy for pertinence and changing environment.

Interest rate risk

The Bank's receivables earn effective interest rates ranging from 10.00% to 30.00% for 2017 and 2016, respectively. The shortest term of loan is one month while the longest term is five years.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 1.00% per annum in 2017 and 2016. Other regular savings accounts earn 1.50% and 2.00% in 2017 and 2016. Special savings deposits have interest rates of 2.00% to 3.00% in 2017 and 2016.

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.

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:

	2017					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	P -	P -	P -	P -	P -	P -
Due from BSP	3,349,645	-	-	-	-	3,349,645
Due from other banks	24,635,039	-	-	-	-	24,635,039
Loans and receivable	1,933,535	62,456	4,094,621	10,819,079	34,139,562	51,049,253
Accounts receivable	-	41,800	-	-	-	41,800
HTM investments	-	-	-	-	2,000,000	2,000,000
Total Financial Assets	29,918,219	104,256	4,094,621	10,819,079	36,139,562	81,075,737
Financial Liabilities						
Deposit liabilities	-	39,417,113	25,815,381	-	-	65,232,495
Other liabilities:						-
Accrued expenses	-	186,083	-	-	-	186,083
Accounts payable		136,486	-		-	136,486
Total Financial Liabilities	-	39,739,682	25,815,381	-	-	68,258,063
Net	P 29,918,219	P (39,635,426)	P (21,720,760)	P 10,819,079	P 36,139,562	P 12,817,674

	2016					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	P 1,926,815	P -	P -	P -	P -	P 1,926,815
Due from BSP	2,281,171	-	-	-	-	2,281,171
Due from other banks	9,286,581	16,803,687	-	-	-	26,090,268
Loans and receivable	1,163,051	2,506,859	4,094,621	10,819,079	28,055,448	46,639,058
Accounts receivable	-	2,855	-	-	-	2,855
HTM investments	-	-	-	-	2,000,000	2,000,000
Total Financial Assets	14,657,618	19,313,401	4,094,621	10,819,079	30,055,448	78,940,166
Financial Liabilities						
Deposit liabilities	33,085,509	20,017,299	2,625,398	4,778,790	536,430	61,043,427
Other liabilities:						-

Accrued expenses	-	88,513	-	-	-	88,513
Accounts payable		118,323	4,410		7,010	129,743
Total Financial Liabilities	**33,085,509**	**20,224,134**	**2,629,808**	**4,778,790**	**543,440**	**61,261,683**
Net	**P (18,427,892)**	**P (910,733)**	**P 1,464,813**	**P 6,040,289**	**P 29,512,007**	**P 17,678,484**

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.

5. RISK MANAGEMENT PLAN

Governance Framework

The primary objective of governance framework is to establish a risk management function with clear terms of reference and with the responsibility of developing policies on risk management. It also supports the effective implementation of the policies. The policies define the Bank's identification of risks and its interpretation, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

6. CASH

This accounts consists of:

		2017		2016
Cash on Hand and in Vault	P	**3,560,919**	P	1,926,815
Cash and Other Cash Items		**-**		-
Total	**P**	**3,560,919**	P	1,926,815

7. DUE FROM BSP AND OTHER BANKS

This accounts consists of:

		2017		2016
Due from Bangko Sentral ng Pilipinas	P	**3,349,645**	P	2,281,171
Due from Other Banks		**24,635,039**		26,090,268
Total	**P**	**27,984,684**	P	28,371,439

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 254.1 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

The Due from Other Banks account represents deposits with other local banks which are being used for its daily operations. Breakdown of this account follows:

Name of Banks		**2017**	**%**		2016	%
Land Bank of the Philippines	**P**	**23,010,838**	**93.41%**	P	24,845,302	95.23%
Philippine National Bank		**1,624,201**	**6.59%**		1,244,966	4.77%
Total	**P**	**24,635,039**	**100.00%**	P	26,090,268	100.00%

Under Sec.x303g 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 P100 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, 2017, the Bank's SBL was registered at P 4,452,850 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.

Interest income for the years ended December 31, 2017 and 2016 amounted to P 150,127 and P 178,973 respectively.

