RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

RECONCILIATION OF AUDITED FINANCIAL STATEMENTS & SUBMITTED CONSOLIDATED STATEMENT OF CONDITION AND STATEMENT OF INCOME AND EXPENSES

As of December 31, 2021

	Submitted Report	Audited Report	Discrepancy	Reason for Discrepancy
Cash and Other Cash Items	₱ 1,855,341	₱1,855,341	-	
Due from Bangko Sentral ng Pilipinas	2,246,682	2,246,682	-	
Due from Other Banks	44,410,647	44,410,647	-	
Held to Maturity Financial Assets	2,000,000	2,000,000	-	
Loans and Receivables, net	57,759,056	57,395,720	363,335	*Additional provision for credit losses*
Bank Premises, Furniture, Fixtures and Equipments, net	1,196,725	1,059,225	137,500	*Recalssification*
Deferred Tax Asset	231,915	330,858	(98,943)	*Recognition of DTA for the 2021 and remeaseurement for the year 2020*
Other Assets	1,042,497	1,179,997	(137,500)	*Reclassification*
Total Assets	**₱ 110,742,864**	**₱110,478,471**	**₱ 264,393**	*Net effect of Adjustment*
Deposit Liabilities	₱ 82,202,431	₱82,202,431	-	
Accrued Interest, Taxes & Other Expenses	289,124	289,124	-	
Other Liabilities	2,933,719	2,927,044	(6,675)	Adjustment on Provision of Income Tax
Total Liabilities	85,425,274	85,418,599	(6,675)	*Net effect of Adjustment*
Total Stockholders' Equity	25,317,589	25,059,872	(257,717)	*Net effect of Adjustment*
Total Liabilities & Stockholders' Equity	**₱ 110,742,864**	**₱110,478,471**	**₱ (264,393)**	*Net effect of Adjustment*
Total Gross Income	₱ 11,730,925	₱11,730,925	-	
Total Expenses	9,197,877	9,561,212	(363,335)	*Additional provision for credit losses*
Net Income Before Tax	2,533,048	2,169,713	(363,335)	
Income Tax Expense	655,891	504,636	(151,255)	*Recognition of DTA for the year and effect transitory rate during implementation of create Law*
Net Income After Tax	**₱ 1,877,157**	**₱1,665,077**	**₱ (212,080)**	*Net effect of Adjustment*

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.
COMPARATIVE FINANCIAL HIGHLIGHTS
As of December 31, 2021 and 2020

	2021	2020	Increase (Decrease)
FOR THE YEAR			
TOTAL INCOME	**₱ 11,730,925**	₱ 10,169,176	**₱ 1,561,749**
TOTAL EXPENSES	**10,065,848**	9,036,213	**1,029,635**
NET INCOME	**1,665,077**	1,132,962	**532,114**
EARNINGS PER SHARE			
Ordinary Shares	**11.10**	7.55	**3.55**
RETURN ON AVERAGE EQUITY	**6.87%**	4.84%	**2.03%**
RETURN ON AVERAGE ASSETS	**1.55%**	1.19%	**0.36%**
NET INTEREST MARGIN	**8.77%**	8.70%	**0.07%**
TOTAL ASSETS	**110,478,471**	103,813,912	**6,664,559**
LOANS AND RECEIVABLES (NET)	**57,395,720**	49,209,199	**8,186,522**
LIQUID ASSETS	**50,512,670**	52,980,408	**(2,467,739)**
FIXED ASSETS	**1,059,225**	1,104,697	**(45,471)**
DEPOSIT LIABILITIES	**82,202,431**	77,413,593	**4,788,838**
OTHER LIABILITIES	**3,216,168**	3,005,524	**210,644**
EQUITY ACCOUNTS	**25,059,872**	23,394,795	**1,665,077**
BOOK VALUE PER SHARE			
Ordinary Shares	**167.07**	155.97	**11.10**
CAPITAL ADEQUACY RATIO	**24.16%**	22.49%	**1.67%**
PAST DUE RATIO	**8.15%**	11.70%	**(3.55%)**
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES	**61.45%**	68.44%	**(6.99%)**
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES & OTHER LIABILITIES	**59.14%**	65.88%	**(6.74%)**
DEBT TO EQUITY RATIO	**3.41:1**	3.44:1	**(0.03:1)**
RATIO OF TOTAL FIXED ASSETS OVER EQUITY ACCOUNTS	**4.23%**	4.72%	**(0.50%)**

(See Notes to Financial Statements)

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

LIST OF ADJUSTING ENTRIES
December 31, 2021

		Debit	Credit
1.	Deferred Tax Asset Year 2021	137,595	
	Income Tax Benefit		137,595
	To record DTA related to the Provision for Credit Losses that was booked during the year.		
2.	Provision for Credit Losses	306,398	
	Allowance for Credit Losses		306,398
	To set up additional allowance for credit losses.		
3.	Provision for Credit Losses	56,938	
	General Loan Loss Provision		56,938
	To set up additional General Loan Loss Provision		
4	Retained Earnings	45,637	
	Income Tax Expense		45,637
	To effect transitory rate during implementation of create Law		
5	Income Tax Payable	6,675	
	Income Tax Expense		6,675
	To adjust provision on income tax expense		
6	Miscellaneous Asset	137,500	
	Information Technology Equipment		137,500
	Reclassification of Account		
	Income Tax Benefit	38,653	
	Deferred Tax Asset		38,653
7	To recognize re-measurement of Deferred Taxes		

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

STATEMENTS OF FINANCIAL POSITION

	As at December 31	
	2021	2020
ASSETS		
Cash and Other Cash Items (Note 6.1)	**₱ 1,855,341**	₱ 2,435,343
Due from Bangko Sentral ng Pilipinas (Note 6.2)	**2,246,682**	2,302,595
Due from Other Banks (Note 6.2)	**44,410,647**	46,242,470
Debt Securities Measured at Amortized Cost (Note 7)	**2,000,000**	2,000,000
Loans and Receivables, Net (Note 8)	**57,395,720**	49,209,199
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 9)	**1,059,225**	1,104,697
Deferred Tax Asset (Note 21)	**330,858**	231,915
Other Assets (Note 10)	**1,179,997**	287,694
TOTAL ASSETS	**₱ 110,478,471**	₱ 103,813,912
LIABILITIES & SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 11)	**₱ 82,202,431**	₱ 77,413,593
Accrued Interest, Taxes and Other Expenses (Note 12)	**289,124**	260,255
Other Liabilities (Note 13)	**2,607,623**	2,439,970
Income Tax Payable (Note 21)	**319,421**	305,299
TOTAL LIABILITIES	**85,418,599**	80,419,117
SHAREHOLDERS' EQUITY		
Capital Stock (Note 15)	**15,000,000**	15,000,000
Retained Earnings	**10,059,872**	8,394,795
TOTAL SHAREHOLDERS' EQUITY	**25,059,872**	23,394,795
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**₱ 110,478,471**	**₱ 103,813,912**
BOOK VALUE PER SHARE	**₱ 167.07**	₱ 155.97

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

	For the Years Ended December 31	
	2021	2020
INTEREST INCOME		
Loans and Receivables (Note 8)	**₱9,376,766**	₱ 8,146,969
Due from Other Banks (Note 6)	**112,307**	135,298
Debt Securities Measured at Amortized Cost (Note 7)	**52,000**	52,000
TOTAL INTEREST INCOME	**9,541,073**	8,334,267
INTEREST EXPENSE (Note 14)		
Deposit Liabilities	**719,340**	628,275
TOTAL INTEREST EXPENSE	**719,340**	628,275
NET INTEREST INCOME	**8,821,732**	7,705,992
PROVISION FOR CREDIT LOSSES	**550,381**	196,760
NET INTEREST INCOME AFTER PROVISION	**8,271,351**	7,509,232
OTHER INCOME (Note 15)	**2,189,852**	1,834,908
TOTAL INCOME BEFORE OPERATING EXPENSES	**10,461,203**	9,344,140
OTHER OPERATING EXPENSE		
Compensation and Fringe Benefits (Note 16)	**5,713,961**	5,488,799
Other Operating Expenses (Note 28)	**1,611,072**	1,420,619
Taxes and Licenses (Note 23)	**695,213**	618,120
Depreciation and Amortization (Note 19)	**271,245**	245,244
TOTAL OTHER OPERATING EXPENSES	**8,291,491**	7,772,782
NET INCOME BEFORE INCOME TAX	**2,169,713**	1,571,359
INCOME TAX EXPENSE (BENEFIT) (Note 23)	**504,636**	438,396
NET INCOME AFTER INCOME TAX	**₱1,665,077**	₱ 1,132,962
EARNINGS PER SHARE	**₱ 11.10**	₱ 7.55

See accompanying Notes to Financial Statements.

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2021 and 2020

	Ordinary Shares (Note 17)	**Deposit for Stock Subscription**	**Retained Earnings - Free**	**Total**
Balance at January 1, 2021	**₱ 15,000,000**	**₱ -**	**₱ 8,394,795**	**₱ 23,394,795**
Issuance of shares - stock dividends	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**1,665,077**	**1,665,077**
Prior period adjustments	**-**	**-**	**- -**	
Balance at December 31, 2021	**₱ 15,000,000**	**₱ -**	**₱ 10,059,872**	**₱ 25,059,872**
Balance at January 1, 2020	₱ 13,944,300	₱ -	₱ 9,435,394	₱ 23,379,694
Issuance of shares thru Stock Dividends	1,055,700	-	(2,155,700)	₱ (1,100,000)
Total comprehensive income for the year	-	-	1,132,962	₱ 1,132,962
Prior period adjustments	-	-	(17,861)	₱ (17,861)
Balance at December 31, 2020	₱ 15,000,000	₱ -	₱ 8,394,795	₱ 23,394,795

See accompanying Notes to Financial Statements.

