

**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I  
Sanchez Mira 3518 Cagayan

**FINANCIAL AUDIT REPORT**

DECEMBER 31 , 2022

***JACKIE LOU ROXAS OCBENIA, ACCOUNTING OFFICE***

CERTIFIED PUBLIC ACCOUNTANT

#212 Prk. 3 Barangay Suclayin, Arayat, Pampanga

E-mail add: jackielou\_ocbenia@yahoo.com

Mobile No. 0919-272-3574



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

**FINANCIAL SUMMARY HIGHLIGHTS****As of December 31, 2022****( with comparative figures for CY 2021 )**

<b>1. Minimum Required Data</b>		<b>Current year</b>	<b>Previous year</b>	<b>% of Change</b>
<b>a. Profitability</b>				
Total net interest income	P	8,774,543	8,821,733	-1%
Total non - Interest income		2,588,348	2,189,852	18%
Total Non- Interest expenses		9,205,204	8,291,491	11%
Pre-provision profit		2,157,687	2,720,094	-21%
Allowance for credit losses		333,151	550,381	-39%
Net Income ( deficit )		1,824,536	2,169,713	-16%
<b>b. Selected Balance Sheet Data</b>				
		<b>Current year</b>	<b>Previous year</b>	<b>% of Change</b>
Liquid Assets	P	46,379,917	50,512,670	-8.2%
Gross Loans		69,685,098	59,715,795	16.7%
Total Assets		115,894,125	110,478,471	4.9%
Deposits		87,094,733	82,202,431	6.0%
Total Equity		24,159,753	25,059,872	-3.6%
Return on Average Assets		1.16%	1.55%	-25.4%
Return on Average Equity		5.34%	6.87%	-22.4%
Capital Adequacy Ratio		19.32%	19.99%	-3.3%
<b>c. Others</b>				
		<b>Current year</b>	<b>Previous year</b>	<b>% of Change</b>
<u>Net income ( deficit ) per share :</u>				
Basic	P	8.83	11.10	-20.5%
Book value per share		161	167	-3.6%
Cash dividends declared		2,500,000	-	100.0%
Headcount :				0%
Officers				0%
Staff				0%

**( See Notes to Financial Statements )**



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

**STATEMENTS OF FINANCIAL POSITION**

As at December 31, 2022

*( With comparative figures for CY 2021 )*

<b>ASSETS</b>	<b>Notes</b>		<b>2022</b>	<b>2021</b>
Cash and cash equivalents	8	P	2,155,670	1,855,341
Due from Bangko Sentral ng Pilipinas	9		2,199,210	2,246,682
Due from Other Banks	10		40,025,037	44,410,647
Debt Securities measured @ amortized cost	11		2,000,000	2,000,000
Loans and receivables	12		67,235,196	57,395,721
Bank premises, furnitures and equipment-net	13		1,199,609	1,059,225
Deferred tax assets	14		330,857	330,858
Other Assets	15		748,546	1,179,997
<b>TOTAL ASSETS</b>		<b>P</b>	<b>115,894,125</b>	<b>110,478,471</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Deposit liabilities	16		87,094,733	82,202,431
Due to the Treasurer of the Philippines	17		2,873	2,873
Accrued interest, taxes and other expenses	18		226,941	289,124
Other liabilities	19		4,228,464	2,604,750
Corporate Income tax payable	20		181,362	319,421
<b>Total Liabilities</b>			<b>91,734,372</b>	<b>85,418,599</b>
<b>EQUITY</b>				
Share Capital	23	P	15,000,000	15,000,000
Retained Earnings			9,159,753	10,059,872
<b>Total Equity</b>			<b>24,159,753</b>	<b>25,059,872</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P</b>	<b>115,894,125</b>	<b>110,478,471</b>
Book Value per share		P	161	167

*( See accompanying notes to financial statements )*



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Centro I, Poblacion, Sanchez Mira

Cagayan

**STATEMENTS OF COMPREHENSIVE INCOME**

For the year ended December 31, 2022

( With comparative figures for CY 2021 )

		( Amounts in Php )	
<b>INTEREST INCOME</b>	<b>Notes</b>	<b>2022</b>	<b>2021</b>
Loans receivable	22.1 P	9,468,876	9,376,766
Due from other banks	22.1	98,170	112,307
Debt Securities @ amortized cost		52,000	52,000
<b>Total Interest Income</b>	<b>P</b>	<b>9,619,046</b>	<b>9,541,073</b>
<b>INTEREST EXPENSE</b>			
Regular savings	22.2 P	259,046	245,222
Gold Savings Account	22.2	585,457	474,119
<b>Total Interest expense</b>		<b>844,503</b>	<b>719,340</b>
<b>NET INTEREST INCOME</b>	<b>P</b>	<b>8,774,543</b>	<b>8,821,733</b>
Provision for credit losses	22.3	333,151	550,381
<b>NET INTEREST INCOME AFTER PROVISION</b>		<b>8,441,392</b>	<b>8,271,352</b>
<b>OTHER INCOME</b>	<b>22.4</b>	<b>2,588,348</b>	<b>2,189,852</b>
<b>TOTAL INCOME BEFORE OPERATING EXPENSES</b>	<b>P</b>	<b>11,029,740</b>	<b>10,461,204</b>
<b>OPERATING EXPENSES</b>			
Compensation and fringe benefits	22.5 P	6,003,458	5,713,961
Depreciation and amortization	22.6	364,195	271,245
Taxes, licenses, permits and fees	22.7	742,262	695,213
Other administrative expenses	22.8	2,095,290	1,611,072
<b>Total Non - interest expense</b>	<b>P</b>	<b>9,205,204</b>	<b>8,291,491</b>
<b>INCOME ( DEFICIT ) BEFORE TAXES</b>	<b>P</b>	<b>1,824,536</b>	<b>2,169,713</b>
<b>PROVISION FOR INCOME TAX</b>	<b>21.1</b>	<b>511,265</b>	<b>504,636</b>
<b>NET INCOME ( DEFICIT )</b>	<b>P</b>	<b>1,313,271</b>	<b>1,665,077</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	<b>-</b>
<b>TOTAL NET INCOME ( DEFICIT )</b>	<b>P</b>	<b>1,313,271</b>	<b>1,665,077</b>
<b>Earnings ( Loss ) per share</b>	<b>23</b>	<b>8.76</b>	<b>11.10</b>

( See accompanying notes to financial statements )



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

**STATEMENTS OF CASH FLOWS**

For the year ended December 31, 2022

( With comparative figures for CY 2021 )

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>Notes</b>		<b>2022</b>	<b>2021</b>
<b>Profit ( loss ) before tax</b>		P	<b>1,824,536</b>	<b>2,169,713</b>
Adjustments to reconcile net income to net cash provided ( used in ) operating activities				
Depreciation and amortization	22.6		364,195	271,245
Provision on income tax benefit			83,288	137,595
Reversal on income tax expense, AJE No. 5			26,260	6,675
Understatement of income tax expense			-	310
Provision for credit losses-specific/GLLP	22.3		333,151	550,381
Adjustment to surplus of prior year ( net effect of aje)			(257,718)	-
<b>Operating Income before changes in operating assets and liabilities</b>		P	<b>2,373,711</b>	<b>3,135,919</b>
Changes in operating assets and liabilities				
( Increase ) Decrease in				
Due from Bangko Sentral ng Pilipinas	9		47,472	55,913
Due from Other Banks	10		4,385,609	1,831,823
Loans and receivables - net	11		(10,024,456)	(8,736,903)
Deferred tax assets	14		-	(98,943)
Other assets			431,451	(892,304)
<b>Increase ( Decrease ) in</b>				
Deposit liabilities	15		4,892,302	4,788,838
Accrued interest, taxes and other expenses	16		(62,183)	28,870
Other liabilities	18		1,623,714	167,653
<b>Cash generated from operations</b>			<b>3,667,620</b>	<b>280,866</b>
Taxes paid	27.2		(649,324)	(635,094)
<b>Net cash flows ( used ) provided from operating activities</b>		P	<b>3,018,296</b>	<b>(354,228)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
(Additions) Disposals of furniture, fixtures and equipment-net	12	P	(504,578)	(225,774)
<b>Net cash (used ) provided from investing activities</b>		P	<b>(504,578)</b>	<b>(225,774)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividends declared and paid		P	(2,500,000)	-
Prior period adjustments			178,896	-
Net charges to Retained Earnings -free			107,715	-
<b>Net cash provided by ( used in ) financing activities</b>		P	<b>(2,213,389)</b>	<b>-</b>
<b>NET INCREASE ( DECREASE ) IN CASH AND CASH EQUIVALENTS</b>		P	<b>300,329</b>	<b>(580,002)</b>
Cash and Cash Equivalents at Beginning of year	8	P	1,855,341	2,435,343
Cash and Cash Equivalents at end of year	8	P	2,155,670	1,855,341

( See accompanying notes to financial statements )



# RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I  
Sanchez Mira 3518 Cagayan

## STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2022

( With comparative figures for CY 2021 )

	Notes	Share Capital			Retained Earnings				Total Equity
		Preferred	Ordinary	Total	Redemption	contingency	Others	Free	
Balances, Jan. 1, 2022		P -	15,000,000	15,000,000				10,059,872	
Cash dividends paid								(2,500,000)	
Net Income								1,313,271	
Prior period adjustment								178,896	
Net charges to RE								- 107,715	
<b>Balance, Dec. 31, 2022</b>		<b>P</b>	<b>15,000,000</b>	<b>15,000,000</b>				<b>9,159,753</b>	<b>P 24,159,753</b>
		Share Capital			Reserves				Total Equity
		Preferred	Ordinary	Total	Redemption	contingency	Others	Free	
Balances, Jan. 1, 2021		P	15,000,000	15,000,000	-	-	-	8,394,795	
Net Income				-				1,665,077	
<b>Balance, Dec. 31, 2021</b>		<b>P</b>	<b>15,000,000</b>	<b>15,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,059,872</b>	<b>P 25,059,872</b>

( See accompanying notes to financial statements )



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

**Reconciliation of Retained Earnings Available for Dividend Declaration**

As of December 31, 2022

( Amounts in Philippine Pesos )

Unappropriated Retained Earnings, beginning	P	10,059,872
<b>Net income based on the face of the AFS</b>	P	1,313,271
<b>Less: Non-actual / unrealized income net of tax</b>		
Equity in net income of associate / joint venture		
Unrealized foreign exchange gain - net ( except those attributable to Cash and cash equivalents )		
Unrealized actuarial gain		
Fair value adjustment ( M2M gains )		
Fair value adjustment of Investment Property resulting to gain Adjustment due to deviation from PFRS / GAAP -gain		
Other unrealized gains or adjustments to the retained earnings as a result of certain transac- tions accounted for under the PFRS		
<b>Add: Non-actual losses</b>		
Depreciation on revaluation increment ( after tax )		
Adjustment due to deviation from PFRS/GAAP-loss		
Loss on fair value adjustment of investment property ( after tax )		
<b>Net Income ( deficit ) Actual / Realized</b>	P	1,313,271
<b>Add / Less:</b>		
Dividend declaratrions during the period		(2,500,000)
Transfers to Retained Earnings		
Adjustments		107,715
Prior period adjustments	178,896 P	(900,118)
<b>Unappropriated Retained Earnings, as adjusted, ending</b>	P	<b>9,159,753</b>



# RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

## COMPARISON OF AUDITED FINANCIAL STATEMENTS AND SUBMITTED

### TRIAL BALANCE AND FINANCIAL REPORTING PACKAGE ( FRP )

December 31, 2022

RECONCILIATION				
ACCOUNT TITLES	Audited Financial Statements	Submitted FRP Report	Discrepancy	Reason for the discrepancy
Cash and other cash items	2,155,670.21	2,155,670.21	-	
Checks and other cash items	-	-	-	
Due from Bangko Sentral ng Pilipinas	2,199,209.61	2,199,209.61	-	
Due from other banks	40,025,037.33	40,025,037.33	-	
Investment in debt securities @ amortized costs	2,000,000.00	2,000,000.00	-	
Loans and Receivables - Net	67,235,196.05	67,235,196.05	-	
Bank premises, Furniture, Fixtures & Equipment	1,199,608.92	1,199,608.92	-	
Deferred tax assets	330,857.35	330,857.35	-	
Other Assets	748,545.99	748,545.99	-	
<b>TOTAL ASSETS</b>	<b>115,894,125.46</b>	<b>115,894,125.46</b>	<b>-</b>	
Deposit liabilities - savings	87,094,732.61	87,094,732.61	-	
Deposit liabilities - GOSA	-	-	-	
Due to the treasurer of the Philippines	2,873.05	2,873.05	-	
Accrued taxes, fringe benefits and other expenses	226,940.72	226,940.72	-	
Other liabilities	4,228,463.67	4,228,463.67	-	
Corporate Income tax payable	181,362.00	289,077.00	(107,715.00)	RAA # 1 & 3
<b>TOTAL LIABILITIES</b>	<b>91,734,372.05</b>	<b>91,842,087.05</b>	<b>(107,715.00)</b>	<b>Net effect</b>
Paid up Capital stock	15,000,000.00	15,000,000.00	-	
Retained earnings -free	9,159,753.41	9,052,038.41	107,715.00	RAA # 1, 2 & 3
Undivided profits	-	-	-	
<b>TOTAL EQUITY</b>	<b>24,159,753.41</b>	<b>24,052,038.41</b>	<b>107,715.00</b>	<b>Net effect</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>115,894,125.46</b>	<b>115,894,125.46</b>	<b>107,715.00</b>	
<b>Income</b>				
Interest income	9,619,046.00	9,619,046.00	-	
Less :Interest expense	844,503.44	844,503.44	-	
Net interest margin	8,774,542.56	8,774,542.56	-	
Other income	2,588,348.00	2,588,348.00	-	
<b>Net interest and other income</b>	<b>11,362,890.56</b>	<b>11,362,890.56</b>	<b>-</b>	
<b>Expenses</b>				
Compensation and fringe benefit	6,003,457.68	6,003,457.68	-	
Taxes and licenses	742,261.82	742,261.82	-	
Other administrative expenses	2,095,289.69	2,095,289.69	-	
Depreciation and amortization	364,194.51	364,194.51	-	
Provisions	333,151.00	333,151.00	-	
<b>Total</b>	<b>9,538,354.70</b>	<b>9,538,354.70</b>	<b>-</b>	
Net Income ( loss )before provision for income tax	1,824,535.86	1,824,535.86	-	
Income tax expense	511,264.97	535,692.00	(24,427.04)	
<b>Net Income ( loss )</b>	<b>1,313,270.90</b>	<b>1,288,843.86</b>	<b>24,427.04</b>	



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

***Recommended Audit Adjustments***

December 31, 2022

*( In Philippine Pesos )*

1. Corporate income tax payable	P	26,260.00		
Retained earnings -free			P	26,260.00
As provided	P	535,692		
Per computation		509,432		
Excess	P	26,260		
Over computation of corporate income tax for the year.				
2. Deferred tax assets	P	83,288.00		
Income tax benefit			P	83,288.00
To recognized deferred tax assets on provision for credit losses ( 333,551 x 25% )				
3. Corporate income tax payable	P	81,455.00		
Retained earnings -free		1,833.00		
Deferred tax assets			P	83,288.00
To apply income tax benefit to corporate income tax payable and adjust correct amount of income tax payable.				



# RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

## Notes to Financial Statements

As at December 31, 2022 and 2021

### Note 1 Corporate Information

The Rural Bank of Sanchez Mira ( Cagayan ) Inc., was incorporated in the Philippines and registered with the Securities and Exchange Commission on the 25th day of November 1971 under Registration Number 45926 and started its operations as a banking institution on March 16, 1972.

The bank's main purpose is to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries, fishermen and other meager-income earners and to have and exercise all authority and powers and perform all acts and transacts all business which may legally be had and done by rural bank organized under and in accordance with the Rural Bank's Act and transacts all business which may legally exist or be amended and to have all other things thereto and necessary and proper in connection with said purposes within such authority as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

The Bank has its principal place of office at Centro I, Poblacion, Sanchez Mira, Cagayan.

As at December 31, 2022, the bank's total manpower complement comprise of \_\_\_\_\_ ( ), \_\_\_\_\_ officers, \_\_\_\_\_ ( ) and \_\_\_\_\_ ( ) rank file and employees. All of them are regular employees of the institution.

### Note 2 Adoption of New and Revised Philippine Financial Reporting Standards ( PFRS )

The Philippine Financial Reporting Standards Council (PFRSC) approved the issuance of new and revised Philippine Financial Reporting Standards ( PFRS ). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the Philippine Interpretations Committee ( PIC ), Standing Interpretations Committee ( SIC ), and Philippine Financial Reporting Interpretations Committee ( PFRIC ) which have been approved by the FRSC and adopted by SEC.

This new and revised PFRS prescribe new accounting recognition, measurement and disclosure requirements to the Company. When applicable, the adoption of the new standards was made in accordance with their transitional recognizes, otherwise the adoption is accounted for as change in accounting policy under PAS 8 : "Changes in Accounting Estimates and Errors".