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:

		2017	%		2016	%
Current Loans	P	**50,173,022**	96.17%	P	45,882,522	96.43%
Past Due Loans		**1,933,535**	3.71%		1,409,555	2.96%
Items in Litigation		**62,456**	0.12%		288,495	0.61%
Total		**52,169,014**	100.00%		47,580,572	100.00%
Less: Unamortized Discounts		**1,119,761**			941,513	

Total, net of discount	**51,049,253**	46,639,058
Less: Allowance for Credit Losses		
Specific	**977,648**	1,469,829
General	**479,898**	449,439
Total Loans and Receivables-net	**P 49,591,707**	P 44,719,790

The total Allowance for Credit Losses of P 1,457,546 which composed of specific loan loss provisions as stated above is in compliance with the BSP Memoramdum Circular 855 (Appendix 18).

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

		2017		2016
Balance at beginning of year	**P**	**1,919,268**	P	2,249,933
Provision (IS)		**83,943**		62,632
Written Off		**(601,974)**		(393,297)
Balance at end year	**P**	**1,401,237**	P	1,919,268

Interest income for the years ended December 31, 2017 and 2016 amounted to P 7,120,132.88 and P

As to Status

		2017	**%**		2016	%
Current Loans	**P**	**50,173,022**	**96.17%**	P	45,882,522	96.43%
Past Due Loans		**1,933,535**	**3.71%**		1,409,555	2.96%
Items in Litigation		**62,456**	**0.12%**		288,495	0.61%
Total Loan Portfolio	**P**	**52,169,014**	**100.00%**	P	47,580,572	100.00%

As to Security:

		2017	**%**		2016	%
Real Estate Mortgage	**P**	**39,335,713**	**75.40%**	P	40,552,896	85.23%
Deposit Hold-Out		**-**	**0.00%**		61,900	0%
Chattel Mortgage		**700,001**	**1.34%**		90,001	0%
Other Collateral		**-**	**0.00%**		-	0.00%
Under Fringe Benefits		**674,090**	**1.29%**			
Unsecured		**11,459,210**	**21.97%**		6,875,774	14.45%
Total Loan Portfolio	**P**	**52,169,014**	**100.00%**	P	47,580,572	100.00%

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

		2017	**%**		2016	%
Wholesale and retail trade, repair of motor Vehicles and		**8,603,619**	**16.49%**	P	10,572,703	22.22%
Agriculture, Hunting and Fores		**4,033,684**	**7.73%**		-	
Transportation and Storage		**24,674,986**	**47.30%**		6,989,465	14.69%
Real Estate Activities		**12,546,299**	**24.05%**		10,637,841	22.36%
Other Service Activities		**2,310,426**	**4.43%**		19,380,563	40.73%
Total Loan Portfolio	**P**	**52,169,014**	**100.00%**	P	47,580,572	100.00%

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.

8.1. SALES CONTRACT RECEIVABLE

Sales contract receivable represents assets acquired in settlement of loans through foreclosure or dacion en pago subsequently sold on installment basis whereby the title to the property is transferred to the buyers only upon full payment of the account. Under Sec.x394.3 of the MORB, sales contract receivable shall be recorded based on the present value of the installment receivable discounted at the imputed rate of interest. Discount is amortized over the term 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 the income statement at the date of sale in accordance with the provisions of PAS 18 "Revenue". SCRs shall also be subject to impairment provision of PAS 39. As of December 31, 2017, the bank has no Sales Contract Receivable recorded to their book.

9. HELD TO MATURITY INVESTMENT

This account consists of:

		2017		2016
Philippine National Bank	P	2,000,000	P	2,000,000
Total	**P**	**2,000,000**	P	2,000,000

Interest income for the years ended December 31, 2017 and 2016 amounted to P 52,000 and P 0, respectively.

10. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

	Land	Building	Furniture, Fixtures and Equipment	Office Equipment	Information Technology Equipment	Transportation Equipment	Total
December 31, 2017							
Cost	P 3,500	P 766,337	P 15,050	P 160,540	P 663,009	P 1,645,006	P 3,253,442
Accumulated Depreciation and Amortization	-	694,687	4,858	153,443	634,263	1,601,458	3,088,708
Net carrying amount	P 3,500	P 71,650	P 10,192	P 7,097	P 28,746	P 43,548	P 164,733
December 31, 2016							
Cost	P 3,500	P 766,337	P 163,885	P 150,540	P 597,084	P 1,645,006	P 3,326,351
Accumulated Depreciation and Amortization	-	651,187	160,495	134,153	557,414	1,578,933	3,082,182
Net carrying amount	P 3,500	P 115,150	P 3,390	P 16,387	P 39,670	P 66,073	P 244,169

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2017 and 2016 is shown below:

	2017						
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Office Equipment**	**Information Technology Equipment**	**Transportation Equipment**	**Total**
Cost							
Balance at beginning of year	**P 3,500**	**P 766,337**	**P 178,915**	**P 160,540**	**P 597,084**	**P 1,645,006**	**P 3,351,381**
Additions	-		-	-	**65,925**		**65,925**
Disposals and Adjustments	-	-	**(163,865)**			-	**(163,865)**
Reclassification	-	-	-	-	-	-	-
Balance at end of year	**P 3,500**	**P 766,337**	**P 15,050**	**P 160,540**	**P 663,009**	**P 1,645,006**	**P 3,253,442**

	Land	Building	Furniture, Fixtures and Equipment	Office Equipment	Information Technology Equipment	Transportation Equipment	Total
Accumulated Depreciation and Amortization							
Balance at beginning of year	P -	P -	P -	P -	P -	P -	P -
Depreciation and amortization	-	P 694,687	4,858	2,917	37,885	69,078	809,424
Disposals and Adjustments	-	-		150,526	596,378	1,532,380	2,279,284
Reclassification	-	-	-	-	-	-	-
Balance at end of year	-	694,687	4,858	153,443	634,263	1,601,458	3,088,708
Net Book Value	P 3,500	P 71,650	P 10,192	P 7,097	P 28,746	P 43,548	P 164,733

2016

	Land	Building	Furniture, Fixtures and Equipment	Office Equipment	Information Technology Equipment	Transportation Equipment	Total
Cost							
Balance at beginning of year	P 3,500	P 741,017	P 225,896	P 198,961	P 949,713	P 1,589,481	P 3,708,567
Additions	-	25,320	-	-		55,525	80,845
Disposals and Adjustments	-	-	(46,981)	(38,421)	(352,629)	-	(463,061)
Reclassification	-	-	-	-	-	-	-
Balance at end of year	P 3,500	P 766,337	P 178,915	P 160,540	P 597,084	P 1,645,006	P 3,326,351
Accumulated Depreciation and Amortization							
Balance at beginning of year	P -	P 766,337	P 218,344	P 167,527	P 846,950	P 1,564,736	P 3,386,004
Depreciation and amortization	-	81,892	14,060	33,737	81,452	14,196	205,947
Disposals and Adjustments	-	-	(53,490)	(67,110)	(370,988)	-	(509,769)
Reclassification	-	-	-	-	-	-	-
Balance at end of year	-	694,687	178,915	134,153	557,414	1,578,933	3,082,182
Net Book Value	P 3,500	P 115,150	P 3,390	P 16,387	P 39,670	P 66,073	P 244,169

The value of the Bank premises, furniture, fixtures and equipment of P 164,733, net of accumulated depreciation, as of December 31, 2017 is .93% of the Bank's total net worth. This is lower than the 50% maximum ratio required under BSP regulation (MORB Subsec.160.2).