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31	
	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES		
Income before tax	**₱ 2,169,713**	₱1,571,359
Adjustments for:		
Provision for Credit Losses on Loans and Receivables	**550,381**	196,760
Provision to Retirement	**231,880**	333,696
Depreciation and Amortization (Note 9 and 19)	**271,245**	245,244
Issuance of Stock Dividends Payable	**-**	1,055,700
Gain on Sale of ROPA	**-**	(123,839)
Interest Income	**(9,541,073)**	(8,334,267)
Interest Expense	**719,340**	628,275
Changes in Working Capital:		
Loans and Receivables (Note 8)	**(8,736,903)**	(33,833)
Other Assets (Note 10)	**(892,304)**	5,652
Deposit Liabilities (Note 11)	**4,788,837**	16,686,422
Accrued Interest, Taxes & Other Expenses (Note 12)	**28,870**	84,900
Other Liabilities (Note 13)	**(64,227)**	49,410
Interest Paid	**(719,340)**	(628,275)
Interest Received	**9,541,073**	8,334,267
Income Tax Paid	**(589,457)**	(772,920)
NET CASH FROM OPERATING ACTIVITIES	**(2,241,964)**	19,298,551
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investment Property	**-**	330,839
Cash Payments on Premises, Furniture & Equipment (Note9)	**(225,774)**	(107,944)
NET CASH PROVIDED (USED IN) BY INVESTING ACTIVITIES	**(225,774)**	222,895
CASH FLOW FROM FINANCING ACTIVITIES		
Net Charges to Surplus/Prior Period Adjustments	**-**	(2,173,561)
Additional Deposit for Capital Subscription	**-**	551,100
NET CASH USED IN FINANCING ACTIVITIES	**-**	(1,622,461)
NET INCREASE IN CASH & CASH EQUIVALENTS	**(2,467,738)**	17,898,985
CASH & CASH EQUIVALENTS - BEGINNING	**50,980,408**	33,081,423
CASH & CASH EQUIVALENTS - ENDING	**₱48,512,670**	₱ 50,980,408

See accompanying Notes to Financial Statements.

1. CORPORATE INFORMATION

The **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC. ("The Bank")** was registered with the Security and Exchange Commission (SEC) on November 25, 1971 under SEC Reg. No. 45926. Likewise, the Bank was granted authority to operate by Bangko Sentral ng Pilipinas on March 16, 1972. Its primary purpose is to engage in the business of extending rural credits to small farmers and tenants and to deserving industries or enterprise, to have and exercise all authority and powers to do and perform all acts, and to transact all business which may legally be had or done by rural banks organized under and in accordance with with Republic Act No. 7353 (Rural Banks of 1992), as it exists or maybe amended; and to do all other things incidental thereto that are necessary and proper in connection with the said purpose and within such territory, as maybe determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

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

The Bank's Board of Directors is composed of Five (5) members, two (2) of them are independent directors.

Approval of Submission
The accompanying financial statements of the Bank for the year ended December 31, 2021 were authorized for issue by its Board of Directors on April 11, 2022.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

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

Statement of Compliance
The Bank's financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and relative laws, regulations and industry practices applicable to rural banks. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), Interpretations of the Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) which have been approved and adopted by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial years, except that the Bank has adopted the following new accounting pronouncements beginning January 1, 2020. Adoption of these pronouncements did not have significant impact on the Bank's financial position or performance unless otherwise stated.

New Standards, Amendments, and Interpretations Adopted
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS:

- Amendment to PFRS 16, Leases - COVID-19-Related Rent Concessions beyond June 30, 2021 – In 2020, PFRS 16 was amended to provide practical expedient to lessees from applying the requirements on lease modifications for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for a change that is not a lease modification, e.g., as a variable lease payment. This amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted, and covers eligible rent concessions until June 30, 2021. The Company applied the practical expedient in its financial statements for the year ended December 31, 2020.

Due to continuing impact of the pandemic, another amendment to PFRS 16 was issued in 2021, which allows lessees to extend the application of the practical expedient regarding COVID-19-related rent concessions to reduction in lease payments that are due on or before June 30, 2022. The amendment is effective for annual reporting periods beginning on or after April 1, 2021 but earlier application is permitted. The 2021 amendment is mandatory for entities that elected to apply the previous amendment. Accordingly, the Company has applied the amendment in the current year financial statements.

The adoption of the amended PFRS did not materially affect the financial statements of the Company

New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRS, which are not yet effective as at December 31, 2021 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, Reference to Conceptual Framework – The amendments will replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendments include an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, Provisions, Contingent Liabilities and Contingent Assets, or IFRIC 21, Levies, instead of the Conceptual Framework. The requirement will ensure that the liabilities recognized in a business combination will remain the same as those recognized applying the current requirements in PFRS 3. The amendments also clarified that an acquirer shall not recognize contingent assets acquired in a business combination. The amendments should be applied prospectively.

- Amendments to PAS 16, Property, Plant and Equipment - Proceeds Before Intended Use – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applied the amendments.

- Amendments to PAS 37, Onerous Contracts - Cost of Fulfilling a Contract – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as applicable. Accordingly, the comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS 2018 to 2020 Cycle:
  - Amendment to PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Subsidiary as a First-time Adopter – The amendment permits a subsidiary that becomes a first-time adopter later than its parent and measures its assets and liabilities in accordance with paragraph D16 (a) of PFRS 1 to measure cumulative translation differences for all foreign operations using the amounts reported by its parent, based on the parent's date of transition to PFRS. Earlier application of the amendment is permitted.

  - Amendment to PFRS 9, Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities – The amendment clarifies which fees an entity shall include when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendment applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applied the amendments. Earlier application is permitted.

  - Amendment to PFRS 16, Leases - Lease Incentives – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

  - Amendment to PAS 41, Agriculture - Taxation in Fair Value Measurements – The amendment removes the requirement for entities to exclude cash flows for taxation when measuring the fair value of a biological asset using a present value technique to ensure consistency with the requirements in PFRS 13, Fair Value Measurement. The amendment should be applied prospectively. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, Classification of Liabilities as Current or Non-current – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted.

- Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure Initiative – Accounting Policies – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify

  (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2, Making Materiality Judgements, is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.

- Amendments to PAS 8, Definition of Accounting Estimates – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". An entity develops an accounting estimate if an accounting policy require an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.

- Amendments to PAS 12, Deferred Tax Related Assets and Liabilities from a Single Transaction – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2025

- PFRS 17, Insurance Contracts – This standard will replace PFRS 4, Insurance Contracts. It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. An amendment to the standard was issued to (i) reduce costs of transition by simplifying some requirements of the standard, (ii) make financial performance easier to explain, and (iii) ease transition by deferring the effectivity of the standard from 2021 to 2023 and by providing additional relief to reduce the effort required when applying PFRS 17 for the first time.

- In response to the challenges brought by the COVID-19 pandemic, the Insurance Commission issued Circular Letter 2020-062, Amendment of Section 1 of Circular Letter No. 2018-69, Deferral of IFRS 17 Implementation, which provides a two year deferral on the implementation of the standard from the 2023 effectivity date. Therefore, all life and nonlife insurance companies in the Philippines shall adopt PFRS 17 for annual periods beginning on or after January 1, 2025.

Deferred effectivity

- Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28 - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture – The amendments address a conflicting provision under the two standards. It clarifies that a gain or loss shall be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted

<u>Financial Instruments</u>

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

Initial Recognition and Subsequent Measurement

Financial assets and financial liabilities are recognized in the Statement of Financial Position when and only when, the Bank becomes a party to the contractual provisions of the instrument.

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

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

a When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that used only data from observable markets, the difference is recognized as a gain or loss.

b In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

<u>Financial Assets</u>

Classification and Subsequent Measurement

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

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

Financial assets at amortized cost (debt instruments)

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

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

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

The Bank's cash and cash equivalents, loans receivable and held to maturity financial assets fall in this category of financial instruments

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash and other cash items, unrestricted balances with BSP and due from other banks which are subject to insignificant risk of changes in value. Cash and cash equivalents are highly liquid and readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are valued at face amount. Cash denominated in foreign currency is translated in peso using the closing rate as of the financial date. If a bank or financial institution holding the funds of the Bank is in bankruptcy or financial difficulty, cash should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount.

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

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

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

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

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

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

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

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

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

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

1 That there has been a down payment of at least twenty percent (20%) of the agreed selling price or in the absence thereof, the installment payments on the principal had already amounted to at least twenty percent (20%) of the agreed selling price;

2 That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one (1) year;

3 That any grace period in the payment of principal shall not be more than two (2) years; and

4 That there is no installment payment in arrear either on principal or interest: Provided, that an SCR account shall be automatically classified “Substandard” and considered non-performing in case of non-payment of any amortization due. Provided, further, that an SCR which has been classified “Substandard” and considered non-performing due to non-payment of any amortization due may only be upgraded or restored to unclassified and/or performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established.

Debt Securities Measured at Amortized Cost (FRP Accounts - Held-to-Maturity (HTM) Financial Assets)

These are non-derivative financial assets with fixed determinable payments and fixed maturities. The Bank classifies its debt securities measured at amortized cost as a financial instruments at amortized cost where it has the positive intention and ability to hold up to maturity and to collect contractual cash flows that are solely payments of principal and interest.