#### 2.1 New and Revised PFRS With no Material Effect on Financial Statements.

New Standards impacting the Company will be adopted in the annual financial statements for the year ended December 31, 2022, and which had given rise to changes in the company's accounting policies are :

- Amendments to PFRS 9, PAS 39, and PFRS 17, Interest Rate Benchmark Reform s  
These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedge items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmarks reforms.

The company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform.

A hedging relationship is directly affected if the reform gives rise to uncertainties about :

- The interest rate benchmark designated as a hedged risk ( contractually or non- contractually specified ); and /or
- The timing or the amount of interest rate bench-mark based cash flows of the hedged item or of the hedging instrument.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

Discontinuation of hedge accounting is required if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended standards.

The amendments are applied retrospectively to those hedging relationship that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognized in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments.

These amendments had no impact on the financial statements as the company does not have hedge items or hedging instruments.

- Amendments to References to the Conceptual framework in PFRS Standards

The Company has adopted the amendments included in Amendments to References to the conceptual Framework in PFRS Standards for the first time in the current year. The amendments include consequential amendments to affected standards so that they refer to the new framework. Not all amendments, however, update those pronouncements with regard to references and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to ( the IASC framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018 ) or to indicate that definitions to the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The standards which are amended are PFRS 2, PFRS 3, PFRS 6, PFRS 14, PAS 34, PAS 37, PAS 38, PFRIC 12, PFRIC 20, PFRIC 22, and PSIC 32.

- Amendments to PFRS 3, Definition of a Business

The Company has adopted the amendments to PFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments to the definition of a business had no significant impact on the Bank's financial statements.

- Amendments to PAS 1 and PAS 8, Definition of Material

The Bank has adopted the amendments to PAS1 and PAS 8 for the first time in the current year. The amendments make the definition of material in PAS 1 easier to understand and are not intended to alter the underlying concept of materiality in PFRS standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to "could reasonably be expected to influence". The definition of material in PAS 8 has been replaced by a



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

reference to the definition of ' material ' in PAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of ' material ' or refer to the term " material " to ensure consistency.

*The amendments to the definition of material had no impact on the Bank's financial statements.*

#### • **PFRS 16, Leases**

PFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a *right - of - use asset* and a lease liability at commencement for all leases, except for short - term leases and leases of low value assets. In contrast to lease accounting, the requirements for lessor accounting have remained largely unchanged.

##### **a. Impact of the new definition of the lease**

The change in the definition of a lease mainly relates to the concept of control. PFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for a consideration. This is in contrast to the focus on " risk and rewards" in PAS 17 and PFRIC 4.

##### **b. Impact on lessee accounting**

###### **i. Former operating leases**

PFRS 16 changes how the Company accounts for leases previously classified as operating lease under PAS 17, which were off balance sheet.

Applying PFRS 16, for all leases ( except as noted below ), an entity :

- (a.) Recognizes right - of - use assets and liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- (b.) Recognizes depreciation of right - of - use assets and interest on lease liabilities in profit or loss;
- (c.) Separates the total amount of cash paid into a principal portion ( presented within financing activities ) and interest ( presented within financing activities ) in the statement of cash flows.

Lease incentives ( e.g., rent-free period ) are recognized as part of the measurement of the right-of-use assets and lease liabilities, whereas under PAS 17 they resulted in the recognition of a lease incentive, amortized as a reduction of rental expenses generally on a straight line basis.

Under PFRS 16, right - of - use assets are tested for impairment in accordance with PAS 36.

For short - term leases ( lease term of 12 months or less ) and leases of low-value (such as tablet and personal computers, small items of office furniture and telephones ) is permitted to recognize as lease expense on a straight line basis to be presented within " other expenses " in profit or loss

###### **ii. Former finance leases**

The main differences in PFRS 16 and PAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. PFRS 16 requires that the entity recognizes as part of its lease liability only the amount guaranteed as required by PAS 17.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

---

As at December 31, 2022 and 2021

#### **c. Impact on lessor accounting**

PFRS 16 does not change substantially how a lessor accounts for leases. Under PFRS 16, a lessor continues to classify leases as either finance lease or operating leases and account for those two types of leases differently.

However, PFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under PFRS 16, an intermediate lessor accounts for the head lease and the sub - lease as two separate contracts. The intermediate lessor is required to classify the sub - lease as a finance or operating lease by reference to the right - of - use asset arising from the head lease ( and not by reference to the underlying asset as was the case under PAS 17 )

*This standard has no impact on the financial statements as the Bank does not have finance lease commitments in the current and previous year.*

#### **An Amendments to PAS 28. Long Term Interest In Associates and Joint Ventures**

The amendment clarifies that PFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long - term interest that, in substance, form part of the entity's net investment in an associate or joint venture. The Bank applies PFRS 9 to such long - term interests before it applies PAS 28. In applying PFRS 9, the Company does not take account of any adjustments to the carrying amount of long - term interests required by PAS 28 ( i.e., adjustments to the carrying amount of long - term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with PAS 28 ).

*These amendments had no impact on the financial statements as the Bank does not have long - term interest in associates and joint ventures.*

#### **Amendments to PAS 19, Plan Amendment, Curtailment or Settlement**

The amendments clarify that the past service cost ( or the gain or loss on settlement ) is calculated by measuring the defined benefit liability ( asset ) using updated assumptions and comparing the benefits offered and plan assets before and after the plan amendment ( or curtailment or settlement ) but ignoring the effect of the asset ceiling ( that may arise when the defined benefit plan is in a surplus position ). PAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment ( or curtailment or settlement ) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability ( asset ) have also been amended. The company will now be required to use the updated assumptions from this measurement to determine the current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability ( asset ) as measured under PAS 19:99 with the rate used in the remeasurement ( also taking into account the effect of contributions and benefit payments on the net defined benefit liability ( asset ) ).

*These amendments had no impact on the financial statements as the Bank did not have any plan amendments, curtailments and settlements during the period.*



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

- Amendments to PFRS 9, Prepayment Features with negative Compensation

The company adopted the amendments to PFRS 9 for the first time in the current year. The amendments to PFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the "solely payments of principal and interest" (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment.

The interpretation does not have an impact on the financial statements of the Bank.

#### 2.2 New Standards, Interpretations and Amendments In Issue But Not Yet Effective

At the date of authorization of these financial statements, the Company has not applied the following new and revised PFRS Standards that have been issued but are not yet effective.

- PFRS 17 and Amendments to PFRS 17, Insurance Contracts

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes PFRS 4, Insurance Contracts.

PFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, describe as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policy holders' options and guarantees.

In August 2020, the FRSC adopted the Amendments to PFRS 17 ( issued by IASB in June 2020 ) to address concerns and implementation challenges that were identified after PFRS 17 was published. The amendments defer the date of initial application of PFRS 17 ( incorporating the amendments ) to annual reporting periods beginning on or after January 1, 2023. At the same time, the IASB issued Extension of the Temporary Exemption from applying PFRS 9 ( Amendments to PFRS 4 ) that the fixed expiry date of the temporary exemption from applying PFRS 9 in PFRS 4 to annual reporting periods beginning on or after January 1, 2023.

PFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach to the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

This standard is not applicable to the Bank.

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

The amendments to PAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of settlement to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

The directors of the Bank is currently assessing the impact of these amendments.

- Amendments to PFRS 3, Reference to the Conceptual Framework

The amendments update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to PFRS 3 a requirement that, for obligations within the scope of PAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of PFRIC 21 levies, the acquirer applies PFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references ( published together with the updated Conceptual Framework ) at the same time or earlier.

This standard is not applicable to the Company.

- Amendments to PAS 16, Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e., proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of these items in accordance with PAS 2, Inventories.

The amendments also clarify the meaning of testing whether an asset is functioning properly. PAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods and services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item (s ) in the statement of comprehensive income include (s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings ( or other component of equity, as appropriate ) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

The directors of the bank are currently assessing the impact of these amendments.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

- Amendment to PAS 37, Onerous Contracts - Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling ' a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract ( examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for for an item of property, plant and equipment used in fulfilling the contract ).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated . Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

The directors of the company are currently assessing the impact of these amendments.

- Annual Improvements to PFRS Standards 2018 - 2020 Cycle : Amendments to PFRS 1- First time adoption of International Financial Reporting Standards, Amendments to PFRS 9 - Financial Instruments, PFRS 16- Leases and Amendments to PAS 41-Agriculture.

The Annual Improvements include amendments to four standards :

PFRS 1, First time adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in PFRS 1: D16 (a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to PFRS standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in PFRS 1:D16 (a)

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

The standard is not applicable to the company.

PFRS 9, Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity ( the borrower ) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

The Board of Directors is currently assessing the impact of these amendment.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

#### PFRS 16, Leases

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to PFRS 16 only regards an illustrative example, no effective date is stated.

#### PAS 41, Agriculture

The amendment removes the requirement in PAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in PAS 41 with the requirements of PFRS 13, Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

*This standard is not applicable to the Company.*

- Amendment to PFRS 16, Covid - 19 Related Rent Concessions

The Company has adopted the amendment to PFRS 16 for the first time in the current year. The amendment provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to PFRS 16. The practical expedient permits a lessee to elect not to assess whether a Covid 19 related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the Covid 19- related rent concession the same way it would account for the change applying PFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 and only if all of the following conditions are met :

- (a. ) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b. ) Any reduction in lease payments affects only payments originally due on or before June 30, 2021 ( a rent concessions meets this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021, and;
- (c. ) There is no substantive change to other terms and conditions of the lease.

The amendment is effective for annual periods beginning on or after June 1, 2020, with early application permitted.

*The Board of Directors is currently assessing the impact of these amendment.*

- PFRS 10 and PAS 28 ( Amendments ), Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to PFRS 10 and PAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gain and losses resulting from the remeasurement of investments retained in any former subsidiary ( that has become an associate or a joint venture that is accounted for using the equity method ) to fair value are recognized in the former parent's profit



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

---

As at December 31, 2022 and 2021

or loss only to the extent of the unrelated investors' interest in the new associate or joint venture

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Bank anticipate that the application of these amendments may have an impact on the company's financial statements in future periods should such transactions arise.

*This standard is not applicable to the Bank*

- *Annual improvements to PFRS Standards 2015-2017 Cycle Amendments to PFRS 3- Business Combinations, PFRS 11- Joint Arrangements, PAS 12 - Income Taxes and PAS 23 -Borrowing Costs.*  
The Bank has adopted the amendments included in the *Annual Improvements to PFRS Standards 2015 - 2017 Cycle* for the first time in the current year. The Annual Improvements include amendments to four ( 4 ) standards:

#### *PAS 12, Income Taxes*

The amendments clarify that the Bank should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Company originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

*Since the Bank's current practice is in line with these amendments, they had no impact on the financial statements of the Company.*

#### *PAS 23, Borrowing Costs*

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

*Since the Bank's current practice is in line with these amendments, they had no impact on the financial statements of the Company.*

#### *PFRS 3, Business Combinations*

The amendments clarify that when the Company obtains control of a business that is a joint operation, the company applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation, *PFRS 11, Joint Arrangements*

*The amendments had no impact on the financial statements of the Bank as there is no transaction where a joint control is obtained.*

#### *PFRIC 23, Uncertainty over Income Tax Treatments*

The Bank has adopted PFRIC 23 for the first time in the current year. PFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires the bank to :

- > determine whether uncertain tax positions are assessed separately or as a company, and
- > assess whether it is probable that a tax authority will accept an uncertain tax treatment used or proposed to be used, by an entity in its income tax filings;



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

- If yes, the Bank should determine its accounting tax position consistently with the tax treatment used or planned to be used, by an entity in its income tax filings.
- If no, the Bank should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or Company of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020, with early application permitted.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

### Note 3 Basis for the preparation and presentation of financial statements

#### 3.1. Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards ( PFRS ). These standards are patterned after the revised International Financial Reporting Standards ( IFRS ) and International Accounting Standards ( IAS ) issued by the International Accounting Standards Board ( IASB )

#### 3.2. Basis of Accounting

The financial statements of the Bank are prepared on a going concern basis under the historical cost basis, except for the revaluation of financial instruments that are measured at fair values at the end of each reporting period (if any). Historical cost is generally based on the fair value of the consideration given in exchange of 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 liability, the Company takes into account when pricing the asset or liability at the measurement date. Fair value for measurement and / or disclosure purposes in these financial statements is determined on such a basis, except for share -based payment transactions that are within the scope of PFRS 2 *Share-based Payment*, leasing transactions that are within the scope of PFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as realizable value in PAS 2 *Inventories* or value in use in PAS 36 *Impairment of Assets*.

In addition for financial reporting purposes, fair value measurements are categorized into level 1,2 or 3 based on the degree to which the 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 the measurement date;



# RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

## Notes to Financial Statements

As at December 31, 2022 and 2021

- 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.

### 3.3. Presentation and Functional Currency

All amounts in the financial statements of the Bank are expressed in Philippine Peso ( PHP ), the currency of the primary economic environment in which the Company operates. All information presented in Philippine Peso has been rounded to the nearest peso, except otherwise specified.

### 3.4. Use of Judgments and Estimates

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the company's financial statements and accompanying notes.

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

The estimates and assumptions are reviewed on an ongoing 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 revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### 3.5. Going Concern Assumptions

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

## Note 4 Significant Accounting Policies

Principal accounting and financial reporting policies applied by the Bank in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented unless otherwise stated.

### 4.1. Financial Instruments - Initial Recognition and Subsequent Measurement

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

#### 4.1.1 Financial assets initial recognition and measurement

Financial assets are classified at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income ( OCI ), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial assets contractual cash flow characteristics and the Company's business model for managing them, the Bank initially measures a financial asset at its *fair value* plus, in the case of financial asset not at fair value through profit or loss, *transaction costs*.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI it needs to give rise to cash flows that are solely payments of principal and interest ( SPPI ) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within the time establish by regulation or convention in the market place ( regular way trades ) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

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

Purchases or sales of financial assets that require delivery of assets within the time establish by regulation or convention in the market place ( regular way trades ) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

#### 4.1.3 Financial assets at amortized cost ( debt instruments )

Financial assets at amortized cost are subsequently measured using the effective interest rate ( EIR ) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized.

*The Bank's financial assets at amortized cost includes: ( a. ) Due from other banks, ( b. ) Debt Securities measured at amortized cost ( c. ) loans and receivables, and ( d. ) Sales contract receivable (if any )*

#### 4.1.4 Financial assets at fair value through OCI ( debt instruments )

For debt instruments at fair value through OCI ( FVTOCI ), interest income, foreign exchange revaluation 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 other comprehensive income (OCI). Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

*The Bank has no financial assets at fair value through OCI ( FVTOCI ) ( debt instruments ).*

#### 4.1.5 Financial assets at fair value through OCI ( equity instruments )

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVTOCI when they meet the definition of equity under PAS 32 , *Financial Instruments : Presentation*; and are not held for trading.

#### 4.1.6 Financial assets at fair value through profit or loss ( FVTPL ) ( equity instruments )

This category includes derivative instruments and listed equity investments. Dividends on listed equity investments are recognized as other income in the statement of profit or loss when the right to payment has been established.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

---

As at December 31, 2022 and 2021

*The Bank has no financial assets at fair value through OCI ( FVTOCI- equity instruments ), and Fair value through profit or loss ( FVTPL ).*

#### 4.1.7 Derecognition of financial assets

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangements, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risk and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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 Company could be required to pay.

#### 4.1.8 Impairment of financial assets

The Bank is required to adopt the Expected Credit Loss ( ECL ) model in measuring credit impairment in accordance with the provisions of PFRS 9 (mandatory adoption effective 01 January 2018). It shall recognize credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent by considering past events, current conditions, and forecasts of future economic conditions in assessing impairment. For most such assets, when the asset is acquired the impairment allowance is measured as the " present value " of expected credit losses ( ECL ) from default events projected over the next 12 months unless there is a significant increase in credit risk. If there is a significant increase in credit risk, the allowance is measured as the present value of all credit losses projected for the instrument over its full lifetime.

If the credit risk recovers, the allowance can once again be limited to the projected credit losses over the following twelve ( 12 ) months.

*The Bank did not develop its own loan-loss methodology based on the above, instead, adopted the regulatory guidelines in setting up allowance for credit losses prescribed under the new Appendix 15 to Sec. 143 of the MORB.*

#### 4.1.9 Impairment on non - financial assets

The bank is required to perform an impairment review when certain impairment indicators are present. Purchase accounting requires excessive use of accounting estimates and judgment to allocate the purchase price to the fair market values of the assets.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I  
Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

Determining the fair value of non-financial assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause the entity to conclude that properties and equipment, investments and intangible assets associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operation.