11. Investment Properties

This account is consists of:

		2017		2016
ROPA	P	990,000	P	47,222
Less: Accumulated Depreciation		17,000		(86,333)
Net Amount		973,000		298,368
Less: Allowance for Credit Losses		-		-
Net Carrying Amount	P	973,000	P	298,368

12. OTHER ASSETS

This account is consists of:

		2017		2016
Financial Assets				
Accounts Receivables	P	41,800	P	2,855
Non-Financial Assets				
Petty Cash Fund		10,000		10,000
Stationery and Supplies on Hand		49,607		70,937
Miscellaneous Assets		-		-
Contingent Asset		-		271
Total		101,407		84,062
Less: Allowance for Probable Losses		-		-
Net Other Assets	P	101,407	P	84,062

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

13. DEPOSIT LIABILITIES

This account is consists of:

		2017	%		2016	%
Saving Deposit	P	39,417,113	60.43%	P	33,621,940	55.08%
Golden Savings		25,815,381	39.57%		27,421,487	44.92%
Total Deposit Liabilities	P	65,232,495	100.00%	P	61,043,427	100.00%

Savings Deposits are composed of regular savings accounts which are withdraw able upon demand and those with special terms and withdraw able at certain period or time. Time Deposits have different maturity dates maximum of which is five (5) years term/maturity and bear different interest rates based on the amount of deposits and term of placements. Time deposits with term of five (5) years or more are exempt from tax in accordance with BIR regulation. Total deposits for the year decreased by P

Interest expense for the years ended December 31, 2017 and 2016 amounted to P 608,945 and P 934,016, respectively.

14. ACCRUED INTEREST, TAXES AND OTHER EXPENSES PAYABLE

This account consists of:

		2017		2016
Accrued Taxes Payable - Gross Receipts Tax	P	-	P	-
Accrued Other Expenses Payable		186,083		93,628
Total	P	186,083	P	93,628

Accrued interest payable represents interest due on term deposits of the Bank. Accrued other expenses payable are year end expenses payable on the following year.

15. OTHER LIABILITIES

This account consists of:

		2017		2016
Accounts Payable	P	**131,476**	P	145,664
Withholding Tax Payable		**22,535**		46,462
SSS, Medicare and Pag-ibig Contribution Payable		**41,873**		39,091
Dividends Payable		**733,097**		733,097
Contingent Asset		**-**		
Other Liability		**2,873**		-
Total	P	**931,855**	P	964,314

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

16. EQUITY ACCOUNTS

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

Authorized ordinary share capital as of December 31,2017 amounted to P 15,000,000 or 150,000 shares with a par value of P 100 each. Total subscribed ordinary shares amounted to P 6,200,700 or 62,007 shares and paid up ordinary shares amounted to P 5,900,800 or 59,008 shares as of December

Under Circular 854 dated October 29,2014, Rural Banks with 1-10 branches in all other areas outside NCR are required to comply with the minimum capital of P20 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 circular's

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

	2017		2016	
	Shares	**Amount**	Shares	Amount
Common stock - 100 par value, 150,0000 authorized	**150,000**	**15,000,000**	150,000	15,000,000
Common stock at the beginning of the year	**62,007**	**6,200,700**	59,008	5,900,800
Issuance of shares of stocks from settlement of subscriptions receivable				
Common stock at the end of the year	**62,007**	**6,200,700**	59,008	5,900,800
Subscribed	**65,840**	**6,584,000**	2,999	299,900
Subscription receivable	**-**	**-**	-	-
	127,847	**12,784,700**	62,007	6,200,700

The reconciliation of retained earnings free during the period is as follows:

Retained Earnings - Free

		2017		2016
Balance, Beginning	P	**9,156,717**	P	7,795,929
Net Income		**1,332,255**		1,350,839
Provision and Adjustments		**(5,476,668)**		9,949
Balance, Ending	P	**5,031,093**	P	9,156,717

Provision and Adjustments

		2017
Reverse Expense	P	11,203
RETR		(1,254)
Total	P	9,949

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

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

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

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.

		2017		2016
Tier 1 Capital	**P**	**17,774,103**	P	15,334,517
Tier 2 Capital		**479,898**		449,439
Total Qualifying Capital		**18,254,000**		15,783,955
Risk Weighted Assets		**84,756,448**		84,756,448
Tier 1 Capital Ratio		**20.97%**		18.09%
Tier 2 Capital Ratio		**0.57%**		0.53%
Capital Adequacy Ratio (CAR)		**21.54%**		18.62%

Provision and Adjustments

		2017
Reverse Expense		
RETR	P	11,203
Total		(1,254)
	P	9,949

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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