Debt securities measured at amortized cost is measured upon recognition at its fair value plus transaction costs that are directly attributable to the acquisition of the security. After initial measurement, debt securities measured at amortized cost is measured at amortized cost using effective interest method, less any impairment losses. The EIR amortization is included in finance income in the Statement of Comprehensive Income. The losses arising from impairment are recognized in the Statement of Comprehensive Income in finance cost.

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

The Bank measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

As of December 31, 2021 and 2020, the Bank does not have financial assets that are classified under this category.

Financial Assets at fair value through profit or loss

Financial assets that are held within a different business model other than 'to hold the financial assets to collect contractual cash flows' are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

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

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

As of December 31, 2021 and 2020, the Bank does not have financial assets that are classified as FVTPL

Reclassification
When, and only when, the Bank changes its business model for managing financial assets, it shall reclassify all affected financial assets prospectively from reclassification date. The Bank shall not restate any previously recognized gains, losses or interest.

If the Bank reclassifies a financial asset from amortized cost into FVTPL, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

If the Bank reclassifies a financial asset from amortized cost into FVOCI, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. The EIR and the measurement of expected credit losses are not adjusted as a result of reclassification.

If the Bank reclassifies a financial asset from FVTPL into amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

If the Bank reclassifies from FVTPL into FVOCI, the financial asset continues to be measured at fair value.

If the Bank reclassifies a financial asset from FVOCI into amortized cost, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The EIR and the measurement of expected credit losses are not adjusted as a result of reclassification.

If the Bank reclassifies as financial assets from FVOCI into FVTPL, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as reclassification adjustment at the reclassification date.

Financial Liabilities

Classification and Measurement

A financial liability is any liability that is:

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

Initially, financial liabilities are measure at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated financial liability at fair value through profit or loss.

In both the current and prior period, financial liabilities subsequently measured at amortized cost using effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in the Statement of Comprehensive Income (other than derivative financial instruments that are designated and effective as hedging instruments). No reclassification shall be made to financial liabilities.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the Statement of Comprehensive Income are included within finance cost or finance income

The Bank's financial liabilities include deposit liabilities and other payables arising from contractual obligations (except for tax-related liabilities and retirement benefit obligations).

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

Accrued Expenses and Other Liabilities
These refer to obligations already incurred by the Bank which are not yet paid as of the balance sheet date. These are normally measured at actual costs.

Dividends distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank's Board of Directors and subject to the requirements of Section 124 of the Manual Regulations for Banks (MORB) December 2018 Edition.

As of December 31, 2021 and 2020, the Bank has not designated any financial liabilities upon initial recognition as at FVTPL.

Classification as Debt or Equity Instruments
Debt and equity instruments issued by the Bank are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instruments.

Equity Instruments

An equity instruments is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Compound Instruments

The component parts of compound instruments (convertible notes) issued by the Bank are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium or other equity. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings or other equity. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the EIR method.

Other Payables arising from contractual obligations

Other Payables arising from contractual obligations include accounts payable, lease liabilities and other accrued payables excluding those pertaining to obligations as mandated by law such as taxes payable, SSS payables and the like. These other payables qualifying into the definition of financial liabilities under PFRS 9 are subsequently measured at the expected settlement amounts. The short-term nature of such payables renders the effect of discounting to be immaterial

Borrowing Cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period or time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the Statement of Comprehensive Income in the period in which they are incurred.

Derecognition of Financial Instruments

Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party and meets the qualification parameters for derecognition.

The Banks had transferred a financial asset if, and only if, it either transfers the contractual rights to receive the cash flows of the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients. When the Bank retains the contractual rights to receive the cash flows of a financial assets but assumes a contractual obligation to pay those cash flows, the Bank treats the transaction as a transfer of financial asset if the following conditions are met:

a) The Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from original asset;
b) The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security as security to the eventual recipients for the obligation to pay them cash flows; and
c) The Bank has na obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay

Where the Bank has transferred its right 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 and rewards of the asset nor transferred the control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could require to repay.

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

Impairment of Financial Instruments
At each reporting date, the Bank measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instruments has increased significantly since initial recognition.

If at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The Bank recognizes in the Statement of Comprehensive Income the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date. Loss allowance for financial assets at FVOCI is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset in the Statement of Financial Position.

The Bank shall measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables or contract assets that result from transactions that are within the scope of PFRS 15.
The Bank measures expected credit losses of a financial instrument in a way that reflects:

a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b) The time value of money; and
c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect expected collectability of the future cash flows of the instruments.

In applying this forward-looking approach, a distinction is made between:
- I financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and

ii financial instruments that have not deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Bank shall directly reduce the gross carrying amount of a financial asset when the Bank has no reasonable expectations of recovering a financial asset on its entirety or a portion thereof. A write-off constitutes a derecognition event.

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

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position 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. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of the business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank shall not offset the transferred asset and the associated liability.

Other Assets
Other assets represent residual accounts which were not classified as a separate line item in the Financial Reporting Package (FRP) - Manual of Accounts issued by the Bangko Sentral ng Pilipinas.

Premises, Furniture, Fixtures and Equipment's
Premises, furniture, fixtures, and equipment except land, are carried at cost less accumulated depreciation and amortization and any impairment value. Land is stated at cost less any impairment value.

The initial cost of premises, furniture, fixtures and equipment's 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 against income 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.

Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful lives of improvements or the term of the lease, whichever is shorter. Land is not depreciated.

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

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

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

Fully depreciated assets are retained in the accounts at one peso (₱ 1.00) 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 and equipment from the Bank's book of accounts should be approved by the management.

Investment Properties

The Bank's investment properties comprise of acquired assets in settlement of loans. Investment properties held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business or for administrative purposes.

In accounting for investment properties, the Bank considers the provision under Section 382 of the MORB (December 2018 Edition). Real and Other Properties Acquired (ROPA) in settlement of loans through foreclosure or dation in payment are booked under investment properties:

a Upon entry of judgement in case of judicial foreclosure;
b Upon execution of the Sheriff's Certificate of Sales in case extrajudicial foreclosure; and
c Upon notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

ROPA are booked initially at the carrying amount of the loan (i.e. outstanding loan balance adjusted for any unamortized premium discount less allowance for credit losses computed based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PFRS 9 provisioning requirements) plus transaction cost incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property: Provided, that the carrying amount of ROPA exceed P5,000,000, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

Subsequent to initial recognition, depreciable items of ROPA are carried at cost less accumulated depreciation and any impairment losses.

ROPA are derecognized when it has either been disposed of or permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of ROPA is recognized in the Statement of Comprehensive Income in the year of retirement or disposal.

Transfers are made to ROPA when there is a change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending construction or development. Transfers are made from ROPA when, and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with view sell.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets.

The Bank assesses impairment on assets whenever events changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

a Significant underperformance relative to expected historical or projected future operating results;
b Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
c Significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets.

The Bank discloses the fair values of its investment properties in accordance with PAS 40.

Up to the date when an owner-occupied property becomes an investment property carried at fair value, the Bank depreciates the property and recognizes any impairment losses that have occurred. The Bank treats any difference at the date between the carrying amount of property as follows:
a Any resulting decrease in the carrying amount of the property is recognized in the Statement of Comprehensive Income. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is recognized in other comprehensive income and reduces revaluation surplus within equity.
b Any resulting increase in the carrying amount is treated as follows:
    i To the extent that the increase reverses a previous impairment loss for that property, the increase is recognized in Statement of Comprehensive Income. The amount recognized in Statement of Comprehensive Income does not exceed the amount needed to restore the carrying amount that would have been determined (net depreciation) had no impairment loss been recognized.
    ii Any remaining part of the increase is recognized in other comprehensive income and increases the revaluation surplus within equity. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to general fund. The transfer from revaluation surplus to general fund is not made through profit or loss.

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

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

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

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

Impairment of Non-Financial Assets
At each reporting date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. Where carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing in use, the estimated future cash flows are discounted to its present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Equity

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

Subscribed common stock is recognized at subscribed amount net of subscription receivable.

Subscriptions receivable pertains to uncollected portion of subscribed stocks. The Bank accounted for the subscription receivable as a contra equity account.

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

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

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

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

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

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

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

Revenue Recognition
The Bank derives revenue from interest income, loan fees and service charges, interest income from bank deposits, and other income over time and at a point in time.

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

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

Revenue within the scope of PFRS 15:

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

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

Revenue outside the scope of PFRS 15:

Interest Income

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

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

Interest Income on Bank deposits and Debt Securities measured at Amortized Cost
Interest on bank deposits and held-to-maturity financial assets are recognized using the accrual method.

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

price is reasonably assured.

Cost and Expense Recognition
Cost and expense are decrease in economic benefits in the form of decreases in assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are received or when the expense is incurred.

Interest Expense
Interest expense for financial liabilities is recognized in profit or loss on accrual basis using EIR of the financial liabilities to which they relate.

Other Expense
Other expenses encompass losses as well as expenses that arise in ordinary course of business of the Bank. Other expenses are recognized when incurred.

Leases

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

The Bank adopted PFRS 16 which has no material impact to its financial statements. Its leases are classified under short-term and low-value asset which continues to be reported under PAS 17 as of December 31, 2021 and 2020, respectively.

Employee Benefits

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

b Retirement Benefits
The Bank has a funded, non-contributory defined benefit retirement plan covering all of its regular employees. The Bank's retirement benefit costs is not accounted for using the projected unit actual actuarial valuation method as prescribed by PAS 19, but determined by observing the minimum legal requirements as stated RA 7641. No significant assumption was used by the Bank that would generally affect the recognized expenses and recorded obligation in the future period. Annually, the Bank assesses the sufficiency of the recorded retirement benefit liability. Any increase or decrease thereto is adjusted through the Bank's Statement of Comprehensive Income.