#### 4.1.10 Write - off of financial assets

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

#### 4.1.11 Financial liabilities initial recognition and measurement

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

*The Bank's financial liabilities based on the application of PFRS 9 include deposit liabilities, bills payable ( if any ), redeemable preferred shares and accrued interest expenses payable.*

#### 4.1.12 Financial liabilities subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories :

- Financial liabilities at amortized cost ( loans and borrowings )
- Financial liabilities at fair value through profit or loss

Financial liabilities at amortized cost is the category most relevant to the Company. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method ( EIR ). Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

#### 4.1.13 Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original liability and the recognition of a new liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received or discounted using the original effective rate is at least ten percent different from the discounted present value of the remaining cash flows of the original liability. If the modification is not substantial, the difference between : ( i.) the carrying amount of the liability before the modification; and ( ii.) the present value of the cash flows after modification is recognized in profit or loss as the modification gain or loss within other gains and losses.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

---

As at December 31, 2022 and 2021

#### 4.1.14 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

#### 4.2. Debt securities measured at amortized cost

These are quoted non-derivative financial assets with fixed or determinable payments and fixed maturity where the bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held-to-maturity, such as bonds, treasury bills and notes are subsequently measured at amortized cost. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any differences between the initially recognized amount and the amount at maturity. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction cost and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the statements of income when investment are derecognized or impaired as well as through the amortization process.

#### 4.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short term receivables when the effect of discounting is immaterial.

Receivables from customers are stated at the outstanding balance reduced by an allowance for probable credit losses.

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

Under existing BSP regulations, non-accruing loans are those that have been defined as being past due and under items in litigations, or those for which, in the opinion of management, collection of interest or principal is doubtful. Interest income on these 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 current or are restructured in accordance with BSP existing regulations and future payments appear assured. Collaterals of restructured loans exceeding Php 1 million shall be revalued by an independent appraiser acceptable to BSP.

Section 304 of the Manual of Regulations for Banks ( MORB ), states that the following regulation shall guide BSFI's in determining their past due accounts and non-performing loans.

##### 4.3.1. Accounts considered past due

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSFI's may provide a cure period on a credit product-specific basis, not to exceed thirty ( 30 ) days within which to allow obligors or borrowers to catch up on their late payment without being considered as past due : Provided, that any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

---

As at December 31, 2022 and 2021

occasional payment delays: Provided further, That the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that BSFI's shall regularly review the reasonableness of its cure period poliicy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten ( 10 ) days.

#### 4.3.2. Accounts considered non-performing

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

Any amount sets aside with respect to losses on loans and advances in addition to those losses that have been specifically identified or potential losses are indicatively present in the portfolio of loans and advances, are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

The allowance is increased by provisions charged to expense and reduced by reasonable write-offs and reversals as determined by the Bank.

#### 4.3.3. Loan classification and provisioning

*Loans and other credit accomodations shall be grouped into the following classification:*

- 1.) *Pass.* These are loans and other credit accomodations that do not have a greater - than - normal credit risk. The borrower has the apparent ability and willingness to satisfy obligations in full and therefore no loss in ultimate collection is anticipated.
- 2.) *Especially Mentioned.* These are loans and other credit accomodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may affect the repayment of the loan.
- 3.) *Substandard.* These are loans and other credit accomodations that have well-defined weaknesses that may jeopardize repayment / liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
- 4.) *Doubtful.* These are loans and other credit accomodations that exhibit more weaknesses than those classified as "substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains yet undeterminable. Classification as "loss" is deferred because of pending factors which strengthen the asset.
- 5.) *Loss.* These are loans and other credit accomodations which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accomodations which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

#### **Provisioning and allowance for credit losses**

The allowance for probable credit losses, which includes both specific and general loan loss provision 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 BSP. Banks with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or where policies fall short of expected standards, shall at minimum, be subject to the following guidelines :

#### **I. Individually Assessed Credit Exposures**

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

##### **a. Unsecured loans and other credit exposures**

No. of days unpaid with missed payment	Classification	Minimum ACL	Stage
31 - 90 days	Substandard ( under-performing )	10%	2
91 - 120 days	Substandard ( non-performing )	25%	3
121 - 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

##### **b. Secured loans and other credit exposures**

No. of days unpaid with missed payment	Classification	Minimum ACL	Stage
31 - 90 days*	Substandard ( under-performing )	10%	2
91 - 180 days*	Substandard ( non-performing )	10%	3
181 - 365 days	Substandard ( under-performing )	25%	3
over 1 year to 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 collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

2. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Section 143 of the MORB shall be provided with ACL as follows:

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

Depends on whether the accounts are classified as non-performing ( stage 3 ), under performing ( stage 2 )

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



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

4. Loans and other credit accommodations that were previously classified as " Pass " prior to the litigation process shall be classified as " Substandard " and provided with 25% allowance for credit losses;
5. Loans and other credit accommodations that were previously classified as " Pass " but were subsequently restructured shall have a minimum classification of EM and provided with a 5 % allowance for credit losses, except for loans which are considered non-risk under existing laws, rules and regulations; and
6. 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 fully repaid.

#### II. Collectively assessed loans and other credit exposures

1. Loans and other credit exposures with unpaid principal and / or interest shall be classified and provided with allowance for credit losses ( ACL ) based on the number of missed payments as follows:

##### a. Unsecured loans and other credit exposures

No. of days unpaid with missed payment	Classification	Minimum ACL	Stage
1-30 days	Especially mentioned	2%	2
31 to 60 days	Substandard ( non-performing )	25%	2 or 3
61 to 90 days ( 1st restructuring )	Doubtful	50%	3
over 91 days ( 2nd restructuring )	Loss	100%	3

##### b. Secured loans and other credit exposures

No. of days unpaid with missed payment	Classification	Minimum ACL		Stage
		Others	REM	
31 - 90 days	Substandard ( UP )	10%	10%	2
91-120 days	Substandard ( NP )	25%	10%	3
121-360 days	Doubtful	50%	25%	3
361 - 5 years	Loss	100%	50%	3
over 5 years	Loss		100%	3

#### 4.4 Sales Contract Receivable

Refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the property is transferred to the buyer only upon full payment of the agreed selling price. SCR shall be recorded based on the present value of the installments receivable discounted at the imputed rate of interest. Discount shall be amortized 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 and loss at the date of sale in accordance with the provisions of PFRS 15 Revenue from Contract. Provided, that SCR shall be subject to impairment provisions of PFRS 9.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

SCR's that meet all the requirements or conditions enumerated below are considered performing.

viz:

- There has been a downpayment 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;
- That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one ( 1 ) year;
- That any grace period in the payment of principal shall not be more than two ( 2 ) years; and
- That there is no installment payment in arrears either on principal or interest.

*The Bank has no sales contract receivable during the current and previous year.*

#### 4.5 Bank Premises, Furniture, Fixtures and Equipment

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

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

Major spare parts and stand-by equipment qualify as premises, furniture, fixtures and equipment when the company expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of premises, furniture, fixture and equipment, they are accounted for as Bank premises, furniture, fixtures and equipment.

Estimated future dismantlement costs of items of premises, furniture, fixture and equipment arising from legal or constructive obligations are recognized as part of the statement of financial position and are measured at present value at the time when the obligation was incurred.

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

Buildings and improvements	10 - 20 years
Furniture and fixtures	2 - 8 years
Information technology equipment	1 - 3 years
Appliances and other office equipment	1-3 years
Transportation equipment	3 - 5 years
Leasehold improvements	Useful life or lease term

Stand-by equipment is depreciated from the date it is made available for use over the shorter of the life of the stand-by equipment or the life of the asset the stand-by equipment is part of, while major spare parts are depreciated over the period starting when it is bought into service, continuing over the lesser of its useful life and the remaining expected useful life of the asset to which it relates.

The carrying values of the Bank premises, furniture, fixtures and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the statement of income.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I  
Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

#### 4.6 Intangible Assets

##### 4.6.1. Intangible Assets Acquired Separately

Intangible assets acquired separately with finite useful lives are carried at cost less accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives.

Program software ( GL, Loans & CASA )

3 to 3.5 years

The estimated useful life and amortization are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

##### 4.6.2. Derecognition of Intangible Assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

#### 4.7 Investment Properties ( ROPA )

Real and Other Properties Acquired ( ROPA ) shall be accounted for as Investment Properties under PAS 40 in accordance with Section 382 of the MORB.

ROPA's in settlement of loans through foreclosure or dation and payment shall be booked initially at the carrying amount of the loan ( outstanding loan balance adjusted for any unamortized premium or discount less allowance for probable losses.) plus transaction costs incurred upon acquisition ( such as capital gains tax and documentary stamp tax paid in connection with the foreclosure ). Provided, that where the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for impairment equivalent to the excess of the amount booked over the appraised value shall be set up; Provided, further, that if the carrying amount of the ROPA exceeds Php 5 million, the appraisal of the foreclosed property shall be conducted by an independent appraiser acceptable to the Bangko Sentral ng Pilipinas ( BSP ).

#### 4.8 Other Assets

Other assets account represents residual accounts which were classified as a separate line item in the Manual of Accounts. The account includes petty cash fund, sinking fund, deferred charges, servicing assets, accounts receivable, prepayments, stationery and supplies on hand and sundry among others. These are recognized on an accrual basis.

#### 4.9 Deposit Liabilities

Deposits are measured at cost, which is a reflection of their fair values

#### 4.10 Redeemable Preferred Shares

This refers to preferred shares issued by government banks which provide for its redemption on a specific date. This shall be measured at amortized cost using the effective interest method.

#### 4.11 Accrued Interest Expense on Financial Liabilities

This refers to the interest incurred / due but not yet paid on financial liabilities

#### 4.12 Provisions for Pensions and Other Benefit Obligations

This refers to the bank's liability with respect to pension and other post-employment benefits given to its employees.

#### 4.13 Other Liabilities

The above account refers to the following :



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

---

As at December 31, 2022 and 2021

- a. *Withholding tax payable* - refers to the taxes deducted /withheld by the bank from the ( i.) wages salaries of its officers and employees ( ii. ) interest on savings and deposit liabilities; and others, for remittance to the Bureau of Internal Revenue in accordance with existing regulations.
- b. *SSS, EC premiums, Philhealth and Pag-ibig contributions payable* - This refers to amounts due to Social Security System, Philippine Health Insurance Corporation, Employees' Compensation Commission and Pag-ibig Funds, for employees premiums / contributions.
- c. *Accounts payable - others*, refers to the following:
  - Other obligations of the bank under open-account arrangements such as deposits made by loan applicants for various expenses in connection with pending loan applications;
  - Payments on loans pending liquidation;
  - Deposits in connection with the purchase / redemption of ROPA; and
  - Indebtedness for purchase of office supplies, printed forms, furniture, fixtures and equipment.

#### 4.14 Equity Accounts

##### 4.14.1 Share Capital

Share capital is determined using the nominal value of shares that have been issued and fully paid. The costs of acquiring the bank's own shares are shown as a deduction from equity attributable to the bank's equity holders until the shares are cancelled or reissued. When such shares are subsequently sold or reissued, any consideration received, net of directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to bank's equity holders.

##### 4.14.2 Retained Earnings - Reserve

- *Self - insurance* - This refers to the accumulated amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the bank's officers and employees;
- *Contingencies* - This account refers to the accumulated amount set aside for possible or unforeseen losses, decrease or shrinkage in the book value of the bank assets, or for undeterminable liabilities not otherwise recorded, such as those arising from lawsuits, defaults on obligations and unexpected expenditures.
- *Others* - This refers to the accumulated amount set aside for purpose other than those stated in the aforementioned " Retained Earnings - Reserve " accounts.

##### 4.14.3 Retained Earnings - Free

This refers to the unappropriated or free portion of the accumulated profits of the bank.

##### 4.14.4 Undivided Profits

This refers to the clearing account for all income and expenses, the balance of which shall be transferred to " Retained Earnings - Free " account at the end of the accounting period after taking up all other charges and / or credits that may appropriately cleared thru this account.

#### 4.15 Revenue Recognition

Revenue is recognized to the extent that is probable that the economic benefits will flow to the bank and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services provided in the normal course of business. The following specific criteria must also be met before revenue is recognized :



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

- Interest income from a financial asset is recognized when it is probable that economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time proportion basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts to that asset's net carrying amount on initial recognition;
- Rent income ( if any ) is recognized on a straight-line basis over the term of the lease;
- Service charges and commissions are recognized on an accrual basis, when the service is provided, unless collectibility is in doubt;
- Gain on sale of acquired assets is recognized if transactions indicate that the full ownership is transferred to the acquiree;
- Miscellaneous income comprise of processing fees, banking fees, and insurance. These are recognized on accrual basis when the service has been provided; and
- Recoveries from written off accounts are recognized upon collection.

#### 4.16 Expense Recognition

Expense encompasses issues as well as those expenses that arise in the course of the ordinary activities of the entity.

#### 4.17 Employee Benefits

##### 4.17.1 Short term benefits

The bank recognizes a liability for benefits accruing to employees in respect of wages and salaries, monetization of annual vacation leave and sick leave, in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

##### 4.17.2 Termination benefit

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer to encourage voluntary redundancy.

In case of termination due to the installation of labor-saving devices or redundancy, the employee affected thereby shall be entitled to a separation pay equivalent to at least one ( 1 ) month pay for every year of service. In case of retrenchment to prevent losses or in cases of closure or cessation of business operations not due to serious business losses or financial reverses, the separation pay shall be equivalent to at least one-half ( 1/2 ) month pay or one ( 1 ) month pay for every year of service whichever is higher. A fraction of at least six ( 6 ) months shall be considered as one whole year.

##### 4.17.2 Post employment benefit

In the absence of a retirement plan, the bank provides for estimated benefit costs required to be paid under R.A. 7641 ( The New Retirement Law ) to qualified employees. An employee upon reaching the age of sixty ( 60 ) years or more, but not beyond sixty five ( 65 ) years which is hereby declared the compulsory retirement age, who has served at least five ( 5 ) years, may retire and shall be entitled to retirement pay equivalent to: ( i. ) One half month pay for every year of service, a fraction of six ( 6 ) months shall be considered as one whole year; ( ii. ) equivalent of one half ( 1/2 ) of the 13th month pay based on the latest salary of the employee for every year of service; and ( iii. ) the equivalent of five ( 5 ) days service incentive leave for every year of service. Retirement benefits are computed annually based on existing employees on an accrual basis when such benefits has been incurred.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I  
Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

#### 4.18 Leases

##### The Bank as lessor

The Bank shall determined based on the terms and conditions of the leased agreements that the Bank retains all significant risk and rewards of ownership of the leased asset and so accounts for these contracts as operating leases ( i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, and has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exerciseable and the lease term is not for major part of the asset's economic life )

##### Bank as lessee

The Bank shall determined based on the evaluation of the terms and conditions of the leased agreements that the lessor retains all significant risk and rewards of ownership and so accounts for as operating leases.

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

The Bank has no lease commitment as a lessor or lessee during the current and previous year.

#### 4.19 Related Parties and 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. The Company's related parties include the Bank's directors, officers, stockholders and related interests ( DOSRI ), and their close family members, as well as corresponding persons in affiliated companies. Such other person / juridical entity whose interests may pose potential conflict with the interest of the Bank are likewise identified as a related party.

The company has several relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially the same terms, as those prevailing at the time for comparable transactions with other parties

Related party transactions are transactions or dealings with related parties of the Bank, regardless of whether or not a price is charged. These shall include but not limited to the following:

- On-and off-balance sheet credit exposures and claims and write-offs;
- Investments and /or subscriptions for debt / equity issuances;
- Consulting, professional, agency and other service arrangements / contracts;
- Purchase and sale of assets, including transfer of technology and intangible items;
- Construction arrangements / contracts;
- Lease arrangements / contracts;
- Trading and derivative transactions;
- Borrowings, commitments, fund transfers and guarantees;
- Sale, purchase or supply of any goods or materials; and
- Establishment of joint venture entities

RPT's shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

#### 4.20 Taxation

##### 4.20.1 Current tax



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The tax recognized are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgment of tax professionals within the company supported by previous experience in respect of such activities and in certain cases based on specialist tax advice.

#### 4.20.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all deductible temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, carry forward of unused tax credits from excess Minimum Corporate Income Tax ( MCIT ) over Regular Corporate Income Tax ( RCIT ) and unused Net Operating Loss Carry Over ( NOLCO ), to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition ( other than in a business combination ) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences are only recognized to the extent that it is probable that there will be sufficient taxable profit against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduce to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### 4.21 Earnings per share

The Bank computes its basic earnings per share by dividing net income or loss attributable to



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I  
Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

ordinary equity holders of the bank by the weighted average number of ordinary shares outstanding during the period.

#### 4.22 Events After the Reporting Date

The Bank identifies subsequent events as events that occurred after the reporting date but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the Company's position at the reporting date, adjusting events, are reflected in the financial statements, while subsequent events that do not require adjustments, non-adjusting events, are disclosed in the notes to financial statements.