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Tier 2 Capital Ratio		**0.57%**		0.53%
Capital Adequacy Ratio (CAR)		**21.54%**		18.62%

Financial Performance

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

	2017	2016
Return on Average Equity	**8.03%**	9.42%
Return on Average Assets	**1.64%**	1.74%
Net Interest Margin	**8.69%**	9.15%
Debt to Equity Ratio	**3.74%**	4.05%
Earnings Per Share	**193.76**	203.61
Book Value Per Share	**507,101**	79,797

A. RETURN ON AVERAGE EQUITY

	2017	2016
Net Income	P **1,332,255**	P 1,369,628
Shareholders Equity		
2017	**17,815,793**	
2016	**15,376,206**	
2016		15,376,206
2015		13,696,729
Total	**33,191,999**	29,072,936
Average Equity	**16,596,000**	14,536,468
Return on Average Equity	**8.03%**	9.42%

B. RETURN ON AVERAGE ASSETS

	2017	2016
Net Income	**1,332,255**	1,369,628
Assets		
2017	**84,376,450**	
2016	**77,663,433**	
2016		77,663,433
2015		79,493,870
Total	**162,039,884**	157,157,303
Average Assets	**81,019,942**	78,578,651
Return on Average Assets	**1.64%**	1.74%

C. NET INTEREST MARGIN

	2017	2016
Net Interest Income	**6,718,325**	6,897,498
Interest Earnings Assets		
2017	**79,576,391**	
2016	**75,091,229**	
2016		75,091,229
2015		75,726,892
Total	**154,667,621**	150,818,121
Average Assets	**77,333,810**	75,409,060
Net Interest Margin	**8.69%**	9.15%

D. DEBT TO EQUITY RATIO

Total Liabilities	**66,560,657**	62,287,227
Total Equity	**17,815,793**	15,376,206
Debt to Equity Ratio	**3.74%**	4.05%

E. EARNINGS PER SHARE

Net Income	**1,332,255**	1,369,628
Earnings Available for Common	**12,014,547**	12,014,547
Number of Shares Ordinary	**62,007**	59,008
Earnings Per Share **Ordinary**	**193.76**	203.61

F. BOOK VALUE PER SHARE

Total Equity	**1,332,255**	1,369,628
Available to Ordinary Shares	**1,332,255**	1,369,628
Number of Shares Ordinary	**62,007**	59,008
Book Value Per Share **Ordinary**	**21.49**	23.21

17. OTHER INCOME

This account is consists of:

		2017		2016
Fees and Commission Income	P	**215,056**	P	182,073
Service Charges and Fees		**1,160,425**		974,422
Recovery on Charged Off-Assets		**112,432**		40,304
Gains/Losses from Sale/Derecognition of ROPA		**507,101**		79,797
Miscellaneous Income		**106,779**		242,218
Total	P	**2,101,794**	P	1,518,815

18. COMPENSATION & FRINGE BENEFITS

This account is consists of:

		2017		2016
Salaries and Wages	P	**2,626,506**	P	2,448,716
Fringe Benefits-Officers and Employees		**1,346,689**		982,642
Director's Fee		**245,000**		292,000
SSS, Philhealth and Employees Compensation Premium and PAGIBIG Fund Contribution		**248,959**		211,773
Contribution to Retirement Fund (Note 19)		**79,439**		170,278
Total	P	**4,546,594**	P	4,105,409

19. RETIREMENT PLAN

As discussed in Note 2.20, the bank recognizes retirement benefit obligation using the provision of RA 7641. The movement in this account are as follows:

		2017		2016
Beginning	P	2,238,734	P	2,920,253
Additional		430,000		170,278
Interest Income		4,868		12,672
Ending	P	2,673,602	P	3,103,203

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

20. OTHER OPERATING EXPENSE

This account is consists of:

		2017		2016
Management and Other Professional Fees	**P**	**179,556**	P	261,076
Miscellaneous		**321,670**		254,894
Insurance Expenses		**270,587**		206,488
Travelling Expenses		**30,651**		143,351
Security, Messengerial, Janitorial and Other Services		**136,604**		118,860
Training and Seminars		-		101,855
Power, Light & Water		**101,277**		105,559
Fuel & Lubricants		**71,460**		83,220
Repairs and Maintenance		**65,883**		71,228
Litigation and Assets Acquired Expenses		**180,237**		67,408
Advertising & Publicity		**51,100**		66,400
Stationery and Supplies		**79,470**		66,176
Postage, Telephone, Cables & Telegram		**57,479**		62,607
Representation Expense		-		28,000
Information Technology Expense		**82,381**		19,919
Donations and Charitable Contributions		**42,400**		16,050
Supervision Fees		**12,086**		12,488
Fines and Penalties		**21,518**		9,360
Membership Fees & Dues		**5,520**		5,520
Total	**P**	**1,709,878**	P	1,700,457

21. DEPRECIATION/AMORTIZATION

This account is consists of:

		2017		2016
Depreciation Expense - Buildings	**P**	**43,500**	P	62,740
Depreciation Expense - Furniture and Fixtures		**8,227**		13,822
Depreciation Expense - IT Equipment		**76,850**		81,452
Depreciation Expense - Other Office Equipment		**19,290**		33,737
Depreciation Expense - Transportation Equipment		**22,525**		14,196
Depreciation Expense - ROPA		**17,000**		74,000
Total	**P**	**187,391**	P	279,947

22. COMMITMENTS AND CONTINGENCIES

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

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.

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

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

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

e.) The bank has used contigent assets and liabilities accounts as control accounts for the Transfer Certicate of Titles collateral held.

23. 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

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

Provision for income tax consists of:

		2017		2016
Current:				
RCIT	P	**386,232**	P	379,062
Deferred Tax Assets		-		(18,790)
Income Tax Expense reported in the statement	P	**386,232**	P	**360,272**

As at December 31, 2017 and 2016, net deferred tax assets are as follows:

		2017		2016
Deferred tax assets	P	**18,790**	P	-
Allowance for credit and impairment losses		-		18,789.55
	P	-	P	18,790

The reconciliation between the statutory income tax and effective income tax follow:

		2017		2016
Statutory income tax	P	**1,718,486**	P	1,729,900
Income tax effects of:				
Provision for Credit Losses on Loans and Receivables		**83,943**		
Interest expense reduced by 33% income subject to final tax		**85,444**		95,276
Interest Income Subject to Final Tax		**(207,137)**		(230,973)
Accounts Written Off		**(393,297)**		(393,297)

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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.

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Interest Income Subject to Final Tax		**(207,137)**		(230,973)
Accounts Written Off		**(393,297)**		(393,297)

Net Taxable Income		**1,287,439**		1,200,907
Tax Rate		**30%**		30%
Provision for income tax	P	**386,232**	P	360,272

Under the Philippine tax laws, the bank is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist primarily of gross receipts tax (GRT) and documentary

Computation of Income Tax:

		2017
Net Loss per books	P	**1,718,486**
Temporary Difference		
Provision for Credit Losses on Loans and Receivables		**83,943**
Permanent Difference		
Interest expense reduced by 33% income subject to final tax		**85,444**
Interest Income Subject to Final Tax		**(207,137)**
Accounts Written Off		**(393,297)**
Total		**1,287,439**
Net Taxable Income (Loss)		**1,287,439**
Tax Rate		**30%**
Normal Corporate Income Tax		**386,232**
Minimum Corporate Income Tax		**88,630**
Income Tax Due		**386,232**
Less: Tax Credits/Payments		
Prior Year's Excess Credits - Taxes Withheld		-
Tax Payment(s) for the Previous Quarter of the same taxable year other than MCIT Payment(s) for the Previous Quarter(s) of the same taxable year		**(176,007)**
Creditable Tax Withheld for the Previous Quarter(s)		-
Creditable Tax Withheld per BIR Form No. 2307 for this quarter		-
Tax Paid in Return Previously Filed, if this is an Amended Return		-
Income Tax Still Due/(Overpayment)	P	**210,225**

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

		2017
Revenue	P	**7,327,270**
Cost of Revenue		**5,204,717**
Gross Income		**2,122,553**
Add: Other Income		**2,101,794**
Less: Interest Income Subjected to Final Tax		**207,137**
Total Gross Income		**4,431,484**
MCIT Rate		**2%**
Minimum Corporate Income Tax	P	**88,630**