Income Taxes

Income tax expense includes current tax expense and deferred tax expense. The current tax expense is based on taxable profit for the year. Deferred tax is recognized on the differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases.

Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future, and any net operating loss carry over (NOLCO) or excess of minimum corporate income tax (MCIT) over the regular corporate income tax(RCIT). The net carrying amount of deferred tax asset is reviewed at each reporting date and any adjustments are recognized in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

On March 26, 2021, President Rodrigo Roa Duterte signed into law Republic Act No. 11534 which is now known as the CREATE Act wherein CREATE stands for Corporate Recovery and Tax Incentive for Enterprises.

The CREATE Act is the second package in the Comprehensive Tax Reform Program (CTRP) of the Duterte Administration with the TRAIN Law (Tax Reform for Acceleration and Inclusion) under Republic Act No. 10963 taking effect last January 1, 2018 as the initial package.

The CREATE Act provides tax reduction and relief measures to corporations and also provides for the modernization and rationalization of fiscal incentives granted to investors thereby making the country more competitive in attracting investors and stimulating economic recovery in the face of the COVID pandemic.

Among the salient features of the CREATE Act are the following:
1. Reduction of Corporate Income Tax rate from 30% to 20% for domestic corporations with taxable income not exceeding ₱5M and total assets not exceeding ₱100M excluding land on which the entity's office, plant and equipment are situated effective July 1, 2020 to June 30, 2023
2. Reduction of Corporate Income Tax rate of domestic corporations from 30% to 25% if the above mentioned threshold is not met effective July 1, 2020 to June 30, 2023
3. Reduction of Minimum Corporate Income Tax (MCIT) rate from 2% to 1% effective July 1, 2020 to June 30, 2023
4. Repeal of Improperly Accumulated Earnings Tax (IAET)
5. Clarification on types of reorganizations covered by tax free exchanges

With the above provisions of the CREATE Act, the Income Tax Rate (ITR) and Minimum Corporate Income Tax (MCIT) of the Company are reduced to 25% and 1% respectively from January 1, 2021 to December 31, 2021.

There is no other material financial impact to the Company arising from the provisions of the CREATE Act as of December 31, 2021.

Related Party Relationships and Transactions
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

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

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

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

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

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

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
Provisions

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

Revisions to accounting estimates are recognized in the period in which the estimate is revisited if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments
In the process of applying the 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.

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

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

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

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

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

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

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

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

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

For unsecured loans and credit accommodations:

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

For secured loans and other credit accommodations:

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

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

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

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3*
Substandard – Unsecured	25%	2 or 3*
Doubtful	50%	3
Loss	100%	3
*The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).		

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

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

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

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

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

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

For unsecured loans and other credit accommodations:

Number of days Unpaid/with	Classification	Minimum	Stage

missed payments		ACL	
1-30 days	Especially Mentioned)	2%	2
31-60 days/1st restructuring	Substandard	25%	2 or 3
61-90 days	Doubtful	50%	3
91 days and over/ 2nd restructuring	Loss	100%	3

For secured loans and other credit accommodations:

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

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

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

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

Other Risk Assets

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

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

c *Useful lives of Bank Premises, Furniture, Fixtures & Equipment*

The useful lives of Bank Premises, Furniture, Fixtures and Equipment are estimated based on the period over which these assets are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of Bank Premises, Furniture, Fixtures and Equipment are reviewed periodically and are updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the Bank Premises, Furniture, Fixtures and Equipment. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

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

d *Useful life of Depreciable Investment Property*

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

e *Determination of Impairment of Non-financial Assets*

An impairment review should be performed when certain impairment indicators are present.

Determining the value in use of Bank Premises, Furniture, Fixtures and Equipment which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that Bank Premises, Furniture, Fixtures and Equipment are impaired.

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

f *Recognition of Retirement Costs*

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

g *Recognition of Deferred Tax Assets*

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit Risk

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

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2021 and 2020:

2021

	Loans and Receivables	Due from BSP and Other Banks	Debt Securities Measured at Amortized Cost	Total
Agriculture, forestry and fishing	P 18,141,498	P -	P -	P18,141,498
Real estate activities	6,165,853	-	-	6,165,853
Financial institutions	-	3,545,679	2,000,000	5,545,679
Government	-	43,111,649	-	43,111,649
Whole and retail trade, repair of motor vehicle, motorcycle	19,575,569	-	-	19,575,569
Other service activities	997,728	-	-	997,728
Loans to Individuals for personal use purposes	14,835,148	-	-	14,835,148
Total	**P 59,715,795**	**P46,657,329**	**P2,000,000**	**P108,373,123**

2020

	Loans and Receivables	Due from BSP and Other Banks	Debt Securities Measured at Amortized Cost	Total
Agriculture, forestry and fishing	P10,299,746	P -	-	P10,299,746
Real estate activities	9,278,444	-	-	9,278,444
Financial institutions	-	5,622,992	2,000,000	7,622,992
Government	-	42,922,073	-	42,922,073
Whole and retail trade, repair of motor vehicle, motorcycle	16,063,452	-	-	16,063,452
Other service activities	1,268,209	-	-	1,268,209
Loans to Individuals for personal use purposes	4,069,041	-	-	14,069,041
Total	**P50,978,892**	**P48,545,065**	**P2,000,000**	**P101,523,957**

Credit quality per class of financial assets

The tables below show the credit quality per class of financial assets as at December 31, 2021 and 2020:

2021					
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	P 2,246,682	P -	P -	P -	P 2,246,682
Due from other banks	44,410,647	-	-	-	44,410,647
Debt Securities	2,000,000	-	-	-	2,000,000
Loans Receivable	54,747,879	2,809,451	397,650	,760,815	59,715,795
Other receivables	605,105	-	-	-	605,105
	P104,010,313	P2,809,451	P397,650	P1,760,815	P108,978,228

2020					
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	P 2,302,595	P -	P -	P -	P 2,302,595
Due from other banks	46,242,470	-	-	-	46,242,470
Debt Securities	2,000,000	-	-	-	2,000,000
Loans Receivable	44,937,016	3,036,681	1,721,023	1,284,172	50,978,892
Other receivables	201,700	-	-	-	201,700
	P95,683,781	P3,036,681	P1,721,023	P1,284,172	P101,725,657

**Amount is net of Unamortized Discount*

Aging analysis of past due but not impaired loans and receivables

The following tables show the total aggregate amount of loans and receivables that are contractually past due but not considered impaired per delinquency bucket as at December 31, 2021 and 2020.

	2021		
	less than 90 days	more than 90 days	Total
Receivable from customers:			
	P 2,809,451	P 2,158,465	P 4,967,916

	2020		
	less than 90 days	more than 90 days	Total
Receivable from customers:			
	P 3,036,681	P 3,005,195	P 6,041,876

Market Risk

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

Interest rate risk

Loans and receivables earn interest income at interest rates ranging 6.00% to 24.00% for year 2021 and 6.00% to 24.00% for year 2020. The Bank's interest rate on its deposit liabilities is ranging from 0.50% to 3.00% in year 2021.

However, the Bank earns interest at 0.10% to 1.00% from its deposits with other banks and 3.25% from its investments.

Fair Value Interest Rate Risk
Fair value interest rate risk is the risk that the value of the financial instruments will fluctuate because of changes in interest rates. The Bank's cash equivalents are mostly invested in fixed interest rates on its duration and therefore exposed to fair value interest rate risk but not to cash flow interest rate risk.

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

Cash Flow Interest Rate Risk
This is the risk that future cash flows of the financial instrument will fluctuate because of changes in market interest rates. In the case of a floating rate debt instrument. Fluctuation results in a change in effective interest rate of a financial instrument usually without a corresponding change in its fair value.

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

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

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

	2021				
	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities:					
Deposit liabilities	P 62,926,347	P 6,912,865	P 12,363,219	P -	P 82,202,431
Other Liabilities	1,092,850	-	-	-	1,092,850
Total Financial Liabilities	64,019,197	6,912,865	12,363,219	-	83,295,281
Financial Assets:					
Cash and other cash items	1,855,341	-	-	-	1,855,341
Due from BSP	-	-	-	2,246,682	2,246,682
Due from other banks	44,410,647	-	-	-	44,410,647
Debt securities measured at amortized cost	-	-	-	2,000,000	2,000,000
Loans and receivable	7,203,356	9,038,147	17,341,671	26,132,620	59,715,794
Other Receivable	605,105	-	-	-	605,105
Total Financial Assets	54,074,449	9,038,147	17,341,671	30,379,302	110,833,569
Liquidity Position (Gap)	P (9,944,748)	P 2,125,282	P 4,978,452	P 30,379,302	P 27,538,388

2020					
	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities:					
Deposit liabilities	P 62,041,063	P 5,312,535	P 10,059,995	P -	P 77,413,593
Other Liabilities	1,260,997	-	-	-	1,260,997
Total Financial Liabilities	63,302,060	5,312,535	10,059,995	-	78,674,590
Financial Assets:					
Cash and other cash items	2,435,343	-	-	-	2,435,343
Due from BSP	-	-	-	2,302,595	2,302,595
Due from other banks	46,242,470	-	-	-	46,242,470
Debt securities measured at amortized cost	-	-	-	2,000,000	2,000,000
Loans and receivable	4,974,145	7,230,950	14,381,300	24,392,496	50,978,892
Other Receivable	201,700	-	-	-	201,700
Total Financial Assets	53,853,658	7,230,950	14,381,300	28,695,091	104,161,000
Liquidity Position (Gap)	P (9,448,402)	P 1,918,415	P 4,321,306	P 28,695,091	P 25,486,410