#### 4.23 Prior period errors

The Bank corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: ( a. ) restating the comparative amounts for the prior period presented in which the error occurred; or ( b. ) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

### Note 5. Management Accounting Judgment and Estimates

#### 5.1. Judgments

The preparation of the Bank's financial statements in conformity with Financial Reporting Framework ( in reference to PFRS ) requires management to make estimates and assumptions that affect the amounts reported in the bank's financial statements and accompanying notes. The estimates and assumptions used in the bank's financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the bank's financial statements. Actual results could differ from such estimates, judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### 5.2. Estimates

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

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

The following represents a summary of the significant estimates and judgments, and related impact and associated risk in the bank's financial statements.

##### 5.2.1 Estimating useful lives of Bank premises, furniture, fixtures and equipment

The useful lives of bank premises, furniture, fixtures and and equipment are estimated based on period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the bank's assets. In addition, the estimation of the useful lives of property and equipment is based on bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of premises, funnitures, fixtures and equip-ment would increase the recognized operating expenses and decrease in non-current assets.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I  
Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

---

As at December 31, 2022 and 2021

physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the bank's assets. In addition, the estimation of the useful lives of property and equipment is based on bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of premises, furniture, fixtures and equipment would increase the recognized operating expenses and decrease in non-current assets.

#### 5.2.2 Estimating impairment on financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial asset is impaired. A financial asset or group of financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset ( an incurred "loss event" ) and that loss event /s has an impact on the estimated future cash flows of the financial asset or the group of financial asset that can be reliably estimated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical experience for assets with credit risk characteristics similar to those in the bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of conditions that did not affect the period on which the historical experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the bank to reduce any differences between loss estimates and actual loss experience.

#### 5.2.3 Estimating impairment on non-financial assets

The bank is required to perform an impairment review when certain impairment indicators are present. Purchase accounting requires excessive use of accounting estimates and judgment to allocate the purchase price to the fair market values of the assets.

Determining the fair value of non-financial assets, which require 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 properties and equipment, investments and intangible assets associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

#### 5.2.4 Estimating allowances for credit losses

The Bank estimates the allowance for credit losses related to its receivables based on assessment of specific accounts where the bank has information that certain borrowers are unable to meet their financial obligation. In these cases, judgment used as based on the best available facts and circumstances including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit report and known market factors.

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for credit losses would increase the recognized operating expenses and decrease current assets.

The Bank is required to adopt the Expected Credit Loss (ECL) model in measuring credit impairment in accordance with the provisions of PFRS 9 ( mandatory adoption effective 01 January 2018 ). It shall recognize credit impairment /allowance for credit losses before an objective evidence of



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I  
Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

impairment becomes apparent by considering past events, current conditions and forecasts of future economic conditions in assessing impairment. For most cases, when the asset is acquired, the default events projected over the next 12 months unless there is a significant increase in credit risk. If there is a significant increase in credit risk, the allowance is measured as the present value of all credit losses projected for instrument over its full lifetime.

If the credit risk recovers, the allowance can once again be limited to the projected credit losses over the following twelve ( 12 ) months.

*The Bank did not develop its own loan-loss methodology under ECL, instead, adopted the regulatory guidelines in setting up allowance for credit losses prescribed under the new Appendix 15 of the Manual of Regulations for Banks ( MORB )*

#### Note 6. Financial Risk Management Objectives and Procedures

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and maximize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risk, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and financial risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk, and other operational risks. Market risks includes currency risk, interest rate and price risk.

##### 6.1. Credit Risk

The Bank takes on exposure to credit risk; which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that led to loans and receivables. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and guarantees.

##### 6.1.1 Credit risk measurement

Credit risk is the possibility of losses associated with changes in the credit profile of borrowers or counterparties. These losses, associated with changes in portfolio value, could arise due to default or due to deterioration in credit quality.

- Default risk : obligor fails to service debt obligations
- Recovery risk : recovery post default is uncertain
- Spread risk : credit quality of obligor changes leading to a fall in the value of loan
- Concentration risk : over exposure to an individual, group or industry
- Correlation risk : Concentration based on common risk factors between borrowers, industries or sectors which may lead to simultaneous default limits, diversification strategy and its risk based pricing of loans and receivables based on credit risk appetite and the size of its capital.



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I  
Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

The Bank has adopted the standardized measurement of credit risk. In this regard, the tasks under the credit risk unit are as follows, among others :

- Segmentation of the credit portfolio ( in terms of risk but not size )
- Model requirements ( for risk assessments )
- Data requirements
- Credit risk reporting requirements for regulatory / control and decision - making purposes at various levels;
- Policy requirements for credit risk ( credit process and practices, monitoring and portfolio management,etc. ), and
- Align risk strategy and business strategy.

#### 6.1.2 Risk limit control and mitigation policies

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by industry sector are set out in the credit policy. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and of potential borrowers to meet interest and principal repayment obligations and by charging these lending limits where appropriate.

#### 6.1.3 Impairment and provisioning policies

The Bank has adopted a Credit Impairment and Income Recognition Policy, whereby the impairment and provisioning policies are defined. The Bank assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include :

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position, and
- Deterioration in the value of collateral

#### 6.1.4 Maximum exposure to credit risk before collateral held

The table below represents a worse case scenario of credit risk exposure to the Bank as at 31 December 2022 and 2021, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out are based on net carrying amounts as reported in the balance sheet. The total maximum exposure is derived from loans and receivables.

		<u>2022</u>	%	<u>2021</u>	%
<b><u>Loans and receivables</u></b>	P	<b>69,685,098</b>		<b>59,715,794</b>	
Loan commitments					
<b><u>Classified as to terms</u></b>					
Short term ( one year or less )	P	43,882,858	63%	31,352,773	53%
Medium term ( over one year to five years )		25,759,162	37%	27,249,516	46%
Long term ( over five years )		43,078	0%	1,113,505	2%
<b>Total</b>	P	<b>69,685,098</b>	100%	<b>59,715,794</b>	100%



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

<u>Classified as to type of borrowers</u>	<u>2022</u>	<u>2021</u>
Private residents of the Philippines	-	-
a. Individuals	P 69,685,098	59,715,794
<b>Total</b>	<b>P 69,685,098</b>	<b>59,715,794</b>

**6.1.5. Credit quality per class of financial assets***Description of financial assets grading on credit risk follows :*

**High grade** - these are financial assets which have a high probability of collection or are invested or deposited in a reputable financial institutions. The counterparty has the apparent ability to satisfy its obligation and the securities on the receivables are readily enforceable.

**Standard grade** - these are financial assets where collections are probable due to the reputation and the ability of the counterparty to pay but with experience of default.

**Past Due but not impaired** - these are loans where any principal or interest or installment due, or portions thereof are not paid on their contractual due date.

**Impaired** - these are loans falling under the credit impairment policy of the bank.

The Tables below show the credit quality per class of financial assets at net carrying amount ( gross of allowance for credit losses and impairment ) as at December 31, 2022 and 2021.

**December 31, 2022**

Financial Asset/s	High Grade	Standard Grade	Past due but not impaired	Impaired	Total
Due from BSP	2,199,210				2,199,210
Due from other banks	40,025,037				40,025,037
Debt Securities @ amortized cost	2,000,000				2,000,000
Loans and receivables		65,570,035	2,391,868	1,723,195	69,685,098
Other assets ( POS - LBP )		424,350			424,350
<b>Total</b>	<b>44,224,247</b>	<b>65,994,385</b>	<b>2,391,868</b>	<b>1,723,195</b>	<b>112,333,695</b>

**December 31, 2021**

Financial Asset/s	High Grade	Standard Grade	Past due but not impaired	Impaired	Total
Due from BSP	2,246,682				2,246,682
Due from other banks	44,410,647				44,410,647
Debt Securities @ amortized cost	2,000,000				2,000,000
Loans and receivables		54,747,879	2,809,451	2,158,465	59,715,795
Other assets ( POS - LBP )		605,105			605,105
<b>Total</b>	<b>48,657,329</b>	<b>55,352,984</b>	<b>2,809,451</b>	<b>2,158,465</b>	<b>108,978,228</b>

**6.2. Market Risk**

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of both on and off-balance sheet instruments, products, and transactions in an institution's overall portfolio. Market risk arises from market-making, dealing, or position-taking in instruments, structure or strategies the income from which are sensitive to movements in interests rates, foreign exchange rates, credit spreads and equities and commodities prices.

**6.2.1 Foreign Exchange Risk Management**

Foreign exchange risk is the risk that the Bank's earnings and economic value will be adversely affected with the movements in the foreign exchange rate, though it may sometimes have an insignificant effect. The Bank is exposed to this risk since interest rate risk arises when the total present value of assets in a particular currency does not equal the present value of liabilities in that currency. ( the Bank has no foreign currency exposures in 2022 and 2021 )



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca Cor. Marzan Sts., Centro I  
Sanchez Mira 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

#### 6.2.2 Interest rate risk exposure

Interest rate risk results from mismatches between asset and liability positions which are subject to unfavorable movements in interest rates with potentially adverse impact on margins, net interest income and economic value of bank's assets, liabilities and shareholders' value. Interest rate risk may be measured using methods which includes sensitivity analysis and simulation modelling. The Bank has its interest rate policy in which risk limits are laid down.

The bank's policy is to minimize interest rate cash flow risk exposure. The bank is exposed to changes in market interest rates through its short-term placements which form part of the bank's financial assets ( Due from Other Banks and Investments in debt securities ) which are subject to variable interest rates. All other financial assets and liabilities have fixed interest rates over a certain period of time which are re-priced when changes in market interest rate occurs.

- Loans and receivables - contractual rate is constant until maturity;
- Time deposits - contractual rate is constant until maturity, and
- Savings deposits - nominal rate is to be re-priced every quarter depending on current market rates.

#### **6.3. Liquidity Risk Management**

Liquidity risk is defined within the Bank's policy framework as " the risk that, at any time, the Bank does not have sufficient realizable financial assets to meet its financial obligations as they fall due".

The liquidity policy of the Bank is to ensure :

- It can meet its financial obligations as they fall due in the normal course of business, and
- It maintains an adequate stock of highly liquid assets to enable it to meet unexpected funding needs at short notice

It requires establishment and maintenance of three lines of defense :

- Cashflow management where the Bank creates a continuously maturing stream of assets and liabilities;
- Maintenance of liquid assets portfolio, and
- Maintenance of a diversified liability base.

#### 6.3.1 Maturity analysis for financial assets and liabilities

The Table below shows the financial assets and financial liabilities' liquidity information which includes cash flows categorized based on the contractual date on which the asset will be realized and the liability will be settled. The analysis into the maturity grouping is based on the remaining period from the end of the reporting period to the expected date the assets will be realized.

#### **Liquidity Gap Position**

December 31, 2022

Financial Assets	Up to 1 month	1 to 3 months	3 months to 6 months	6 months to 1 year	Over 1 year	TOTAL
Cash & cash equivalents	2,155,670					2,155,670
Due from BSP	2,199,210					2,199,210
Due from Other Banks	40,025,037					40,025,037
Loans and receivables	4,995,040	11,043,534	20,452,149	7,800,633	23,602,340	67,893,696
Other assets	10,000			170,755	253,595	434,350
<b>Total Financial Assets</b>	<b>49,374,957</b>	<b>11,043,534</b>	<b>20,452,149</b>	<b>7,800,633</b>	<b>23,602,340</b>	<b>112,273,613</b>
<b>Financial Liabilities</b>						
Deposit liabilities	2,965,800	8,897,401	17,794,802	26,296,203	31,140,527	87,094,733
Accrued expenses	226,941					226,941
Other liabilities	291,950					291,950
<b>Total financial liabilities</b>	<b>3,484,691</b>	<b>8,897,401</b>	<b>17,794,802</b>	<b>26,296,203</b>	<b>31,140,527</b>	<b>87,613,624</b>
<b>Net volume gap</b>	<b>45,890,266</b>	<b>2,146,133</b>	<b>2,657,347</b>	<b>(18,495,570)</b>	<b>(7,538,187)</b>	<b>24,659,989</b>
<b>Cum. Gap inflow/outflow</b>	<b>45,890,266</b>	<b>48,036,399</b>	<b>50,693,746</b>	<b>32,198,176</b>	<b>24,659,989</b>	



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca Cor. Marzan Sts., Centro I  
Sanchez Mira 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**December 31, 2021**

Financial Assets	Up to 1 month	1 to 3 months	3 months to 6 months	6 months to 1 year	Over 1 year	TOTAL
Cash & cash equivalents	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
Loans and receivables	5,748,939	9,038,147	13,617,357	26,132,620	3,724,314	58,261,377
Other assets	10,000			170,755	434,350	615,105
<b>Total Financial Assets</b>	<b>54,271,609</b>	<b>9,038,147</b>	<b>13,617,357</b>	<b>26,303,375</b>	<b>4,158,664</b>	<b>107,389,152</b>
<b>Financial Liabilities</b>						
Deposit liabilities	2,799,205	8,397,614	16,795,228	24,819,088	29,391,296	82,202,431
Accrued expenses	289,124					289,124
Other liabilities	328,969					328,969
<b>Total financial liabilities</b>	<b>3,417,298</b>	<b>8,397,614</b>	<b>16,795,228</b>	<b>24,819,088</b>	<b>29,391,296</b>	<b>82,820,524</b>
Net volume gap	50,854,311	640,533	(3,177,871)	1,484,287	(25,232,632)	<b>24,568,628</b>
Cum. Gap inflow/outflow	50,854,311	51,494,844	48,316,973	49,801,260	<b>24,568,628</b>	

**6.3.2 Minimum Liquidity Ratio**

To promote short term resilience to liquidity shocks, bank shall maintain a stock of liquid assets to their on and off-balance sheet liabilities. A minimum requirement of sixteen ( 16% ) percent shall apply to banks on an ongoing basis during 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. Memorandum No.2022-004 dated 17 January 2022 extends the reduction in MLR to 16 percent for all stand-alone thrift banks, rural banks, and cooperative banks until 31 December 2022 ( Amendment to Memo No. 2020-85, dated 01 Dec. 2020 )

*The computation of the Minimum Liquidity Ratio as of CY 2022 and 2021 follows:*

A. Stock of liquid assets	CY 2022	CY 2021
i. Cash on hand	2,155,670	1,855,341
ii. Bank reserves in the BSP	2,199,210	2,246,682
iii. Debt securities representing claims on or guaranteed by: The Philippine National Government and the BSP	2,000,000	2,000,000
Multilateral organizations with external credit ratings of AA, or its equivalent		
iv. Deposit in other banks	40,025,037	44,410,647
<b>Total</b>	<b>46,379,917</b>	<b>50,512,670</b>

**A. Qualifying liabilities**

i. Retail regular savings deposit with outstanding balance per account of P 500.00 and below	47,176,061	46,067,144
ii. Obligations arising from operational expenses	226,941	289,124
iii. Total on balance sheet liabilities	91,815,827	85,418,599
Deduct : Sum of items A-i. & A-ii of qualifying liabilities	47,403,002	46,356,268
<b>B Other on balance sheet liabilities</b>	<b>44,412,825</b>	<b>39,062,331</b>
<b>C Irrevocable obligations under off-balance sheet items ( Specify )</b>		
Conversion factor ( Ai. 50% )	23,189,959	23,033,572
<b>D Total Sum of Adjusted Amount ( Ai,Aii, B &amp; C )</b>	<b>67,602,783</b>	<b>62,095,903</b>

**Computation of the Minimum Liquidity Ratio**

A. Stock of liquid assets	46,379,917	50,512,670
B. Qualifying liabilities	67,602,783	62,095,903
C. Minimum Liquidity Ratio ( MLR - A. divided by B )	68.61%	81.35%

The Board of directors sets the amount of Php 17,418,946 or 20% of total deposit liabilities as the Minimum Liquidity Ratio ( MLR ) of the bank.



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca Cor. Marzan Sts., Centro I

Sanchez Mira 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**Note 7. Fair Value Measurements****7.1. Fair value of financial assets and liabilities**

The following tables summarize the net carrying amounts and estimated fair values of financial assets and financial liabilities presented in the Statements of Financial Position as of December 2022 and 2021

	2022		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial Assets</b>				
Cash and cash equivalents	2,155,670	2,155,670	1,855,341	1,855,341
Due from BSP	2,199,210	2,199,210	2,246,682	2,246,682
Due from Other Banks	40,025,037	40,025,037	44,410,647	44,410,647
Debt securities @ amortized cost	2,000,000	2,000,000	2,000,000	2,000,000
Loans and receivables	67,235,196	67,235,196	57,395,721	57,395,721
Other assets	434,350	434,350	615,105	615,105
<b>Total Financial Assets</b>	<b>114,049,463</b>	<b>114,049,463</b>	<b>108,523,495</b>	<b>108,523,496</b>

	2022		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial Liabilities</b>				
Deposit liabilities	87,094,733	87,094,733	82,202,431	82,202,431
Accrued interest, taxes, and ther expenses	226,941	226,941	289,124	289,124
Other liabilities	4,228,464	4,228,464	2,604,750	2,604,750
<b>Total Financial Liabilities</b>	<b>91,550,137</b>	<b>91,550,137</b>	<b>85,096,305</b>	<b>85,096,305</b>

The fair value of instruments traded in active markets at the statement of financial position date is based on their quoted price or dealer price quotations ( bid price for long positions and ask price for short positions ), without any deduction for transaction costs. When current bid prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant models, and other relevant valuation models.