24. RELATED PARTY TRANSACTION

The compensation of key management personnel included under 'Compensation and benefits' in the sta

		2017		2016
Short-term employee benefits	P	**3,643,131**	P	3,643,131
Post-employment benefits		**170,278**		170,278
	P	**3,813,409**	P	3,813,409

Category	2017 Amount / Volume	 Outstanding Balance	Nature, Terms and Conditions
Key management personnel			
Deposit liabilities			
Deposits	**824,378**	**52,213**	**Consists of regular savings deposit account at an annual interest rate from 1.50% to 2.00%**
Withdrawals	**902,098**		

Interest expense	**602**		**Pertains to interest on deposit liabilities.**
Shareholders			
Deposit liabilities			**Consists of regular savings deposit account which bears an annual interest rate of 1.5% and special savings deposit earning at annual rates of 2.75% to 4.75%.**
Deposits	**12,393,490**	**494,956**	
Withdrawals	**13,846,863**		
Accounts receivable			**Pertains to share of various expenses of shareholders that are still payable to the Bank.**
Billings			
Collection			
Interest expense	**9,067**		**Pertains to interest on deposit liabilities.**
Affiliates*			
Deposit liabilities			
Deposits			
Withdrawal			
Accounts receivable			
Billings			
Collections			
Accounts payable			
Billings			
Payments			
Interest expense			

	2016		
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
Key management personnel			
Deposit liabilities			Consists of regular savings deposit account at an annual interest rate from 1.50% to 2.00%
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Accounts receivable			Pertains to share of various expenses of
Billings			
Collection			
Interest expense	9,067		Pertains to interest on deposit liabilities.

Regulatory Reporting

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 making financial and operating desicions. Parties are also considered to be related if they are subject to common control or common significant

In the ordinary course of business, the Bank has loan transactions with certain directors, officers, stockholders and related interest (DOSRI). Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risk. The amount of individual loans to DOSRI, of which seventy (70%) must be secured, should not exceed the amount of his deposits and book value of his paid-in capital in the Bank. In the aggregate, loans to DOSRI should not exceed the Bank's total capital funds or fifteen percent (15%) of the Bank's total loan

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

		2017
A. Aggregate Ceiling		
1. Total Loan Portfolio	P	51,049,253
2. 15% of #1		7,657,388
3. Adjusted Capital per FRP		-
4. Item A.2 or A.3 whichever is lower	**P**	**7,657,388**
B. Ceiling on Unsecured Loans		
1. Secured DOSRI loans	P	266,000
2. Unsecured DOSRI loans		41,690
3. Total		307,690
4. 30% of Item A.4		2,297,216
5. 30% of B.3		92,307
6. Item B.4 or B.5 whichever is lower	**P**	**92,307**
C. Compliance with Aggregate Ceiling (Item A.4 -B.3)	**P**	**7,349,698**
D. Compliance with Ceiling on Outstanding Unsecured	**P**	**50,617**
E. Percent of DOSRI loan to total loan portfolio		
DOSRI loan	P	307,690
Total loan portfolio	P	51,049,253
		0.60%
F. Percent of unsecured DOSRI loans to total DOSRI loans		
Unscured DOSRI loan	P	41,690
Total DOSRI loan	P	307,690
		13.55%
G. Percent of past due DOSRI loans to total DOSRI loans		
Past Due DOSRI loan	P	-
Total DOSRI loan	P	307,690
		0.00%
H. Percent of non-performing DOSRI loans to total DOSRI loans		
Non-performing DOSRI loan	P	-
Total DOSRI loan	P	307,690
		0.00%

25. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATION NO. 15-2010

The following information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

		2017
Net Income Before Tax	P	1,718,486
Add/(Less): Permanent Difference		169,387
Total		1,887,873
Less: Temporary Difference		(600,434)
Taxable Income	P	2,488,307

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. The components of 'Taxes and

GRT in 2017 consists of taxes on:

		2017
Interest income on loans	P	7,379,054
Other income		2,101,794
	P	9,480,848

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 o the circular affecting the operation of bank

Taxes and Licenses

a. Local			
Real Property Tax	5,089		
Vehicle Registration	5,672		
Municipal Taxes	49,325		60,085
b.National			
Gross Receipts Tax	513,241		
Annual Registration-BIR	500		513,741
Total-Taxes and Licenses		P	573,826

The Bank does not have any outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR at December 31,2017.