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

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

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

PART I. MINIMUM LIQUIDITY RATIO (MLR)	
A. Stock of Liquid Assets	**48,512,670**
B. Qualifying Liabilities	**85,136,150**
Minimum Liquidity Ratio	**56.98%**

PART II. STOCK OF LIQUID ASSETS	
Cash on Hand	**1,855,341**
Bank Reserves in the BSP	**2,246,682**
Debt Securities representing claims on or guaranteed by the Philippine National Government and the BSP	**-**
Deposits in Other Banks	**44,410,647**
Total	**48,512,670**

PART III. QUALIFYING LIABILITIES	
A. Qualifying Liabilities	
1. Retail current and regular savings deposits with outstanding balance per account of ₱500,000 and below	**-**
2. Obligations arising from operational expenses	**289,124**

3. Total on-balance sheet liabilities	**85,425,274**
4. Deduct: [Sum of A1 to A4]	**85,136,150**
Total	**85,136,150**

6. CASH AND CASH EQUIVALENTS

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

		2021		2020
6.1 Cash and Other Cash Items				
Cash on Hand and in Vault	₱	**1,855,341**	₱	**2,435,343**
Total Cash and Other Cash Items		**1,855,341**		**2,435,343**
6.2 Due from BSP and Other Banks				
Due from Bangko Sentral ng Pilipinas		**2,246,682**		**2,302,595**
Due from Other Banks		**44,410,647**		**46,242,470**
Total Due from BSP and Other Banks		**46,657,329**		**48,545,065**
Total Cash and Cash Equivalent	₱	**48,512,670**	₱	**50,980,408**

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

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

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

Name of Banks		**2021**	**%**		2020	%
Land Bank of the Philippines	₱	**40,864,967**	**92.02%**	₱	40,619,478	87.84%
Philippine National Bank		**3,545,679**	**7.98%**		5,622,992	12.16%
Total	₱	**44,410,647**	**100.00%**	₱	46,242,470	100.00%

Under Sec.362g of the Manual of Regulations for Banks, loans and other credit accommodations as well as deposits and usual guarantees by a bank to any other bank whether locally or abroad shall be subject to the Single Borrower's Limit of 25% of the Net worth as herein prescribed or ₱100 Million whichever is higher. Provided that the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

As of December 31, 2021, the Bank's SBL was registered at ₱6,264,968 and as per BSP Manual of Regulations, bank is exempted on the ceiling of single borrower's limit (SBL) on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for clearing operation.

As of December 31, 2021, none of the Banks has exceeded the prescribed limit or ₱ 100 million under Circular No. 734 Series of 2011.

Cash in bank represents current and saving deposits account in local bank. Current account and savings account earn interest at 0.05% in 2021 and 0.05% in 2020. While, high-yield savings account earn interest at 1.00% in 2021 and 2020.

Due from other banks generally earns interest at prevailing bank deposit rates. Total interest income earned amounted to ₱ 112,307 and ₱ 135,298 for the years ended December 31, 2021 and 2020, respectively. Deposit with the BSP is non-interest bearing.

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

The Bank holds no cash and cash equivalents in 2020 and 2019 which are not available for use by Bank.

7. DEBT SECURITIES MEASURED AT AMORTIZED COST

This account consists of:

		2021		2020
Treasury Bonds	₱	**2,000,000**	₱	2,000,000
Total	₱	**2,000,000**	₱	2,000,000

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

	Treasury Bonds			
Issuer Bank	**Term**		**Face Value**	**Interest Rate Yield**
Philippine National Bank	10 years	₱	2,000,000	3.25%
Total		₱	**2,000,000**	

Debt securities measured at amortized cost earn interest income amounted to ₱52,000 for 2021 and 2020.

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

8. LOANS AND RECEIVABLES

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

		2021	**%**		2020	%
Current Loans	₱	**56,305,806**	**88.30%**	₱	46,116,561	88.30%
Past Due Loans		**4,671,948**	**11.07%**		5,780,770	11.07%
Items in Litigation		**326,335**	**0.63%**		331,142	0.63%
Total		**61,304,089**	**100.00%**		52,228,473	100.00%
Less: Unamortized Discounts		**1,588,294**			1,249,581	
Total, net of discount		**59,715,795**			50,978,892	
Less: Allowance for Credit Losses						
Specific		**1,760,815**			1,284,172	
General		**559,259**			485,521	

Total Loans and Receivables, net	**₱ 57,395,720**	₱ 49,209,199

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

Loans and receivables earn interest income at interest rates ranging 6.00% to 24.00% for year 2021 and 6.00% to 24.00% for year 2020. Total earned interest amounts to ₱8,146,969 and ₱9,354,512 for 2021 and 2020, respectively.

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

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

		2021		**2020**
Balance at beginning of year	₱	**1,769,693**	₱	**1,572,934**
Provision (IS)		**550,381**		**196,760**
Adjustment		**-**		**(1)**
Balance at end year	₱	**2,320,074**	₱	**1,769,693**

The total Allowance for Credit Losses of ₱ 2,320,074 which composed of general and specific loan loss provisions as stated above is in compliance with the BSP Manual of Regulations (Sec. 143 Appendix 15) or Circular No. 1011.

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

Classification of loans: (Net of Unamortized Discounts)

As to Maturity:

		2021	**%**		2020	%
Due within one (1) year	₱	**31,352,773**	**52.50%**	₱	24,300,226	47.67%
Due beyond one (1) year		**28,363,022**	**47.50%**		26,678,666	52.33%
Total Loan Portfolio	₱	**59,715,795**	**100.00%**	₱	50,978,892	100.00%

9. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

This account consists of:

	Land	Building	Furniture, Fixtures, and Equipment	Other Office Equipment	Information Technology Equipment	Transportation Equipment	Total
As at December 31, 2021							
Cost	**₱ 3,500**	**₱2,066,337**	**₱ 234,669**	**₱ 239,988**	**₱ 962,523**	**₱ 1,645,006**	₱5,152,022
Accumulated Depreciation	**-**	1,210,501	**225,341**	**218,681**	**793,271**	**1,645,003**	4,092,797
Net carrying amount	**₱ 3,500**	₱855,835	**₱ 9,328**	**₱ 21,307**	**₱ 169,252**	**₱ 3**	₱1,059,225
As at December 31, 2020							
Cost	₱ 3,500	₱2,066,337	₱ 233,218	₱ 211,040	₱ 846,931	₱ 1,645,006	₱5,006,032
Accumulated Depreciation	-	1,080,501	214,994	184,547	784,618	1,636,675	3,901,335
Net carrying amount	₱ 3,500	₱985,836	₱ 18,224	₱ 26,493	₱ 62,313	₱ 8,331	₱1,104,697

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2021 and 2020 is shown below:

2021

	Land	Building	Furniture, Fixtures, and Equipment	Other Office Equipment	Information Technology Equipment	Transportation Equipment	Total
Cost							
Balance at beginning of year	**₱ 3,500**	**₱ 2,066,337**	**₱ 233,218**	**₱ 211,040**	₱846,931	₱1,645,006	₱5,006,032
Additions	**-**	**-**	**7,073**	**29,000**	327,201		363,274
Reclassification					(137,500)		(137,500)
Disposals	**-**	**-**	**(5,621)**	**(53)**	(74,110)	-	(79,783)
Balance at end of year	**3,500**	**2,066,337**	**234,670**	**239,987**	962,523	1,645,006	5,152,022
Accumulated Depreciation							
Balance at beginning of year	**-**	**1,080,501**	**214,994**	**184,547**	784,618	1,636,675	3,901,336
Additions	**-**	**130,000**	**15,968**	**34,186**	82,763	8,328	271,245
Disposals	**-**	**0**	**(5,621)**	**(52)**	(74,110)	0	(79,783)
Balance at end of year	**-**	**1,210,501**	**225,341**	**218,681**	793,271	1,645,003	4,092,797

		Land		Building		Furniture, Fixtures, and Equipment		Other Office Equipment		Information Technology Equipment		Transportation Equipment	Total
Net Book Value	₱	3,500	₱	855,836	₱	9,329	₱	21,306		₱169,252	₱	3	₱1,059,226

2020													
		Land		**Building**		**Furniture, Fixtures, and Equipment**		**Other Office Equipment**		**Information Technology Equipment**		**Transportation Equipment**	**Total**
Cost													
Balance at beginning of year	₱	3,500	₱	2,066,337	₱	211,818	₱	225,039	₱	760,388	₱	1,645,006	₱ 4,912,088
Additions		-		-		21,400		-		86,543		-	107,943
Reclassification		-		-		-		(13,999)		-		-	(13,999)
Balance at end of year		3,500		2,066,337		233,218		211,040		846,931		1,645,006	5,006,032
Accumulated Depreciation													
Balance at beginning of year		-		950,501		199,209		166,296		728,515		1,625,571	3,670,092
Additions		-		130,000		15,785		32,250		56,103		11,105	245,244
Reclassification		-		-		-		(13,999)		-		-	(13,999)
Balance at end of year		-		1,080,501		214,994		184,547		784,618		1,636,675	3,901,335
Net Book Value	₱	3,500	₱	985,836	₱	18,224	₱	26,493	₱	62,313	₱	8,331	₱ 1,104,697

Depreciation amounting to ₱271,245 and ₱245,244 in 2021 and 2020, respectively, are shown as separate components of operating expenses in the Statements of Comprehensive Income.