The models and assumptions used by the bank in estimating the fair value of the financial instruments are:

1. Cash and cash equivalents, Due from BSP, and Due From Other Banks - the carrying amount approximate their fair value due either to the demand nature or the relatively short-term nature of the accounts.
2. Investments at amortized cost - fair values are generally based on quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Bank obtained valuations from independent parties offering pricing services, used adjusted quoted market prices of comparable investments, or applied discounted cash flow methodologies. As at December 31, 2022 and 2021, the bank had no investment in debt securities where market prices are not available.
3. Loans and receivables - fair values are estimated using the discounted flow methodology, using the the Bank's current incremental lending rates for similar tyoes of loans and receivables.
4. Deposit liabilities - carrying amounts approximate fair values due to either the demand nature or the relatively short-term nature of the accounts.
5. Accrued interest, taxes and other liabilities - carrying amounts approximate fair values due to either the demand nature or the relatively short-term nature of the account.



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**Note 8. Cash and cash equivalents**

For the purpose of the statements of cash flows, cash and cash equivalents include cash on hand and in vault, and checks and other cash items represents checks on hand still in the position of the cashier subject for deposit on the first banking day in the next financial year.

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:

		2022	2021
Cash on hand and in vault	P	2,155,670	1,855,341
Checks and other cash items		-	-
<b>Total Cash &amp; Cash equivalents</b>	<b>P</b>	<b>2,155,670</b>	<b>1,855,341</b>

**Note 9. Due from Bangko Sentral ng Pilipinas**

This account represents the Bank's balance of the deposit maintained with the Bangko Sentral ng Pilipinas ( BSP ) to meet the legal reserve requirements equivalent to two percent ( 2% ) of total deposit liabilities. Section 254 of the 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.

		2022	2021
<b>Due from Bangko Sentral ng Pilipinas</b>	<b>P</b>	<b>2,199,210</b>	<b>2,246,682</b>

**Note 10. Due from Other Banks**

The Due from Other Banks account represents deposits with other local banks which are being used for the Bank's daily operations. Breakdown of this account is as follows:

		2022	%	2021	%
Private banks					
Commercial banks	P	4,228,964	11%	3,545,679	8%
Government bank					
Land Bank of the Philippines		35,796,074	89%	40,864,968	92%
<b>Total Due from Other Banks</b>	<b>P</b>	<b>40,025,037</b>	<b>100%</b>	<b>44,410,647</b>	<b>100%</b>

Under Section 362 g of the MORB, 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 ( SBL ) of twenty five percent ( 25% ) of the net worth. However, Memorandum Circular No. 2022-4, Section 3, Item No. 1, provides the increase in the Single Borrower's Limit ( SBL ) from 25% to 30% until December 31, 2022 as additional relief measures that are available to BSFI's pursuant to national interest.

As at December 31, 2022, the Bank's SBL was registered at Php 7,148,669 (30% of Php23,828,896 ) and as per MORB, banks are exempted on the ceiling of SBL on deposit /investment placement to government banks. However, excess of SBL on private banks are being considered if the accounts are used for clearing operations.

Interest income due from other banks for the year ended December 31, 2022 and 2021 amounted to Php 98,170 and Php 112,307, respectively.



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**Note 11 Debt Securities Measured at Amortized Cost**

This account consists of placement in treasury bonds as follows :

						CY '2022
Type of Security	Issuer	Rate	Value Date	Maturity		Amount
Treasury bonds	PNB	3.25%	8.15.2013	8.15.2023	P	2,000,000

						CY '2021
Type of Security	Issuer	Rate	Value Date	Maturity		Amount
Treasury bonds	PNB	3.25%	8.15.2013	8.15.2023	P	2,000,000

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

**Note 12. Loans and Receivables**

The loans and receivables are stated at net carrying amount, net of estimated allowance for credit losses. The accounts is broken down as follows :

December 31, 2022						
Loan type		Current	Past due	Non-performing	in litigation	Total
Agrarian Reform	P	5,996,770	40,000	62,582	117,525	6,216,877
Other Agri-credit		7,758,404	82,000	68	1	7,840,473
MSME-small		16,113,035	331,834	805,292	221,484	17,471,645
MSME-medium		13,863,071	1,000,000	-	-	14,863,071
Real estate housing		4,796,884	216,748	-	-	5,013,632
LIPPUP*		14,910,275	721,286.06	480,616.64	35,627	16,147,805
LIOP**		2,131,595	-	-	-	2,131,595
<b>Total Loans @ NCA</b>		<b>65,570,035</b>	<b>2,391,868</b>	<b>1,348,558</b>	<b>374,637</b>	<b>69,685,098</b>
ACL			597,318	1,006,776	187,308	1,791,402
GLLP		658,500				658,500
<b>Total loans - Net</b>	<b>P</b>	<b>64,911,535</b>	<b>1,794,550</b>	<b>341,782</b>	<b>187,329</b>	<b>67,235,196</b>

Past due loans ratio 5.91%

December 31, 2021						
Loan type		Current	Past due	Non-performing	in litigation	Total
Agrarian Reform	P	3,849,230	555,381	77,881	117,525	4,600,018
Other Agri-credit		13,291,411	250,000	68	1	13,541,480
MSME-small		14,096,016	932,129	933,275	171,182	16,132,601
MSME-medium		3,442,968	-	-	-	3,442,968
Real estate housing		6,165,853	-	-	-	6,165,853
LIPPUP*		12,904,674	1,071,941	820,906	37,627	14,835,148
LIOP**		997,728	-	-	-	997,728
<b>Total Loans @ NCA</b>		<b>54,747,879</b>	<b>2,809,451</b>	<b>1,832,130</b>	<b>326,335</b>	<b>59,715,795</b>
ACL		20,597	278,465	1,298,586	163,167	1,760,815
GLLP		559,260				559,260
<b>Total loans - Net</b>		<b>54,168,022</b>	<b>2,530,986</b>	<b>533,544</b>	<b>163,167</b>	<b>57,395,720</b>

Loans to Individuals Primarily for Personal Use\*

Loans to Individuals for Other Purposes\*\*

Past Due Loans Ratio 8.32%



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

The allowance for credit losses ( ACL ), and general loan loss provision ( GLLP ) stated above is in compliance with Sec. 143, Appendix 15 of the Manual of Regulations for Banks ( MORB ). The Bank strictly adheres to the setting up of its valuation reserves based on BSP provisioning requirements.

Based on the loan classification, the booked valuation reserve on classified accounts as at December 31, 2022 and 2021 is provided as follows:

31 December 2022			
Classified Accounts	Amount	Rate	Prrovision
Loans especially mentioned	728,008	2%	14,560
Substandard, secured	1,264,339	10%	126,434
Substandard, unsecured	112,805	25%	28,201
Doubtful	215,441	50%	107,720
Loss	1,514,486	100%	1,514,486
<b>Total</b>	<b>3,835,078</b>		<b>1,791,402</b>

31 December 2021			
Classified Accounts	Amount	Rate	Prrovision
Loans especially mentioned	1,029,850	2%	20,597
Substandard, secured	192,360	10%	19,236
Substandard, unsecured	1,036,956	25%	259,239
Doubtful	137,894	50%	68,947
Loss	1,392,796	100%	1,392,796
<b>Total</b>	<b>3,789,856</b>		<b>1,760,815</b>

The movements of the allowance for probable losses ( specific ) on loans and receivables follows:

December 31, 2022				
Classified Accounts	Balance,beg.	Additions	(Reversals/w/offs)	Balance, end
Agrarian reform loans	161,404	19,503		180,907
Other Agri-credit loans	6,653		1,584	5,069
MSME-Small	1,056,657		61,540	995,117
MSME-Medium	-	100,000		100,000
Loans to ind. primarily for personal use	536,101		25,793	510,309
<b>Total</b>	<b>1,760,815</b>	<b>119,503</b>	<b>88,916</b>	<b>1,791,402</b>

December 31, 2021				
Classified Accounts	Balance,beg.	Additions	Reversals/w/offs	Balance, end
Agrarian reform loans	174,927		(13,523)	161,404
Other Agri-credit loans	3,398	3,254		6,653
MSME-Small	659,815	396,843		1,056,657
MSME-Medium	-			-
Real Estate Housing	16,083		(16,083)	-
Loans to ind. primarily for personal use	580,014		(43,913)	536,101
<b>Total</b>	<b>1,434,237</b>	<b>400,097</b>	<b>(73,519)</b>	<b>1,760,815</b>



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**General loan loss provision is computed as follows :**

<b>Gross loans</b>		<b>69,685,098</b>	<b>59,715,795</b>
Less: <u>Classified accounts</u> :			
Loans Especially mentioned	P	728,008	1,029,850
Substandard - secured		1,264,339	192,360
Substandard - unsecured		112,805	1,036,956
Doubtful		215,441	137,894
Loss		1,514,486	1,392,796
<b>Total classified accounts</b>	<b>P</b>	<b>3,835,078</b>	<b>3,789,856</b>
Add : Restructured loans	P	-	-
<b>Total classified accounts and restructured loans</b>		<b>3,835,078</b>	<b>3,789,856</b>
Loans unclassified	P	65,850,020	55,925,939
Less : loans secured by hold-out on deposits / non-risk		-	-
<b>Loans unclassified net of exclusion</b>		<b>65,850,020</b>	<b>55,925,939</b>
<b>General Loan Loss Provision ( Loans unclassified x 1% ) as required</b>		<b>658,500</b>	<b>559,260</b>
<b>GLLP provision as adjussted</b>		<b>658,500</b>	<b>559,260</b>
<b>Over ( Under ) complied</b>		<b>-</b>	<b>-</b>

General Loan Loss Provision ( GLLP ) represents one percent ( 1% ) of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws/rules and regulations..

**Note 13. Bank premises, furniture, fixtures and equipment**

The carrying amounts of the Bank's premises, furniture, fixtures and equipment are as follows:

December 31, 2022				
Item description	Cost	Additions, net of disposals	Accumulated Depreciation	Net carrying amount
Land	3,500			3,500
Bank Premises- Building	2,066,337		1,340,501	725,836
Furniture and fixtures	234,670	15,190	239,067	10,793
Information technology equipment	962,523	398,438	980,957	380,004
Other office equipment	239,988	12,750	247,554	5,184
Transportation Equipment	1,645,006	78,200	1,648,913	74,293
<b>Total</b>	<b>5,152,023</b>	<b>504,578</b>	<b>4,456,991</b>	<b>1,199,609</b>

**Movements during the year**

Item description	Additions	Disposals	Adjustments	Depreciation
Bank Premises- Building				130,000
Furniture and fixtures	15,190			13,726
Information technology equipment	398,438			187,686
Other office equipment	12,750			28,873
Transportation Equipment	78,200			3,910
<b>Total</b>	<b>504,577</b>	<b>-</b>	<b>-</b>	<b>364,195</b>



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

<b>December 31, 2021</b>				
Item description	Cost	Additions, net of disposals	Accumulated Depreciation	Net carrying amount
Land	3,500			3,500
Bank Premises- Building	2,066,337		1,210,501	855,836
Furniture and fixtures	233,218	1,452	225,341	9,328
Information technology equipment	846,931	115,592	793,271	169,252
Other office equipment	211,040	28,948	218,681	21,307
Transportation Equipment	1,645,006		1,645,003	3
<b>Total</b>	<b>5,006,032</b>	<b>145,991</b>	<b>4,092,798</b>	<b>1,059,225</b>

**Movements during the previous year**

Item description	Additions	Disposals	Depreciation	Total
Bank Premises- Building			130,000	130,000
Furniture and fixtures	7,073	(5,621)	15,968	17,420
Information technology equipment	327,201	(74,110)	82,763	335,854
( Reclassification -IT )		(137,500)	-	(137,500)
Other office equipment	29,000	(53)	34,186	63,133
Transportation Equipment			8,328	8,328
<b>Total</b>	<b>363,274</b>	<b>(211,663)</b>	<b>271,245</b>	<b>417,235</b>

The value of the bank premises, furniture, fixtures and equipment of Php \_\_\_\_\_ and Php 1,059,225 net of accumulated depreciation as of December 31, 2022 and 2021, are \_\_\_% and \_\_\_% of the bank's total net worth, respectively. This is lower than the Fifty Percent ( 50% ) maximum ratio ceiling under BSP regulation ( Sec. 109, of the MORB ).

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

No amount of property and equipment was used as collateral to obtain loans from financial institutions as at December 31, 2022 and 2021.

**Note 14. Deferred tax assets**

This account consists of :

		<b>2022</b>	<b>2021</b>
Balance at beginning of year	P	330,857	231,914
25% of provision for credit losses		83,288	98,943
Income tax benefit applied		(83,288)	-
<b>Total deferred tax assets</b>	<b>P</b>	<b>330,857</b>	<b>330,857</b>

**Note 15. Other Assets**

This account consists of the following :

		<b>2022</b>	<b>2021</b>
Petty Cash Fund	P	10,000	10,000
Accounts Receivable		424,350	605,105
Stationary and supplies unissued		35,673	40,978
Prepayments		41,023	36,414
Other Intangible assets		-	350,000
Miscellaneous assets		237,500	137,500
<b>Total Other assets</b>	<b>P</b>	<b>748,546</b>	<b>1,179,997</b>



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

Accounts receivable represents cash withdrawal thru Point of Sale ( POS ) system collectible from Land Bank of the Philippines. Prepaid expenses refer to portion of insurance paid in advance to be allocated over a one year period from date of payment.

**Note 15. Deposit Liabilities**

The components of deposit liabilities account are as follows :

<b>December 31, 2022</b>				
<i>Classified as to type of deposit</i>	<i>No. of Accts.</i>	<i>Dormant</i>	<i>Active</i>	<i>Total</i>
<i>Savings deposits</i>				
Regular savings deposits	1,318	271,404	53,580,561	53,851,965
Basic deposit accounts		-	-	-
Gold Savings deposit ( GOSA )			33,242,768	33,242,768
<b>Total Deposit liabilities</b>	<b>1,318</b>	<b>271,404</b>	<b>86,823,328</b>	<b>87,094,733</b>

<b>December 31, 2021</b>				
<i>Classified as to type of deposit</i>	<i>No. of Accts.</i>	<i>Dormant</i>	<i>Active</i>	<i>Total</i>
<i>Savings deposits</i>				
Regular savings deposits	1,349	965,473	51,606,956	52,572,429
Basic deposit accounts	-	-	-	-
Gold Savings deposit ( GOSA )			30,595,475	30,595,475
<b>Total Deposit liabilities</b>	<b>1,349</b>	<b>965,473</b>	<b>82,202,431</b>	<b>82,202,431</b>

Savings deposits are composed of regular savings and basic deposit accounts which are withdrawable demand upon presentation of bank passbook. For the year 2022 and 2021, savings deposits carries an interest rate of one half of one percent ( .50 % ).

Gold Savings ( GOSA ) is a special savings deposit offered to clients with a minimum placement of Php 100,000, evidenced by a passbook, with a higher rate of interest than the regular savings deposit. Interest rate ranges from 1.25% to 2.5 % per annum as of 31 December 2022.

The maturity profile of GOSA is presented below:

		<b>2022</b>	<b>2021</b>
01 - 30 days	P	10,439,434	11,319,391
31 - 90 days		8,697,401	6,912,865
91 - 180 days		2,883,750	5,065,509
181 - 1 year		11,222,182	7,297,710
<b>Total</b>	<b>P</b>	<b>33,242,768</b>	<b>30,595,475</b>

Interest expense for the year ended December 31, 2022 and 2021, amounted to Php 844,503 and Php 719,340 respectively, as disclosed in Note 22.2

BSP Circular 1082 dated 31 March 2020, implemented MB Resolution No. 423 dated 23 March 2020, approving the reduction of rates of required reserves against deposit and deposit substitute effective reserve week 31 July 2020 as follows:

Type of deposit / deposit substitutes	New rate	Old rate
Savings deposit ( excluding basic deposit accounts )	2%	3%
Time deposits, negotiable CTD's, Long term non-negotiable tax exempt CTD's	2%	3%



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**Note 16. Due to the Treasurer of the Philippines**

This account consists of deposits escheated in favor of the National Treasury

		2022	2021
<b>Treasurer of the Philippines</b>	<b>P</b>	<b>2,873</b>	<b>2,873</b>

The above account refers to deposits of persons known to be dead or persons who have not made further deposits or withdrawals during the preceeding ten (10) years or more which have been reported to the Treasurer of the Philippines pursuant to the provisions of the Unclaimed Balances Act ( Act No.3936, as amended ).