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 other wise known as the Anti-Money Laundering

2. As of December 31, 2017, all of the bank's directors had undergone the requirements for corporate government as confirmed by the Monetary Board as mandated by MORB Subsec. X147.4.

27. AGGREGATE AMOUNT OF SECURED LIABILITIES AND ASSETS PLEDGED

As of December 31, 2017, the bank has no secured liabilities and assets pledged.

- End of Report -

RURAL BANK OF SANCHEZ MIRA(CAGAYAN), INC.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		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			✔
PFRS 4	Insurance Contracts			✔
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✔
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✔		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✔
PFRS 7	Financial Instruments: Disclosures	✔		
	Amendments to PFRS 7: Transition	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PAS 39 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	✔		
PFRS 8	Operating Segments			✔
PFRS 9*	Financial Instruments	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	✔		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✔
	Amendment to PAS 32: Classification of Rights Issues			✔
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✔		
PAS 33	Earnings per Share	✔		
PAS 34	Interim Financial Reporting			✔
PAS 36	Impairment of Assets	✔		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✔		
PAS 38	Intangible Assets	✔		
PAS 39	Financial Instruments: Recognition and Measurement	✔		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✔		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✔
	Amendments to PAS 39: The Fair Value Option			✔
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✔
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✔		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✔
	Amendment to PAS 39: Eligible Hedged Items			✔
PAS 40	Investment Property	✔		
PAS 41	Agriculture			✔
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 PAS 39: Embedded Derivatives			✔
IFRIC 10	*Interim Financial Reporting and Impairment*			✔
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✔		
PFRS 10*	Consolidated Financial Statements			✔
PFRS 11*	Joint Arrangements			✔
PFRS 12*	Disclosure of Interests in Other Entities			✔
PFRS 13*	Fair Value Measurement			✔
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	✔		
PAS 2	Inventories	✔		
PAS 7	Statement of Cash Flows	✔		
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	✔		
PAS 17	Leases	✔		
PAS 18	Revenue	✔		
PAS 19	Employee Benefits	✔		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✔
PAS 19 (Amended)	Employee Benefits	✔		
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)	Borrowing Costs	✔		
PAS 24 (Revised)	Related Party Disclosures	✔		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✔
PAS 27 (Amended)	Separate Financial Statements			✔
PAS 28 (Amended)*	Investments in Associates and Joint Ventures			✔
PAS 29	Financial Reporting in Hyperinflationary Economies			✔
PAS 31	Interests in Joint Ventures			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
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			✔
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✔
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			✔

LAMBERTO D. AN

Certified Public Accountant

79 4th Fortune Village 5, Valenzuela City

Tel. No.(02) 440-5315; Mobile No. (02) 510-4164; (0927) 6512686

Email : lamb_dan@yahoo.com Tax & Management Consultant * Auditor * Accountant

SUPPLEMENTAL WRITTEN STATEMENT

To the Board of Directors and Stockholders

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Lagasca St., Centro 1, Sanchez Mira, Cagayan

I have audited the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** for the year ended December 31, 2017 on which we have rendered the attached report dated March 17, 2018.

In compliance with SRC Rule 68, we are stating, the company has 5 stockholders owning 100 or more shares as of December 31, 2017.

BY:

Lamberto D. An
Certified Public Accountant
CPA Reg. Cert. No. 25233
PTR No. VC5082485
Issued at Valenzuela City on Jan 04, 2018
TIN 135-941-825
BOA Cert. of Accreditation No. 3460
Until December 31, 2018
BSP Accreditation March 27, 2015 to March 27, 2018
BIR Accreditation No. 05-005020-001-2017
June 15, 2017 to June15, 2020

March 17, 2018