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

The value of the Bank premises, furniture, fixtures and equipment of ₱1,059,236, net of accumulated depreciation, as of December 31, 2020 is 4.23% of the Bank's total net worth. This is lower than the 50% maximum ratio required under BSP regulation (MORB Section 109).

The Bank, after due consideration of the assessment of its impairment, believes that there are no indications that the property and equipment as of December 31, 2021 and 2020 are impaired or its carrying amount cannot be recovered.

As of December 31, 2021 and 2020, no amount of bank premises, furniture, fixtures and equipment was used as collateral for liabilities.

10. OTHER ASSETS

This account consists of:

		2021		2020
Financial Assets				
Accounts Receivables	**₱**	**605,105**	**₱**	**201,700**
Non-Financial Assets				
Prepaid Expenses		**36,414**		**36,278**
Petty Cash Fund		**10,000**		**10,000**
Stationery and Supplies on Hand		**40,978**		**39,715**
Other Intangible Asset		**350,000**		**-**
Miscellaneous Asset		**137,500**		**-**
Net Other Assets	**₱**	**1,179,997**	**₱**	**287,694**

The Accounts Receivable represents cash withdrawal thru Point of Sale System collectible from Land Bank of the Philippines. Prepaid expenses refer to insurance paid in advance to be used within one year after the reporting period.

As at December 31, 2021 and 2020, the Bank did not provide additional allowance for credit losses on Accounts Receivable.

11. DEPOSIT LIABILITIES

This account consists of:

	2021	%	2020	%
Saving Deposit	₱82,202,431	**100.00%**	₱ 77,413,593	100.00%
Total Deposit Liabilities	₱82,202,431	**100.00%**	₱ 77,413,593	100.00%

Savings Deposits are composed of regular savings accounts which are withdrawable upon demand, special savings account which have special terms and withdrawable at certain period of time, and dormant savings account. Deposit liabilities are stated at amounts they are to be paid which approximate the deposits plus accrued interest on the date of withdrawal. Total deposits for the year decreased by ₱ 4,788,838 or 6.19% over the figures of 2020.

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

On March 23, 2020, the Monetary Board in its Resolution No. 423 approved a reduction of 100 basis points in the reserve requirement (RR) ratios of deposits and deposit substitute liabilities of thrift banks (TBs), rural banks (RBs) and cooperative banks (Coop Banks) decreasing the reserve requirement to two percent (2%). The required reserve as of December 31, 2020 amounted to ₱1,644,049 or 2% of the total deposit liabilities. This amount is in the form of deposit with Bangko Sentral ng Pilipinas which has a balance of ₱2,246,682 as at December 31, 2021 which is higher than the required reserves for rural banks.

Interest expense on deposit liabilities charged to statement of comprehensive income in 2021 and 2020 amounted to ₱719,340 and ₱628,275, respectively.

12. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

This account consists of:

		2021		2020
Accrued Other Expenses Payable	₱	**289,124**	₱	**260,255**
Total	₱	**289,124**	₱	**260,255**

Accrued other expenses payable includes percentage taxes payable on the following year to Bureau of Internal Revenue, accrued audit fee and uniform allowance.

13. OTHER LIABILITIES

This account consists of:

		2021		2020
Accounts Payable	₱	**28,843**	₱	**123,934**
Withholding Tax Payable		**47,213**		**123,707**
SSS, Medicare and Pag-Ibig Contribution Payable		**52,513**		**45,077**
SSS, Pag-Ibig Loan Payable		**6,555**		**5,153**
Due to the Treasurer of the Philippines		**2,873**		**2,873**
Dividends Payable		**957,726**		**963,125**
Total		**1,095,723**	₱	**1,263,870**

The above liabilities are settled either by cash or check payments. As December 31, 2021 and 2020, no amount of assets was used as collateral, security or guarantee for the above liabilities.

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

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

SSS, Medicare and Pag-ibig Contribution are employee’s contribution which are to be remitted by the Bank on January 2022.

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

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

14. SHAREHOLDERS’ EQUITY

Ordinary Shares

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

Authorized ordinary share capital as of December 31, 2021 amounted to ₱ 15,000,000 or 150,000 shares with a par value of ₱ 100 each. Total subscribed ordinary shares amounted to ₱ 15,000,000 or 150,000 shares and paid up ordinary shares amounted to ₱ 15,000,000 or 150,000 shares as of December 31, 2021.

Under Section 121: Minimum Required Capital, Rural Banks with head office only in all other areas outside NCR are required to comply with the minimum capital of ₱ 20 Million within five (5) years. A capital build up program is also required to be submitted to the BSP within one (1) year from date of the circulars effectively. The Bank is compliant with the minimum capital as of December 31, 2021.

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

	2021		2020	
Common stock	**Shares**	**Amount**	Shares	Amount
Common stock - ₱100 par value 150,000 authorized shares	**150,000**	**₱ 15,000,000**	150,000	₱ 15,000,000
Issued & Outstanding at the beginning of the year	**150,000**	**15,000,000**	139,443	13,944,300
Additional Capital Infusion	**-**	**-**	10,557	1,055,700
Reclassification/Adjustment	**-**	**-**	-	-
Common stock at the end of the year	**150,000**	**₱ 15,000,000**	150,000	₱ 15,000,000

The Bank did not declare a cash and stock dividend for the year 2021 while in 2020 the bank declared cash and stock dividends amounting to ₱1,055,700.

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

Retained Earnings - Free

		2021		2020
Balance, Beginning	₱	**8,394,794**	₱	9,435,394
Net Income		**1,665,077**		1,132,962
Provision and Adjustments		**-**		(2,173,561)
Balance, Ending	₱	**10,059,872**	₱	8,394,795

<u>*Provision and Adjustments*</u>

The breakdown of provision and adjustments is as follows:

		2021		2020
Previous Year Adjustment				
Income Tax Expense	₱	-	₱	25,233
Income Tax Benefit on DTA		-		(96,140)
Insurance Expense		-		(17,782)
Current Year Adjustment				
Adjustment on booked percentage tax for 4th quarter		-		(81)
Stock dividend declared		-		(1,055,700)
Adjustment of income tax 2019		-		(25,232)
Cash dividend declared		-		(1,100,000)
Setting up DTA for provision for credit losses		-		96,140
Net Adjustment to Retained Earnings - Free	₱	-	₱	(17,862)

Capital Management

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. The Bank maintains sufficient capital necessary to support its primary purpose and/or undertakings which it has initiated and promoted. The Bank management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Bank's business operations of unanticipated events created by consumer behavior or capital market conditions.

The Bank manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

Regulatory Qualifying Capital

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

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

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

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

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

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

The CAR of the Bank as at December 31, 2021 and 2020, as reported to the BSP, is shown in the table below:

	2021	2020
Tier 1 Capital	**₱24,729,014**	₱ 23,058,183
Tier 2 Capital	**559,259**	485,521
Total Qualifying Capital	**25,288,273**	23,543,704
Risk Weighted Assets	**₱104,681,725**	₱104,681,725
Tier 1 Capital Ratio	**23.62%**	22.03%
Tier 2 Capital Ratio	**0.53%**	0.46%
Total Capital Adequacy Ratio (CAR)	**24.16%**	22.49%

The Bank's Total Qualifying Capital as at December 31, 2020 and 2019 was computed as follows:

A. Calculation of Qualifying Capital	**2021**	2020
A.1 Tier 1 Capital		
Core Tier 1 Capital		
Paid-Up Capital - Ordinary	**₱ 15,000,000**	₱ 15,000,000

Retained Earnings	**10,059,872**	8,394,795
Deductions from Core Tier 1 Capital		
Deferred Tax Assets, Net of Deferred Tax Liability	**330,858**	231,915
Total outstanding unsecured credit accommodations to DOSRI		104,697
Total Tier 1 Capital	**24,729,014**	23,058,183
A.2 Tier 2 Capital		
Upper Tier 2 Capital		
General Loan Loss Provision	**559,259**	485,521
Total Tier 2 Capital	**559,259**	485,521
Total Qualifying Capital	**₱ 25,288,273**	₱ 23,543,704

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

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. As at December 31, 2021 and 2020, the Bank was in compliance with CAR requirement.

Financial Performance

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

	2021	2020
Return on Average Equity	6.87%	4.84%
Return on Average Assets	1.55%	1.19%
Net Interest Margin	8.77%	8.70%
Debt to Equity Ratio	3.41:1	3.44:1
Earnings Per Share	11.10	7.55
Book Value Per Share	167.07	155.97

The Bank's ROE, ROA and Net Interest Margin Ratio as at December 31, 2021 and 2020 was computed as follows:

DEBT TO EQUITY RATIO

Formula: Debt to Equity Ratio = Total Liabilities / Total Equity

	2021	**2020**
Total Liabilities	₱ **85,418,599**	**₱ 80,419,117**
Total Equity	**25,059,872**	**23,394,795**
Debt to Equity	**3.41:1**	**3.44:1**

15. OTHER INCOME

This account consists of:

	2021	**2020**
Fees and Commission Income	₱ **399,060**	₱ **265,446**

Gains from Sale of ROPA	**-**	**123,839**
Miscellaneous Income	**57,532**	**41,311**
Application Fees	**1,710,412**	**1,404,112**
Recovery on Charged-Off Asset	**22,849**	**200**
Total	**₱ 2,189,852**	**₱ 1,834,908**

16. COMPENSATION AND BENEFITS

This account consists of:

	2021	2020
Salaries and Wages	**₱ 2,858,118**	**₱ 2,791,084**
Fringe Benefit - Officers and Employees	**1,851,513**	**1,735,159**
SSS, PHIC, HDMF Contribution	**367,449**	**318,860**
Directors and Committee Members' Fee	**405,000**	**310,000**
Contribution to retirement/provident fund	**231,880**	**333,696**
Total	**₱ 5,713,961**	**₱ 5,488,799**

17. RETIREMENT BENEFITS

This account consists of:

The Bank has a defined contribution plan provided for the retirement plan required to be paid under RA No. 7641. Under PAS 19, "Employee Benefits", the cost of defined contribution plan including those mandated under RA No. 7641 should be determined using the term or years of service of an employee. The accumulated balance of retirement obligation amounted to ₱3,467,481 which was deposited in a separate account registered as Rural Bank of Sanchez Mira (Cagayan), Inc. Retirement Plan.