**Note 17. Accrued Interest, Taxes and Other expenses**

This account consists of :

		2022	2021
Gross Receipts Tax ( GRT ) payable	P	192,990	-
Accrued interest on financial liabilities		-	-
Other accrued expenses		33,951	289,124
<b>Total accrued interest, taxes and other expenses</b>	<b>P</b>	<b>226,941</b>	<b>289,124</b>

Accrued interest payable refers to accrual of interest on time deposits as of year-end maturing in the next financial year, while accrued taxes and licenses pertains to Gross Receipts Tax applicable for the last quarter of the year. Accrued other expenses represents billings on electricity, water and other expenses at year-end.

**Note 18. Other Liabilities**

This account is comprised of the following:

		2022	2021
Accounts payable	P	84,966	28,843
Withholding tax payable		51,394	47,213
SSS, Philhealth & Pag-ibig premiums payable		57,600	52,513
SSS & Pag-ibig loans payable		13,983	6,555
Dividends payable		1,480,521	957,726
Advances from stockholders ( for DSS )		2,540,000	1,511,900
<b>Total Other liabilities</b>	<b>P</b>	<b>4,228,464</b>	<b>2,604,750</b>

**Note 19. Corporate income tax payable**

Income tax recognized in the Statement of Comprehensive Income and Expenses computed as follows:

<b>19.1. Regular Corporate Income Tax ( RCIT )</b>		2022	2021
Profit ( loss ) per books ( before tax )	P	1,824,536	2,169,713
<u>Non-deductible expenses</u>			
Provision for credit losses - specific		333,151	550,381
Interest expense limitation		37,543	41,077
<u>Non-taxable income</u>			
Interest income subjected from 20% final tax		(150,170)	(164,307)
<b>Tax base</b>	<b>P</b>	<b>2,045,060</b>	<b>2,596,864</b>
 Tax rate		25%	25%
<b>Regular Corporate Income Tax ( RCIT )</b>	<b>P</b>	<b>511,265</b>	<b>649,216</b>



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**The current statutory and deferred tax is computed as follows :**

Statutory income tax		456,134	542,428
<b><u>Income tax effect of the following</u></b>			
Provision for credit losses on loans and receivables		83,288	137,595
Interest income subjected to final tax		(37,543)	(41,077)
Interest expense limitation ( tax arbitrage )		9,386	10,269
<b><u>Current tax expense</u></b>		<b>511,265</b>	<b>649,216</b>

**Deferred tax assets**

Movements in the recognized deferred tax assets follows:

Balance at the beginning of year	P	330,858	231,916
Provision of allowance for credit losses/ impairment		-	98,942
<b><u>Balance at the end of year</u></b>		<b>330,858</b>	<b>330,858</b>

**Income tax expense presented in the statement of income**

Corporate income tax due	P	511,265	649,216
RAA # 2 - Deferred tax assets applied		(83,288)	
Quarterly tax payments		(246,615)	(329,795)
<b><u>Income tax payable</u></b>	<b>P</b>	<b>181,362</b>	<b>319,421</b>

**19.2. Minimum Corporate Income Tax ( MCIT )**

Gross income		<b>2022</b>	<b>2021</b>
Interest Income ( except income subjected to final tax )	P	9,468,876	9,376,766
Other Income		2,588,348	2,189,852
<b><u>Total</u></b>	<b>P</b>	<b>12,057,224</b>	<b>11,566,618</b>
<b><u>Deduct : Cost of Services</u></b>			
Compensation	P	6,003,458	5,713,961
Management and other professional fees		299,790	266,000
Interest expense		844,503	650,886
Insurance expense		162,675	151,662
Supervision fees		15,822	13,313
<b><u>Total Cost of Services</u></b>	<b>P</b>	<b>7,326,248</b>	<b>6,795,822</b>
<b><u>Gross Income for MCIT purposes</u></b>	<b>P</b>	<b>4,730,976</b>	<b>4,770,796</b>
Tax rate		1.0%	1.0%
<b><u>Minimum Corporate Income tax ( MCIT )</u></b>	<b>P</b>	<b>47,310</b>	<b>47,708</b>
<b><u>RCIT or MCIT whichever is higher</u></b>	<b>P</b>	<b>511,265</b>	<b>649,216</b>
<b><u>Less: Prior year's excess credits</u></b>		<b>-</b>	<b>-</b>
<b><u>Payments</u></b>			
First quarter		72,574	99,533
Second quarter		97,493	110,282
Third quarter		76,548	119,980
Income tax benefit applied		83,288	-
<b><u>Total</u></b>	<b>P</b>	<b>329,903</b>	<b>329,795</b>
<b><u>RCIT Payable Per Financial Statements</u></b>		<b>181,362</b>	<b>319,421</b>
<b><u>RCIT Payable Per ITR</u></b>		<b>181,362</b>	<b>319,421</b>



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**Note 20. Stockholders' Equity****20.1. Authorized capital stock**

Authorized capital stock, ordinary ( common ) shares , Php 15,000,000 divided into 150,000 shares @ Php 100 par value per share.

**20.2. Paid-up capital**

		2022	2021
Ordinary ( common ), January 1	P	15,000,000	15,000,000
<b>Total Paid -in Capital Stock</b>		<b>15,000,000</b>	<b>15,000,000</b>

Stock issuances	Ordinary shares	150,000	150,000
-----------------	-----------------	---------	---------

Ordinary shares carry one vote per share and given equal rights and preference among shareholders.

**20.3 Retained earnings**

*The reconciliation of retained earnings during the period follows :*

		2022	2021
<u>Retained earnings - free, Balance Jan. 1</u>	P	10,059,872	8,394,794
Dividends declared and paid		(2,500,000)	
Net Income ( Deficit )		1,313,271	1,665,077
RAA # 1, 3		107,715	
Provisions and adjustments		178,896	-
<b>Balance, end</b>	<b>P</b>	<b>9,159,753</b>	<b>10,059,872</b>
<b>Total Stockholders' equity</b>	<b>P</b>	<b>24,159,753</b>	<b>25,059,872</b>

On October 29, 2014, BSP issued Circular No. 854 ( MORB Sec. 121 ), which states that rural banks with head offices outside the National Capital Region ( NCR ) shall have the following minimum capitalization :

Category / Class of City / Municipality	Head office only	Up to 10 branches	11 to 50 branches
All cities and up to third class municipalities	20 million	30 million	40 million
Fourth class up to six class municipalities	10 million	15 million	20 million

The Bank had complied with the minimum capitalization requirement set by the Bangko Sentral ng Pilipinas under the above circular.

**Amendments to the minimum capitalization of Rural Banks**

The Monetary Board in its Resolution No. 308 dated 03 March 2022 approved the Rural Bank Strengthening Program ( RBSP ) to enhance the operations, capacity and competitiveness of Rural banks in view of their vital role in promoting countryside development and economic growth.

On August 24, 2022, BSP Circular No.1151 was issued aimed at increasing the minimum capitalization requirements under the RBSP. Section 121 of the MORB, as further amended by the said Circular, provides for the new capitalization of rural banks, to wit :



## RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

### Notes to Financial Statements

As at December 31, 2022 and 2021

Bank Category	Required minimum capitalization
<b>Rural Banks</b>	
Head office only	50 million
Up to five branches	50 million
6 to 10 branches	120 million
More than 10 branches	200 million

The above shall also be the required minimum capitalization upon (a.) establishment of a new bank, (b.) conversion of an existing bank from a lower to a higher category bank and vice versa, and (c.) relocation of the head office of RB in an area of higher classification. However, the term branch shall exclude branch-lite units of banks.

#### Transitory Provisions of BSP Circular 1151

RBs which comply with the new capital levels shall submit to the Bangko Sentral a certification, signed by the president or officer of equivalent rank, within ten ( 10 ) banking days from the date of effectivity of the circular. RBs with capital levels below the new minimum capital requirements shall refer to the available options under the RBSP.

### **Note 21. Capital Risk Management, Policies and Procedures**

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements 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 due to changes in the bank's business operations of unanticipated events created by consumer behaviour or capital market conditions.

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

#### Regulatory Qualifying Capital

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

The operations of the Bank is also subject to the regulatory requirements of SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

The Bank is subject to the inherent risk that the application of prescribed standards may conflict or differ from the application of regulations as prescribed from other regulatory bodies resulting to disparity of financial reports. Hence, there is a need to reconcile the disparity in a systematic and clear manner. The BOD ensures that management are updated in relation to pronouncements made by concerned



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

However, in cases where there are differences between the BSP regulations and PFRS / PAS as when more than one (1) option are allowed or certain maximum or minimum limits are prescribed by the PFRS / PAS, the option or limit prescribed by BSP regulations shall be adopted by the bank.

<b>Composition of managed capital</b>		<b>2022</b>	<b>2021</b>
Tier 1 Capital	P	23,828,896	24,729,014
Tier 2 Capital		658,500	559,259
<b>Total Qualifying Capital</b>	<b>P</b>	<b>24,487,397</b>	<b>25,288,273</b>
<b>Net Risk Weighted Assets</b>	<b>P</b>	<b>126,736,749</b>	<b>126,520,230</b>
<b>Tier 1 Capital Ratio</b>		<b>18.80%</b>	<b>19.55%</b>
<b>Tier 2 Capital Ratio</b>		<b>0.5%</b>	<b>0.44%</b>
<b>Total Capital Adequacy Ratio</b>		<b>19.32%</b>	<b>19.99%</b>

Detailed computation of the CAR is presented on page 45 and 46

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 688 ( Basel 1.5 ) superseded 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%) of its risk weighted 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 DOSRI;
- deferred tax assets or liability; and
- Accumulated equity in net earnings of investee where the Bank holds 50% or less but where the equity method of accounting has been applied, and
- Appraisal increment on property and equipment other than those allowed to be recognized in connection with a merger or consolidation.
- other regulatory deductions

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



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

The CAR of the Bank is computed based on the Audited Financial Statements as of December 31, 2022 and 2021 as follows :

<b>Tier 1 Capital</b>	<b>2022</b>	<b>2021</b>
Paid up capital stock -Common	P 15,000,000	P 15,000,000
Paid up capital stock -Preferred		
Deposit for stock subscription		
Retained earnings - free	9,159,753	10,059,872
Retained earnings - reserves		
<u>Deductions from tier 1</u>		
Unsecured credit accommodations to DOSRI		
Deferred income tax net of deferred tax liability	(330,857)	(330,857)
<b>Total Tier 1 Capital</b>	<b>23,828,896</b>	<b>24,729,014</b>

**Tier 2 Capital ( Supplementary Capital -Upper Tier 2 )**

Paid up limited life redeemable preferred stock with the replacement requirement upon redemption		
General loan loss provision	658,500	559,260
<u>Deductions from upper tier 2 capital</u>		
Sinking fund for redemption of limited life preferred stock with the replacement requirement upon redemption		
Unsecured Subordinated Debt		
<b>Total Tier 2 Capital ( limited to 100% of tier 1 capital )</b>	<b>658,500</b>	<b>559,260</b>
<b>Total Qualifying Capital</b>	<b>24,487,397</b>	<b>25,288,274</b>

<b>Risk Weighted Assets</b>	<b>Risk weight applied</b>	<b>2022</b>	<b>2021</b>
Checks and other cash items	20%	-	-
Due from Other Banks	100%	40,025,037	44,410,647
Loan portfolio ( Gross of GLLP )	100%	65,570,035	59,715,795
Other assets ( BPFPE & OA ))	100%	2,279,012	2,570,080
Non-performing loans ( net )	150%	3,485,492	4,841,546
<b>Total Risk Weighted on balance sheet assets</b>		<b>111,359,576</b>	<b>111,538,068</b>

Deductions from Risk Weighted Assets

Unsecured Credit Accommodations to DOSRI		
Goodwill / Deferred income tax	(330,857)	(330,857)
Sinking fund for redemption of limited life redeemable preferred stocks	-	-
<b>Total Credit Risk Weighted on balance sheet assets</b>	<b>111,028,719</b>	<b>111,207,211</b>

<b>Total Operational Risk Weighted Assets ( Adjusted Capital charged x 10 )</b>	<b>15,708,030</b>	<b>15,313,019</b>
---	-------------------	-------------------

Refer to computation on next page

<b>NET RISK WEIGHTED ASSETS</b>	<b>126,736,749</b>	<b>126,520,230</b>
<b>CAPITAL TO RISK ASSETS RATIO</b>	<b>19.32%</b>	<b>19.99%</b>



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

Operational Risk Weighted assets December 31, 2022	a. 2021	b. 2020	c. 2019	d. Average (a+b+c / 3 )	e. Capital Charge ( d * 0.12 )	f. Adj.Cap.Charge ( e *125% )
Interest Income	9,541,073	8,334,267	9,515,307			
Interest Expense	719,340	628,275	774,598			
Net Interest Income	8,821,733	7,705,992	8,740,709			
Fees and Commissions	399,060	265,446	-			
Other Income	1,790,792	1,569,462	2,122,861			
Total non-interest income	2,189,852	1,834,908	2,122,861			
<b>Gross Income</b>	<b>11,011,585</b>	<b>9,540,900</b>	<b>10,863,570</b>	<b>10,472,018</b>	<b>1,256,642</b>	<b>1,570,803</b>

Operational Risk Weighted assets December 31, 2021	a. 2020	b. 2019	c. 2018	d. Average (a+b+c / 3 )	e. Capital Charge ( d * 0.12 )	f. Adj.Cap.Charge ( e *125% )
Interest Income	8,334,267	9,515,307	8,703,903			
Interest Expense	628,275	774,598	782,830			
Net Interest Income	7,705,992	8,740,709	7,921,073			
Fees and Commissions	265,446	-				
Other Income	1,569,462	2,122,861	2,460,495			
Total non-interest income	1,834,908	2,122,861	2,460,495			
<b>Gross Income</b>	<b>9,540,900</b>	<b>10,863,570</b>	<b>10,381,568</b>	<b>10,262,013</b>	<b>1,231,442</b>	<b>1,539,302</b>

Capital Adequacy Ratio ( CAR )	2022	2021
CAR as computed based on AFS	19.32%	19.99%

Per BSP regulation, the minimum risk-based Capital Adequacy Ratio ( CAR ) should at least ten (10%) percent of its risk weighted assets

Net loans to total assets constitute 58.1 % and 77.1% of deposit liabilities as at December 31, 2022. Cash on hand and in vault comprise of only 1.86% of the bank's total resources and has liquid deposits with BSP and other banks at 36.43%. On the liability side, savings and time deposits mobilized from clients constitute 94.94% of total liabilities. Minimum Liquidity Ratio ( MLR ) at year-end stands at 69%. The bank did not resort in borrowings.

The Bank maintains its risk weighted CAR at **19.32%** for the current year, vis-à-vis **19.99%** of previous year.



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**Note 22. Significant Categories of operating Income and Expenses****22.1. Interest income***Analysis of the Bank's interest income follows :*

	2022	2021
Agrarian reform loans	P 594,438	614,433
Other Agricultural credit loans	1,562,723	1,243,374
Micro, Small and Medium Enterprises - small	1,488,540	1,420,092
Micro, Small and Medium Enterprises - Medium	996,471	400,614
Loans to individuals for housing purposes	564,995	924,209
Loans to individuals primarily for personal use purposes	2,322,044	2,241,735
Loans to individuals for other purposes	202,763	79,655
Past due loans and items in litigation	1,736,901	2,452,654
Due from other banks	98,170	117,307
Debt Securities @ amortized cost	52,000	52,000
<b>Total Interest income</b>	<b>P 9,619,046</b>	<b>9,546,073</b>

**22.2. Interest expense***The Bank's interest expense consists of :*

	2022	2021
Savings deposits	P 259,046	245,222
Gold Savings Account	585,457	474,119
<b>Total Interest expense</b>	<b>P 844,503</b>	<b>719,340</b>

**22.3. Provisions for probable credit losses***Details of provisions and accounts written-off are as follows:*

	2022	2021
Provision for probable loan losses -specific	P 233,910	493,443
Provision for probable loan losses -GLLP	99,241	56,938
<b>Total Provisions</b>	<b>P 333,151</b>	<b>550,381</b>

The allowance for probable credit losses, which includes the 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 guarantors, subsequent collections, and evaluations made by BSP.

At each reporting date, the Bank reviews the carrying amounts of tangible and intangible assets to determine whether there is any indication that those assets have suffered an *impairment loss*. If any such indication exist, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest cash-generating units for which a reasonable and consistent allocation can be identified.