	2021	2020
Post Retirement Benefit Obligation	**₱ 3,467,481**	**₱3,235,601**

Movements of retirement obligation movement as follow:

	2020	2020
Balance at beginning of year	**₱ 3,235,601**	**₱2,901,905**
Additional	**231,880**	**333,696**
Adjustments/Payments	**-**	**-**
Balance at end of year	**₱ 3,467,481**	**₱3,235,601**

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

18. OTHER OPERATING EXPENSE

This account consists of:

	2021	2020
Power, Light and Water	**₱114,281**	₱ 97,190
Security, Messenger and Janitorial	**158,240**	147,113
Postage, Telephone and Telegram	**58,648**	48,107
Insurance - PDIC	**151,662**	128,346
Insurance - Others	**84,341**	87,074

Stationeries and Supplies Used	**49,482**	76,791
Miscellaneous	**268,853**	164,774
Representation and Entertainment	**6,097**	25,688
Management and Other Professional Fees	**266,000**	310,000
Transportation and Travelling	**7,124**	18,819
Trainings and Seminars	**27,500**	15,500
Fuel and Lubrication	**87,793**	82,726
Repairs and Maintenance	**95,235**	68,959
Information Technology	**69,232**	62,889
Membership Fees and Dues	**-**	5,520
Advertising and Publicity	**60,800**	23,359
Supervision Fees	**13,313**	15,101
Fines, Penalties and Other Charges	**43,471**	22,262
Litigation Expense	**-**	5,426
Donations and Charitable Contributions	**49,000**	14,975
Total	**₱1,611,072**	₱1,420,619

19. DEPRECIATION AND AMORTIZATION

This account consists of:

	2021	2020
Depreciation Expense - Buildings	**₱130,000**	₱130,000
Depreciation Expense - Furniture and Fixtures	**15,968**	15,785
Depreciation Expense - Information Technology Equipment	**82,763**	56,103
Depreciation Expense - Other Office Equipment	**34,186**	32,250
Depreciation Expense - Transportation Equipment	**8,328**	11,105
Total	**₱271,245**	₱245,244

20. COMMITMENTS AND CONTINGENCIES

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

a.) The Bank is a plaintiff to various cases arising from the collection suits pending in courts for claims against delinquent borrowers of the bank. The final decision of which cannot be determined at present. The amount of loans and receivables under litigation amounted to ₱326,335 as of December 31, 2021.

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.

21. 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.

Provision for income tax consists of:

	2021	2020
Current	₱ 649,216	₱ 497,424
Deferred	(137,595)	(59,028)
Income tax expense reported in statements of comprehensive income	₱ **511,621**	₱ 438,396

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

Current Tax

	2021	2020
Statutory income tax:	₱ **542,428**	₱ 471,408
Income tax effects of:		
Provision for credit losses on loans and receivables	**137,595**	59,028
Net operating loss carry-over (NOLCO)	**-**	-
Interest income subject to final tax	**(41,077)**	(56,189)
Interest expense reduced by 33% income subject to final tax	**10,269**	23,178
Bad debts written-off	**-**	-
Current Tax Expense	₱ **649,216**	₱ 497,424

Deferred Tax

Movements in the recognized deferred tax assets are as follows:

	2021	2020
Balance at beginning of the year	₱ **231,915**	₱172,887
Allowance for credit and impairment losses	**137,595**	59,028
Balance at end of the year	₱ **369,511**	₱ 231,915

Computation of Income Tax:

	2021	2020
Income before tax per books	**₱2,169,713**	₱1,571,359
Add: Non-deductible Expenses/Taxable Other Income		
Provision for Credit Losses on Loans and Receivables	**550,381**	196,760
Interest expense reduced by 33% income subject to final tax	**41,077**	77,260
Total	**2,761,170**	1,845,379
Less: Non-taxable Income and Income Subjected to Final Tax		
NOLCO	**-**	-
Accounts Written off	**-**	-
Interest Income Subject to Final Tax	**164,307**	187,298
Total	**164,307**	187,298
Net Taxable Income (Loss)	**2,596,863**	1,658,081
Tax Rate	**25%**	30%
Normal Corporate Income Tax	**649,216**	497,424
Minimum Corporate Income Tax	**100,188**	75,972
Income Tax Due	**649,216**	497,424
Less: Payments/Tax Credits		
Payments for the three (3) quarters	**329,795**	192,125
Income Tax Still Due/(Overpayment)	**₱319,421**	₱305,299

Below is the computation of Minimum Corporate Income Tax (MCIT) for the year ended December 31, 2020.

	2021	2020
Revenue	**₱ 9,541,073**	₱8,334,267
Cost of Revenue	**6,557,200**	6,183,261
Gross Income	**2,983,873**	2,151,006
Add: Other Income	**2,189,852**	1,834,908
Less: Interest Income Subjected to Final Tax	**(164,307)**	(187,298)
Total Gross Income	**5,009,418**	3,798,617
MCIT Rate	**1%**	2%
Minimum Corporate Income Tax	**₱ 50,094**	₱ 75,972

In computing the MCIT of the bank, cost of revenue comprises of salaries and fringe benefits, interest expense subjected to the arbitrage limit on interest expense, supervision fee, and insurance on PDIC.

22. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Entities are considered to be related if they are subjected under common control or significant influence. The Bank's related parties include:

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

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

Remunerations of Key Management Personnel

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

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

	2021	**2020**
Short-term employee benefits	**₱ 3,233,513**	**₱5,155,103**
Post-employment benefits	**2,480,448**	**333,696**
Total	**₱5,713,961**	**₱5,488,799**

The Bank also provides banking services to directors and other key management personnel and persons connected to them.

Regulatory Reporting

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

In the 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 portfolio, whichever is lower. As of December 31, 2021 and 2020, the Bank has DOSRI loans amounting to ₱584,861 and ₱663,716 in its books, respectively. The Bank has no related party loans other than those granted to DOSRI.

23. SUPPLEMENTARY INFORMATION REQUIRED UNDER RR 15-2010 AND RR 19-2011

Revenue Regulation (RR) No 15-2010

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

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 stamp tax (DST).

Percentage Taxes (Gross Receipts Tax)

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

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

Maturity period of five (5) years or less 5%
Maturity period is more than five (5) years...1%

b) On dividends...0%

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

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

The GRT in 2021 consists of taxes paid on:

Interest income on loans and other related income from lending operations	477,054
Other income	153,290
Total	630,343

Documentary Stamp

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

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

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

The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2020, follow:

Taxes and Licenses

a. Local		
Business Permit	₱	54,530
Real Property Tax		4,549
Others		5,290
b. National		
Percentage Tax		630,343
Others		-
Annual Registration-BIR		500
Total-Taxes and Licenses	₱	659,213

Withholding taxes in 2021 are categorized into:

Final withholding tax on interest expense	₱	143,868
Withholding taxes on compensation and benefits		146,509
Expanded withholding tax		35,259
Total	₱	325,637

Tax Assessments and Cases

As at December 31, 2021, the Company has no outstanding assessment notice from the BIR or cases in court or bodies outside the BIR.

Revenue Regulation (RR) No 19-2011
The Bank reported the following schedules and information on taxable income and deductible expenses to be taken in 2021:

Sale of Services

Details of the Bank's taxable sale of services are as follows:	**2021**
Taxable Services	**₱ 11,730,925**
Interest income subject to final tax:	
Due from Other Banks	**(112,307)**
Debt Securities Measured at Amortized Cost	**(52,000)**
Total	**₱ 11,566,618**

Cost of Services

Details of the Bank's tax deductible cost of services accounts are as follows:		**2021**
Direct Charges - Salaries and wages	**₱**	**5,713,961**
Direct Charges - Insurance (PDIC)		**151,662**
Direct Charges – Supervision Fee		**13,313**
Direct Charges - others (interest expense net of 33% limit)		
Interest expense		**719,340**
Less: Limit (33% of interest income subj. to final tax)		**(41,077)**
Total	**₱**	**6,557,200**

Itemized Deductions

Details of the Bank's itemized deductions are as follows:		**2021**
Advertising & Publicity	**₱**	**60,800**
Depreciation		**271,245**
Donations and Charitable Contributions		**49,000**
Fines and Penalties		**43,471**
Fuel & Lubricants		**87,793**
Information Technology Expense		**69,232**
Insurance - Others		**84,341**
Management and Other Professional Fees		**266,000**
Miscellaneous		**268,853**
Postage, Telephone, Cables & Telegram		**58,648**
Power, Light & Water		**114,281**
Repairs and Maintenance		**95,235**
Representation and Entertainment		**6,097**
Security, Messenger and Janitorial Service		**158,240**
Stationeries & Supplies Used		**49,482**
Taxes and Licenses		**695,213**
Training and Seminars		**27,500**
Transportation and Travelling		**7,124**
Total	**₱**	**2,412,554**

Total Deductible Expense	**₱**	**8,969,754**
Expense Reported in Audited Financial Statements		**9,561,212**
Difference*	**₱**	**(591,458)**

*Reconciliation of Difference:		
Interest Limit	**₱**	**41,077**
Provision for Credit Losses		**550,381**
Total	**₱**	**591,458**

24. RECLASSIFICATION OF ACCOUNTS

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

25. OTHER MATTERS

1. Anti-Money Laundering Act (AMLA)

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

2. As of December 31, 2021, all of the bank's directors had undergone the requirements for corporate governance as confirmed by the Monetary Board as mandated by MORB Subsection 901.

3. The Bank's deposit liabilities are covered with insurance and compliant with Philippine Deposit Insurance Corporation (PDIC).

26. SUPPLEMENTARY INFORMATION REQUIRED UNDER APPENDIX 55 OF BSP Circular No. 1074 Series of 2020

1.) Basic Quantitative indicators of Financial Performance

A. RETURN ON AVERAGE EQUITY

Formula: ROE = Net Income after Tax / Average Capital

		2021	2020
Net Income(Loss)		**₱1,665,077**	₱ 1,132,962
Total Shareholders' Equity			
	2021	**25,059,872**	
	2020	**23,394,795**	
	2020		23,394,795
	2019		23,379,694
Total		**48,454,667**	46,774,489
Average Equity		**24,227,334**	23,387,245
Return on Average Equity		**6.87%**	4.84%

B. RETURN ON AVERAGE ASSETS

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

		2021	**2020**
Net Income		**₱ 1,665,077**	**₱ 1,132,962**
Total Assets			
	2021	**110,478,471**	
	2020	**103,813,912**	
	2020		**103,813,912**
	2019		**86,368,778**
Total		**214,292,383**	**190,182,690**
Average Assets		**107,146,192**	**95,091,345**
Return on Average Assets		**1.55%**	**1.19%**

C. NET INTEREST MARGIN

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

Formula: Average Earning Assets = Due from BSP + Due from Other Banks+ Loans + Held to Maturity Financial Asset

		2021	2020
Net Interest Income	₱	**8,821,732**	₱ 7,705,992
Total Interest Earnings Assets			
2021		**103,806,367**	
2020		**97,451,668**	
2020			97,451,668
2019			79,608,919
Total		**201,258,035**	177,060,587
Average Interest Earnings Assets		**100,629,018**	88,530,294
Net Interest Margin		**8.77%**	8.70%

2.) Capital Instrument

	2021		2020	
Common stock	**Shares**	**Amount**	Shares	Amount
Common stock - ₱100 par value 150,000 authorized shares	**150,000**	**₱ 15,000,000**	150,000	₱ 15,000,000
Issued & Outstanding at the beginning of the year	**150,000**	**15,000,000**	139,443	13,944,300
Additional Capital Infusion	**-**	**-**	10,557	1,055,700
Reclassification/Adjustment	**-**	**-**	-	-
Common stock at the end of the year	**150,000**	**₱ 15,000,000**	150,000	₱ 15,000,000

3.) Significant Credit Exposure.

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

Percentage Per Total Loan Portfolio	**2021**	**%**	2020	%
Agriculture, forestry and fishing	**₱18,141,498**	**30.38%**	₱ 10,299,746	20.20%
Real estate activities	**6,165,853**	**10.33%**	9,278,444	18.20%
Whole and retail trade, repair of motor vehicle, motorcycle	**19,575,569**	**32.78%**	16,063,452	31.51%
Other service activities	**997,728**	**1.67%**	1,268,209	2.49%
Loans to Individuals for personal use purposes	**14,835,148**	**24.84%**	14,069,041	27.60%
Total Loan Portfolio	**₱59,715,795**	**100.00%**	₱ 50,978,892	100.00%

Percentage Per TIER 1 Capital	2021	%	2020	%
Agriculture, forestry and fishing	**₱18,141,498**	**73.36%**	₱ 10,299,746	44.67%
Real estate	**6,165,853**	**24.93%**	9,278,444	40.24%
Whole and retail trade, repair of motor vehicle, motorcycle	**19,575,569**	**79.16%**	16,063,452	69.66%
Other service activities	**997,728**	**4.03%**	1,268,209	5.50%
Loans to Individuals for personal use purposes	**14,835,148**	**59.99%**	14,069,041	61.02%
Total Loan Portfolio	**₱59,715,795**		₱ 50,978,892	

The BSP considers that significant credit exposures exist when total loan to a particular economic sector exceeds 30% of the total loan portfolio or 10% of TIER 1 Capital. As at December 31, 2021, two (2) industry exceeds 30% of the total loan portfolio and four (4) industries exceeds 10% of Bank's TIER 1 Capital.

4.) <u>Breakdown of Total Loans as to: Status and Security</u>

As to Status:

		2021	%		2020	%
Current Loans	₱	**54,747,879**	**91.68%**	₱	44,937,016	88.15%
Past Due Loans						
Performing		**2,809,451**	**4.70%**		3,036,681	5.96%
Non-Performing		**1,832,130**	**3.07%**		2,674,053	5.25%
Items in Litigation		**326,335**	**0.55%**		331,142	0.65%
Total Loan Portfolio	₱	**59,715,795**	**100.00%**	₱	50,978,892	100.00%

	2021		
Product Line	**Performing**	**Non-Performing**	**Total**
Agrarian Reform Loans	**₱4,404,611**	**₱195,407**	**₱4,600,018**
Other Agricultural Credit Loans	**13,541,411**	**69**	**13,541,480**
Small Scale Enterprise	**15,028,144**	**1,104,457**	**16,132,601**
Medium Scale Enterprise	**3,442,968**	**-**	**3,442,968**
Loans to Individuals for Housing Purposes	**6,165,853**		**6,165,853**
Loans to Individuals for Personal Use Purposes	**13,976,615**	**636,693**	**14,613,309**
Loans to Individuals for Other Purposes	**997,728**	**221,839**	**1,219,567**
Total Loan Portfolio	**₱57,557,330**	**₱2,158,465**	**₱59,715,795**

	2020		
Product Line	**Performing**	**Non-Performing**	**Total**
Agrarian Reform Loans	₱ 5,018,519	₱180,109	₱ 5,198,629
Other Agricultural Credit Loans	5,101,047	70	5,101,117
Small Scale Enterprise	11,580,886	2,109,485	13,690,371
Medium Scale Enterprise	2,373,081	-	2,373,081
Loans to Individuals for Housing Purposes	9,004,272	274,172	9,278,444
Loans to Individuals for Personal Use Purposes	13,701,734	367,307	14,069,041
Loans to Individuals for Other Purposes	1,194,156	74,052	1,268,209
Total Loan Portfolio	₱ 47,973,697	₱ 3,005,195	₱ 50,978,892

As to Security:

	2021	%	2020	%

Secured					
Real Estate Mortgage	₱	**43,040,975**	**72.08%**	₱ 35,872,043	70.37%
Other Collateral		**1**	**0.00%**	1	0.00%
Unsecured		**16,674,819**	**27.92%**	15,106,848	29.63%
Total Loan Portfolio	₱	**59,715,795**	**100.00%**	₱ 50,978,892	100.00%

5.) <u>Below are the selected ratios relative to the Banks' DOSRI and Related Party loan accounts.</u>

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

2021	**DOSRI Loans**	**Related Party Loans Inclusive of DOSRI**
A.1. Outstanding Balance	₱ 584,861	₱ 584,861
A.2. Total Loan Portfolio	61,304,089	61,304,089
B. Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1. / A.2.)	0.95%	0.95%
C. Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans		
Unsecured		
Total DOSRI/RP Loan	584,861	584,861
	0.00%	0.00%
D. Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans		
Past Due		
Total DOSRI/RP Loan	584,861	584,861
	0.00%	0.00%
E. Percentage of Non-Performing DOSRI/RP to Total DOSRI/RP Loans		
Non-Performing	-	-
Total DOSRI/RP Loan	584,861	584,861
	0.00%	0.00%

2020	**DOSRI Loans**	**Related Party Loans Inclusive of DOSRI**
A.1. Outstanding Balance	₱ 663,716	₱ 663,716
A.2. Total Loan Portfolio	52,228,473	52,228,473
B. Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1./A.2.)	**1.27%**	**1.27%**
C. Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans		
Unsecured	104,697	104,697
Total DOSRI/RP Loan	663,716	663,716
	15.77%	**15.77%**

D. Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans		
Past Due	446,156	446,156
Total DOSRI/RP Loan	663,716	663,716
	67.22%	**67.22%**

E. Percentage of Non-Performing DOSRI/RP to Total DOSRI/RP Loans		
Non-Performing	-	-
Total DOSRI/RP Loan	663,716	663,716
	0.00%	**0.00%**

6.) AGGREGATE AMOUNT OF SECURED LIABILITIES AND ASSETS PLEDGED AS SECURITY

As of December 31, 2021, the Bank has no secured liabilities and assets pledged as security.

7.) As of December 31, 2021 and 2020, the Bank has no off-balance sheet commitments and contingent accounts.

27. THE IMPACT OF CORONAVIRUS DESEASE 2019 (COVID-19) ON THE FINANCIAL STATEMENTS

The impact of COVID-19 on the Bank's operations continues to evolve, the Bank will continue to monitor the situation.

-END OF REPORT-