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

**22.4. Other income***Components of other income are presented as follows :*

	2022	2021
Fees & commissions	P 2,466,339	399,060
Service charges & other fees	-	1,710,412
Recoveries from charged off Assets	8,250	22,849
Other income	113,759	57,532
<b>Total Other income</b>	<b>P 2,588,348</b>	<b>2,189,852</b>



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**22.5. Compensation and other employee benefits***Aggregate compensation and employee benefits comprised :*

		2022	2021
Salaries and wages	P	3,091,610	2,858,118
13th month pay, incentives, and other fringe benefits		1,751,021	1,851,513
Directors and Committee members' fees		312,000	405,000
SSS, EC and Philhealth premium contributions		412,246	367,449
Contribution to Retirement Fund		436,580	231,880
<b>Total Compensation and other employee benefits</b>	<b>P</b>	<b>6,003,458</b>	<b>5,713,961</b>

**25.5.1. Short-term and other long term employee benefits**

A liability is recognized for benefits accruing to employees in respect of wages and salaries, 13th month pay, productivity incentives and annual vacation and sick leave credits in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

The Bank has a funded non-contributory defined benefit plan covering substantially all of its employees under which the bank pays retirement contributions of its employees. The Bank's annual contribution to the plan consists of payment covering the current year's service cost and amortization of past service cost should there be any. The fund is registered as Rural Bank of Sanchez Mira (Cagayan), Inc., Employees Retirement Plan.

*Movement in the retirement fund of the bank follows :*

		2022	2021
Fund balance as of Jan. 1	P	3,467,481	3,235,601
Retirement fund contributions		436,480	231,880
Withdrawals / benefits paid			-
Interest earned		122,690	-
<b>Fund balance as of December 31</b>	<b>P</b>	<b>4,026,651</b>	<b>3,467,481</b>

The retirement benefits required to be paid under the plan is determined based on the years of service and the present salary of the employee at the time of retirement.

The employees of the Bank are also members of a state-managed retirement benefit plan operated by the government (SSS and Pag-ibig Fund). The Bank is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the entity is to make the specified contributions.

**25.5.2. Remuneration of key management personnel**

The remuneration of the directors and other members of key management personnel of the Bank is set out below in aggregate for each of the following categories specified in PAS 24, *Related party disclosures*, included as compensation in the statements of comprehensive income.

		2022	2021
President	P	662,000	660,500
Corporate secretary		55,500	54,000
Cashier / Corporate treasurer		428,470	420,465
Compliance Officer		422,575	419,737
Internal Auditor		314,813	291,753
Manager		846,500	839,800
<b>Total</b>	<b>P</b>	<b>1,883,358</b>	<b>1,846,454</b>



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

<b>22.6. Depreciation and amortization expenses</b>		<b>2022</b>	<b>2021</b>
Depreciation expense - Bank premises	P	129,999.96	130,000
Depreciation expense - Furniture, fixtures and equipment		13,725.84	15,968
Depreciation expense - Information technology equipment		187,685.76	82,763
Depreciation expense - Other office equipment		28,872.96	34,186
Depreciation expense - Transportation equipment		3,909.99	8,328
<b>Total Depreciation and amortization expenses</b>	<b>P</b>	<b>364,195</b>	<b>271,245</b>

Depreciation is computed on the straight line method based on the estimated useful lives of the assets, while leasehold improvements are depreciated over the shorter between the improvements' useful life of three ( 3 ) to five ( 5 ) years or the lease term.( the bank has no lease transaction in 2022 and 2021 ).

**22.7. Taxes, licenses, permits and fees**

*Details of taxes, licenses, permits and fees in 2022 and 2021 are shown below:*

<b>Nature / Type of tax</b>		<b>2022</b>	<b>2021</b>
Annual Registration Fee - ( BIR form 0605 )	P	500	500.00
Gross Receipts Tax ( BIR form 2551 Q )		663,364	630,343
Real Property Tax		4,549	4,549
Municipal business taxes, licenses and fees		68,920	54,530
Vehicle registration / others		4,929	5,290
<b>Total taxes, licenses, permits and fees</b>	<b>P</b>	<b>742,262</b>	<b>695,213</b>

**22.8. Other administrative expenses**

<b>The account comprised of other operating expenses</b>		<b>2022</b>	<b>2021</b>
Power, light and water		156,564	114,281
Postage, telephone, cables and telegrams		50,732	58,648
Repairs and maintenance		103,825	95,235
Information technology expenses		163,988	69,232
Security, messengerial, janitorial and other services		65,377	158,240
Supervision fees		15,822	13,313
Insurance		244,988	236,003
Management and other professional fees		299,790	266,000
Representation and entertainment		31,243	6,097
Travelling Expenses		28,734	7,124
Fuel, oil and lubricants		97,499	87,793
Advertising and Publicity		44,039	60,800
Membership fees and dues		11,040	-
Donations and charitable contributions		44,500	49,000
Stationery and supplies		71,357	49,482
Fines penalties and other charges		300,795	43,471
Miscellaneous/Other Expenses		364,996	296,353
<b>Total Other expenses</b>	<b>P</b>	<b>2,095,290</b>	<b>1,611,072</b>



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**Note 23. Earnings per share**

The Bank's basic earnings per share is presented below :

		2022	2021
<b>PROFIT ( LOSS ) FOR THE PERIOD</b>	<b>P</b>	<b>1,313,271</b>	<b>1,665,077</b>
Net income to ordinary shares		1,313,271	1,665,077
Weighted average number of shares ( Ordinary shares )		150,000	150,000
<b>Earnings ( Loss ) per share</b>	<b>P</b>	<b>8.76</b>	<b>11.10</b>

**Note 24. Reclassifications of Comparative Amounts**

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 reclassification resulted to a better presentation of accounts and do not have any impact on prior year's profit.

**Note 25. Approval of Financial Statements**

The Board of Directors of the bank has reviewed and approved for release of the accompanying financial statements for the year ended December 31, 2022 ( including comparative figures for December 31, 2021 ) on 25 March 2023.

**Note 26. Supplementary Information Under BSP Circular No. 1074**

Presented below are the additional information required by BSP Circular 1074 issued on 07 February 2020. This information is presented for BSP reporting and is not required in the financial statements.

**26.1. Basic Quantitative Indicators of Financial Performance****I. At year-end**

	CY 2022	CY 2021
<i>Current Asset</i>	111,949,952	102,680,692
<i>Current Liabilities</i>	89,275,827	83,903,826
<b>Current Ratio</b>	<b>125%</b>	<b>122%</b>
<i>Past due loans &amp; Items in Litigation</i>	4,115,063	4,967,916
<i>Total Loan Portfolio</i>	69,685,098	59,715,795
<b>Past Due Ratio</b>	<b>5.91%</b>	<b>8.32%</b>
<i>Total Liabilities</i>	91,734,372	85,418,599
<i>Total Equity</i>	24,159,753	25,059,872
<b>Debt-to-Equity Ratio</b>	<b>379.70%</b>	<b>340.86%</b>

**II. For the year**

	CY 2022	CY 2021
<i>Gross Income</i>	12,207,394	11,730,925
<i>Total Expenses</i>	10,382,858	9,561,212
<i>Net Income ( before income tax )</i>	1,824,536	2,169,713
<b>Net profit before margin rate ( before tax )</b>	<b>14.9%</b>	<b>18.50%</b>
<b>Expenses before margin rate</b>	<b>85.05%</b>	<b>81.50%</b>



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

	<b>CY 2022</b>	<b>CY 2021</b>
<i>Net Income ( after tax )</i>	1,313,271	1,665,077
<i>Average Assets</i>	113,227,942	107,146,191
<i>Average share capital</i>	15,000,000	15,000,000
<i>Average Equity</i>	24,610,729	24,227,333
<b>Return on average assets</b>	<b>1.16%</b>	<b>1.55%</b>
<b>Return on average share capital</b>	<b>8.76%</b>	<b>11.10%</b>
<b>Return on average equity</b>	<b>5.34%</b>	<b>6.87%</b>
<i>Net interest income</i>	8,774,543	8,821,733
<i>Average interest earning assets</i>	104,376,798	100,629,018
<b>Net interest margin</b>	<b>8.41%</b>	<b>8.77%</b>
<i>Net income ( loss )</i>	1,313,271	1,665,077
<i>Weighted average number of shares</i>	150,000	150,000
<b>Earnings per share - Ordinary</b>	<b>8.76</b>	<b>11.10</b>
<i>Total Equity available to shareholders</i>	24,159,753	25,059,872
<i>Number of shares outstanding</i>	150,000	150,000
<b>Book value per share</b>	<b>161.07</b>	<b>167.07</b>

**26.2. Description of capital instrument issued**

The Bank considers its ordinary shares ( common shares ) as capital instrument for purposes of calculating its Capital Adequacy Ratio ( CAR ) as at December 31, 2022 and 2021.

**26.3.i. Breakdown of total loans as to security***Details of the loan portfolio as to collateral security*

December 31, 2020	Dec. 31, 2022		Dec. 31, 2021	
Type of security	%	Total	%	Total
Real Estate Mortgage -Residential	47%	32,861,467	42%	25,014,407
Real Estate Mortgage -Commercial	0%	-	0%	134,380
Real Estate Mortgage -Agricultural	26%	18,086,222	30%	17,892,188
Chattel / jewelries / others	0%		0%	1
Unsecured	27%	18,737,407	28%	16,674,819
<b>Total</b>	<b>100%</b>	<b>69,685,096</b>	<b>100%</b>	<b>59,715,795</b>

**26.3.ii. Breakdown of total loans as to status***Details of the loan portfolio as to status per product line*

		Dec. 31, 2022		Dec. 31, 2021	
Loan type		Performing	Non-performing	Performing	Non-performing
Agtarian Reform Loan	P	5,996,770	220,107	3,849,230	750,788
Other Agri-credit loan		7,758,404	82,069	13,291,411	250,069
MSME-small		16,113,035	1,358,610	14,096,016	2,036,585
MSME-medium		13,863,071	1,000,000	3,442,968	-
Real estate housing		4,796,884	216,748	6,165,853	-
Loans to ind. primarily for personal use		14,910,275	1,237,529	12,904,674	1,930,474
Loans to ind. for other purposes		2,131,595		997,728	
<b>Total</b>	<b>P</b>	<b>65,570,034</b>	<b>4,115,063</b>	<b>54,747,879</b>	<b>4,967,916</b>



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**26.4. Significant credit exposures**

Details of the loan portfolio as to economic activity/industry sector as at December 31, 2022 and 2021

December 31, 2022					
<i>Economic Activity / Industry Sector</i>	<i>%</i>	<i>Current</i>	<i>Past Due</i>	<i>NPL &amp; IL</i>	<i>Total</i>
Agriculture, fishing and forestry	20%	13,755,174	122,000	180,175	14,057,349
Wholesale and retail trade	####	29,976,106	1,331,834	1,026,776	32,334,716
Real estate renting & bus. Act.	7%	4,796,884	216,748		5,013,632
Other service activities	3%	2,131,595			2,131,595
LIPPU*	23%	14,910,275	721,286	516,244	16,147,805
<b>TOTAL</b>	<b>100%</b>	<b>65,570,034</b>	<b>2,391,868</b>	<b>1,723,195</b>	<b>69,685,098</b>

December 31, 2021					
<i>Economic Activity / Industry Sector</i>	<i>%</i>	<i>Current</i>	<i>Past Due</i>	<i>NPL &amp; IL</i>	<i>Total</i>
Agriculture, fishing and forestry	30%	17,140,641	805,381	195,476	18,141,498
Wholesale and retail trade	33%	17,538,983	932,129	1,104,457	19,575,569
Real estate renting & bus. Act.	10%	6,166,853			6,166,853
Other service activities	1.7%	997,728			997,728
LIPPU*	25%	12,903,674	1,071,941	858,532	14,834,148
<b>TOTAL</b>	<b>100%</b>	<b>54,747,879</b>	<b>2,809,451</b>	<b>2,158,465</b>	<b>59,715,795</b>

Amount of loans to individuals primarily for personal use\* (LIPPU) is only extended to total amount since there's no corresponding industry classification provided under BSP Memorandum No. M-2014-009

The BSP considers that loan concentration exist when total loan portfolio exposure to a particular economic sector exceeds thirty percent ( 30% ) of the total loan portfolio or ten percent ( 10% ) of tier 1 capital, except for real estate loan.

**26.5. Information on DOSRI / related party loans**

Details of DOSRI / related party loans are broken down as follows

December 31, 2022				
<i>Particulars</i>	<i>DOSRI loans</i>	<i>%</i>	<i>Related Party loans inclusive of DOSRI</i>	<i>%</i>
Total outstanding DOSRI / Related party to total loan portfolio	526,735	0.76%	526,375	0.76%
Percent of unsecured DOSRI / Related party to total DOSRI / RP loans	-		-	
% of past due DOSRI / Related Party to total DOSRI / Related Party loans	-		-	
% of non-performing DOSRI / Related party to DOSRI / related party loans	-		-	
<b>Total Loan Portfolio</b>	<b>526,735</b>		<b>526,375</b>	

December 31, 2021				
<i>Particulars</i>	<i>DOSRI loans</i>	<i>%</i>	<i>Related Party loans inclusive of DOSRI</i>	<i>%</i>
Total outstanding DOSRI / Related party to total loan portfolio	663,716	1.27%	663,716	1.27%
Percent of unsecured DOSRI / Related party to total DOSRI / RP loans	104,697	15.77%	104,697	15.77%
% of past due DOSRI / Related Party to total DOSRI / Related Party loans	-	-	-	-
% of non-performing DOSRI / Related party to DOSRI / related party loans	-	-	-	-
<b>Total Loan Portfolio</b>	<b>768,413</b>		<b>768,413</b>	

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



# RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

## Notes to Financial Statements

As at December 31, 2022 and 2021

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 on substantially 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.

*Below are the selected ratios relative to the Bank's Dosri loan accounts:*

<b>A. Aggregate ceiling</b>	<b>2022</b>	<b>2021</b>
i. Total loan portfolio	69,685,098	59,715,795
ii. 15% of total loan portfolio	10,452,765	8,957,369
iii. Adjusted capital per audited FS	24,159,753	25,059,872
<b>iv. Item A.ii or A.iii whichever is lower</b>	<b>10,452,765</b>	<b>8,957,369</b>

<b>B. Ceiling on unsecured loans</b>		
i. Secured DOSRI loans	526,735	663,716
ii. Unsecured DOSRI loans	-	104,697
iii. Total	526,735	768,413
iv. 30% of item A.iv	3,135,829	2,687,211
v. 30% of B.iii	158,021	230,524
<b>vi. Item B.iv or B.v, whichever is lower</b>	<b>158,021</b>	<b>230,524</b>

<b>C. Compliance with aggregate ceiling</b>		
i. Item A.iv. - B.iii	9,926,030	8,188,956

<b>D. Compliance with ceiling on outstanding unsecured loans</b>		
i. Item B.vi - item B.ii	3,135,829	2,582,514

### **26.6. Secured liabilities and assets pledged as security**

As of December 31, 2022 and 2021, the Bank has no amount of assets pledge as security to obtain loans from financial institutions.

### **26.7. Contingencies and Commitments arising from off-balance sheet items**

- a. The Bank is a plaintiff to various cases arising from collection suits pending in courts for claims against delinquent borrowers of the bank. The final decision of which cannot be determined at present. Loans under litigation amounted to Php 374,637 and Php 326,335 as at 31 December 2022 and 2021, respectively;
- b. The Bank has no pending legal cases arising from its normal operation that will put the entity as defendant in violation of transactions against its clients/depositors; and
- c. The Bank had no outstanding issuances of bank guarantee and other similar credit instruments that will place the bank into obligation in case of non-compliance of the counterparty.



**Notes to Financial Statements**

As at December 31, 2022 and 2021

**Note 27. Supplemental Information Under Revenue Regulations 15-2010 and 19-2011**

Revenue Regulations ( RR ) No. 21-2002 prescribing additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR-15-2010. The amendment that became effective on 28 December 2010 requires the inclusion in the notes to financial statements, information on taxes, duties and licenses, fees paid or accrued during the year in addition to what is required under the Philippine Reporting Standards and such other standards and /or conventions.

Below are the additional information required by RR 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

**27.01. Withholding taxes**

Taxes withheld and remitted in 2022 and 2021 consists of the following:

<i>Nature / Type of tax</i>		<b>2022</b>	<b>2021</b>
Compensation ( BIR form 1601 -C )	P	154,290	146,509
Documentary stamp tax ( BIR form 2000 )		515,613	-
Final tax on bank deposit ( BIR form 1602 / 0619F )		168,901	143,868
Withholding tax expanded ( BIR Form 1601E / 0619 E )		32,892	35,259
<b>Total</b>	<b>P</b>	<b>717,406</b>	<b>325,636</b>

**27.02. Annual / Quarterly Corporate Income Tax**

Remittance of Annual /Quarterly Income tax /application of deferred tax assets /creditable tax withheld.

	<b>2022</b>	<b>2021</b>
Annual ( preceeding year )	319,421	305,299
First quarter	72,574	99,533
Second quarter	97,493	110,282
Third quarter	76,548	119,980
Deferred tax assets applied	83,288	-
<b>Total</b>	<b>649,324</b>	<b>635,094</b>

**27.03. Deficiency Tax Assessments and tax cases**

No assesment of tax cases pending in court or tax assessment/open cases with the BIR.

**Note 28. Other matters****A. Anti - Money Laundering Act**

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.

**B. Training on Corporate Governance**

As at December 31, 2022, all of the Bank's directors had undergone the requirements for Corporate Governance training as confirmed by the Monetary Board, required under Section 131, MORB- Corporate Governance.

**C. Impact of Corona Virus Disease ( COVID 19 ) on the Financial Statements**

Though health protocols on COVID 19 had been relaxed during the current year, the Bank will continue to monitor the situation.



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**

Lagasca cor. Marzan Sts., Centro I, Sanchez Mira, 3518 Cagayan

**Notes to Financial Statements**

As at December 31, 2022 and 2021

**Note 29. List of Effective Standards and Interpretations**

In compliance with the requirements of Part I, Section 4 ( J ) of SRC Rule 68, as amended, below is the list of all the effective standards and interpretations under the PFRS that are either " adopted , not adopted or not applicable " in the Bank as of 31 December 2022 and 2021

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not adopted</b>	<b>Not applicable</b>
Framework for the Preparation and Presentation of Financial Statements				
Conceptual Framework Phase A: Objectives and qualitative characteristics		X		
<b>PFRS Practice Statement Management Commentary</b>				X
<b>Philippine Financial Reporting Standards ( PFRS )</b>				
<b>PFRS 1</b>	First time Adoption of Philippine Financial Reporting Standards	X		
<b>(Revised)</b>	Amendments to PFRS 1 and Pas 27: Cost of an investment in a subsidiary, Jointly Controlled Entity or Associate			X
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	X		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosure for First - time Adopters	X		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed date for First -time Adopters			X
	Amendments to PFRS 1: Government Loans			X
	Annual Improvements 2009 - 2011: Cycle Repeat Application			
	Borrowing Costs	X		
	Annual Improvements to PFRS's, 2011-2013: Cycle Meaning of Effective PFRS's			X
	Annual Improvements to PFRS Standards 2014-2016 Cycle			
	Deletion of Short-term exemptions for first time adopters			X
<b>PFRS 2</b>	Share-based Payment			X
	Amendment to PFRS 2 : Vesting Conditions and Cancellations			X
	Amendments to PFRS 2 : Group Cash - settled Share-based Payment Transactions			X
<b>PFRS 3</b>				
<b>(Revised)</b>	Business Combinations			X
<b>PFRS 4</b>	Insurance Contracts			X
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			X
<b>PFRS 5</b>	Non - Current Assets Held for Sale and Discontinued Operations			X
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			X
<b>PFRS 7</b>	Financial Instruments : Disclosures	X		
	Amendments to PAS 39 and PFRS 7 : Reclassification of Financial Assets	X		
	Amendments to PAS 39 and PFRS 7 : Reclassification of Financial Assets - Effective Date and Transition	X		
	Amendments to PFRS 7 : Improving Disclosures about Financial Instruments		X	
	Amendments to PFRS 7 : Disclosures - Transfers of Financial Assets			X
	Amendments to PFRS 7 : Disclosures - Offsetting Financial Assets and Financial Liabilities		X	
	Amendments to PFRS 7 : Mandatory Effective Date of PFRS 9 and Transition Disclosures	X		
<b>PFRS 8</b>	Operating Segments			X
<b>PFRS 9</b>	Financial Instruments	X		
	Amendments to PFRS 9 : Mandatory Effective Date of PFRS 9 and Transition Disclosures	X		
<b>PFRS 10</b>	Consolidated Financial Statements	X		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not adopted	Not applicable
PFRS 11	Joint Arrangements			X
PFRS 12	Disclosure of Interest in Other Entities			X
PFRS 13	Fair Value Measurement	X		
PFRS 14	Regulatory Deferral Accounts		X	
PFRS 15	Revenue Contracts with Customers		X	
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	X		
	Amendments to PAS 1: Capital Disclosures	X		
	Amendment to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			X
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	X		
PAS 2	Inventories			X
PAS 7	Statements of Cash Flows	X		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	X		
PAS 10	Events After the Reporting Date	X		
PAS 11	Construction Contracts			X
PAS 12	Income Taxes	X		
	Amendment to PAS 12 - Deferred Tax Recovery of Underlying Assets	X		
PAS 16	Property, Plant & Equipment	X		
PAS 17	Leases	X		
PAS 18	Revenue	X		
PAS 19	Employee Benefits	X		
	Amendments to PAS 19 : Actuarial Gains and Losses, Group Plans and Disclosures	X		
PAS 19 (Amended)	Employee Benefits	X		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			X
PAS 21	The Effect of Changes in Foreign Exchange Rates Amendment ( Net Investment in a foreign Operation )			X
PAS 23 ( Revised )	Borrowing Costs	X		
PAS 24 ( Revised )	Related Party Disclosures	X		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	X		
PAS 27	Consolidated and Separate Financial Statements			X
(Amended)	Separate Financial Statements			X
PAS 28	Investments in Associates			X
(Amended)	Investments in Associates and Joint Ventures			X
PAS 29	Financial Reporting in Hyperinflationary Economies			X
PAS 31	Interest in Joint Ventures			X
PAS 32	Financial Instruments : Disclosure and Presentation	X		
	Amendments to PAS 32 & PAS 1 : Puttable Financial Instruments and Obligations Arising on Liquidation			X
	Amendments to PAS 32 : Classification of Rights Issues			X
	Amendments to PAS 32 : Offsetting Financial Assets and Financial Liabilities			X
PAS 33	Earnings Per Share	X		
PAS 34	Interim Financial Reporting	X		
PAS 36	Impairment of Assets	X		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	X		
PAS 38	Intangible Assets	X		
PAS 39	Financial Instruments : Recognition and Measurement	X		
	Amendments to PAS 39 : Transition and Recognition of Financial Assets and Financial Liabilities	X		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not adopted	Not applicable
PAS 39	Amendments to PAS 39 : The Fair Value Option			X
	Amendments to PAS 39 and PFRS 4 : Financial Guarantee Contracts			X
	Amendments to PAS 39 and PFRS 7 : Reclassification of Financial Assets			X
	Amendments to PAS 39 and PFRS 7 : Reclassification of Financial Assets- Effective Date of Transition			X
	Amendments to Philippine Interpretation IFRIC -9 and PAS 39 : Embedded Derivatives			X
	Amendments to PAS 39 : Eligible Hedged Items			X
PAS 40	Investment Property	X		
PAS 41	Agriculture			X
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			X
IFRIC 2	Member's Share in Co-operative Entities and Similar Instruments			X
IFRIC 4	Determining Whether an Arrangement Contains a Lease	X		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			X
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			X
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			X
IFRIC 8	Scope of PFRS 2			X
IFRIC 9	Reassessment of Embedded Derivatives			X
IFRIC 10	Interim Financial Reporting and Impairment	X		
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			X
IFRIC 12	Service Commission Arrangements			X
IFRIC 13	Customer Loyalty Programs			X
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			X
	Amendments to Philippine Interpretations IFRIC 14 - Prepayments of a Minimum Funding Requirement			X
IFRIC 16	Hedges of a Net Investments in a foreign Operation			X
IFRIC 17	Distributions of Non - cash Assets to Owners			X
IFRIC 18	Transfers of Assets from Customers			X
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			X
IFRIC 20	Shipping Cost in the Production Phase of a Surface Mine			X
SIC 7	Introduction of the Euro			X
SIC 10	Government Assistance - No Specific Relation to Operating Activities			X
SIC 12	Consolidation Special Purpose Entities			X
	Amendment to SIC 12 : Scope of SIC 12			X
SIC 13	Jointly Controlled Entities - Non - Monetary Contributions by Ventures			X
SIC 16	Operating Leases - Incentives	X		
SIC 24	Income Taxes - Recovery of Revalued Non- Depreciable Assets			X
SIC 26	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			X
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			X
SIC 29	Service Concession Arrangements : Disclosures			X
SIC 31	Revenue - Barter Transactions Involving Advertising Services			X
SIC 32	Intangible Assets - Web Site Costs			X

\*\*\*END OF REPORT\*\*\*



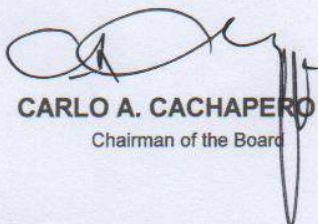
**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**  
**Lagasca St., Centro I**  
**Sanchez Mira 3518 Cagayan**

**STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS  
FOR ANNUAL INCOME TAX RETURN**

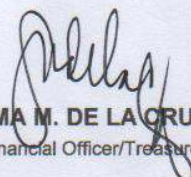
The management of the **Rural Bank of Sanchez Mira ( Cagayan ), Inc.**, is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2022. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the management is responsible for all information and representations contained in all the other tax returns filed for the same reporting period, including but not limited to the Gross Receipts Tax ( Percentage tax ), withholding tax, documentary stamp tax, creditable withholding tax, final tax on deposits, capital gains tax, and any, and all other tax returns.

In this regard, the management affirms that the attached audited financial statements for the year ended December 31, 2022, and the accompanying Annual Income Tax Return are in accordance with the books and records of the **Rural Bank of Sanchez Mira, ( Cagayan ), Inc.**, complete and correct in all material respects. Management likewise affirms that :

- i. The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- ii. Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the bank's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- iii. The **Rural Bank of Sanchez Mira (Cagayan) Inc.**, has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period and all taxes and other impositions shown thereon to be due and payable have paid for the reporting period, except those contested in good faith.

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

  
**ALEJANDRO M. PULIDO, JR.**  
President

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

11 April 2023  
Sanchez Mira, Cagayan  
Philippines



**RURAL BANK OF SANCHEZ MIRA ( CAGAYAN ), INC.**  
**Lagasca St., Centro I**  
**Sanchez Mira 3518 Cagayan**

**STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS**


The management of the **Rural Bank of Sanchez Mira ( Cagayan ), Inc.**, is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

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

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

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

**Jackie Lou O. Dungca, CPA** and **Edgardo M. Molina**, the independent auditors, appointed by the stockholders for the years ended December 31, 2022 and 2021 respectively, have audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.



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



**ALEJANDRO PULIDO, JR.**  
President



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

11 April 2023  
Sanchez Mira, Cagayan  
Philippines





## **JACKIE LOU ROXAS OCBENIA ACCOUNTING OFFICE**

**CERTIFIED PUBLIC ACCOUNTANT**

#212 Prk. 3 Brgy. Suclayin, Arayat, Pampanga  
Cp. #0919-272-3574/ jackielou\_ocbenia@yahoo.com

### **Report on the Audit of the Financial Statements**

**The Board of Directors and Stockholders**

**Rural Bank of Sanchez Mira (Cagayan), Inc.**

Lagasca Cor. Marzan Sts. Centro I, Sanchez Mira 3518 Cagayan

#### **Opinion**

I have audited the accompanying Financial Statements of the **Rural Bank of Sanchez Mira (Cagayan), Inc.**, comprise of the Statements of Financial Position as of December 31, 2022 and the Statements of Income, Statements of Changes in Equity and Statements of Cash Flows for the year then ended, including a summary of significant accounting policies and explanatory notes.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the **Rural Bank of Sanchez Mira (Cagayan), Inc.** as of December 31, 2022, and its financial performance and their cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

#### **Basis for opinion**

I conducted my audit in accordance with the Philippine Standards on Auditing (PSA's). My responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the financial statements' section of the report. I am independent from the entity in accordance with the Code of Ethics for Professional Accountants in the Philippines together with the ethical requirements that are relevant to my audit of the financial statements in the Philippines, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Code of Ethics.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Responsibilities of management and those charged with governance for the financial statements**

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



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

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

### **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain a reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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



continue as a going concern.

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

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

**Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010, RR No. 19-2011 and Bangko Sentral ng Pilipinas (BSP) under Circular 1074**

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and Note 25 to the financial statements is presented for purposes of filing with the Bangko Sentral ng Pilipinas and is not required part of the basic financial statements. Such information is the responsibility of management of the **Rural Bank of Sanchez Mira (Cagayan), Inc.** The information has been subjected to the auditing procedures applied in my audit of the basic financial statements. In my opinion, the information is fairly stated in all material respect in relation to the basic financial statements taken as a whole.

**Other information**

The financial statements of prior year were audited by another external auditor who expressed an unqualified opinion. Balances of the audited financial statements of the preceding year were carried forward in order to present a comparative report for the current year.

  
**JACKIE LOUR OCBEÑA- DUNGCA CPA**

CRA Cert. No.0146814

TIN NO.236-447-466-000

PTR No.:4088200. January 09, 2023

City of San Fernando, Pampanga

BIR Acc. No.04-005756-001-2022; Expiring on January 2025

BOA Acc. No.5299 Expiring on June 30, 2024

BSP Acc. No.:146814; CY 2021-2025

**March 25, 2023**

*Member: Philippine Institute of Certified Public Accountants*





## **JACKIE LOU ROXAS OCBENIA ACCOUNTING OFFICE**

**CERTIFIED PUBLIC ACCOUNTANT**

#212 Prk. 3 Brgy. Suclayin, Arayat, Pampanga

Cp. #0919-272-3574/ jackielou\_ocbenia@yahoo.com

### **INDEPENDENT AUDITOR'S REPORT FOR SUPPLEMENTARY INFORMATION**

**To the Stockholders and Board of Directors**  
**Rural Bank of Sanchez Mira (Cagayan), Inc.**  
Lagasca Cor. Marzan Sts. Centro I, Sanchez Mira 3518 Cagayan

I have audited in accordance with Philippine Standards on Auditing, the financial statements of **Rural Bank of Sanchez Mira (Cagayan), Inc.**, as at and for the taxable year ended **December 31, 2022** on which I issued my report thereon **dated 25 March 2023**. My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on financial soundness indicators including their definitions, formulas, and calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Bank's management.

These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other banks. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code, Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Bank's financial statements as at December 31, 2022 and no material exceptions were noted.

  
**JACKIE LOU R. OCBENIA - DUNGCA CPA**

CPA Cert. No. 014681

TIN NO. 236-447-466-000

PTR No.: 4088200. January 09, 2023

City of San Fernando, Pampanga

BIR Acc. No. 04-005756-001-2022; Expiring on January 2025

BOA Acc. No. 5299 Expiring on June 30, 2024

BSP Acc. No.: 146814; CY 2021-2025

**March 25, 2023**

*Member: Philippine Institute of Certified Public Accountants*





**JACKIE LOU ROXAS OCBENIA ACCOUNTING OFFICE**  
**CERTIFIED PUBLIC ACCOUNTANT**

#212 Prk. 3 Brgy. Suclayin, Arayat, Pampanga  
Cp. #0919-272-3574/ jackielou\_ocbenia@yahoo.com

**SUPPLEMENTAL WRITTEN STATEMENT OF INDEPENDENT AUDITOR**

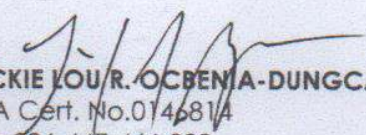
**The Board of Directors and Stockholders**  
**Rural Bank of Sanchez Mira (Cagayan), Inc.**  
Lagasca Cor. Marzan Sts. Centro I, Sanchez Mira 3518 Cagayan

Gentlemen:

I have examined the financial statements of the **Rural Bank of Sanchez Mira (Cagayan), Inc.**, for the year ended December 31, 2022, on which I have rendered the attached report dated 25 March 2023.

In compliance with SRC Rule 68, I am stating that the bank has a total of Twenty-Two (22) stockholders owning One Hundred (100) or more common shares each as at 31 December 2022.

In compliance with Revenue Regulations V-20, I am stating that I and the immediate members of my family are not related by consanguinity or affinity to the members of the Board of Directors, majority stockholders or principal officers of the Bank.

  
**JACKIE LOU R. OCBENIA-DUNGCA, CPA**

CPA Cert. No. 0146814

TIN: 236-447-466-000

PTR No.: 4088200, January 09, 2023,

City of San Fernando Pampanga

BIR ACC. No.: 04-005756-001-2022, Expiring on January 2025

BOA ACC. No.: 5299, Expiring on June 30, 2024

BSP ACC No. 146814; CY 2021-2025

**March 25, 2023**

**Member: Philippine Institute of Certified Public Accountants**





**JACKIE LOU ROXAS OCBENIA ACCOUNTING OFFICE**

**CERTIFIED PUBLIC ACCOUNTANT**

#212 Prk. 3 Brgy. Suclayin, Arayat, Pampanga  
Cp. #0919-272-3574/ jackielou\_ocbenia@yahoo.com

**INDEPENDENT AUDITOR'S REPORT TO ACCOMPANY INCOME TAX RETURN**

**The Board of Directors and Stockholders**

**Rural Bank of Sanchez Mira (Cagayan), Inc.**

Lagasca Cor. Marzan Sts. Centro I, Sanchez Mira 3518 Cagayan

Gentlemen:

I have audited the financial statements of the **Rural Bank of Sanchez Mira (Cagayan), Inc.**, for the year ended December 31, 2022, on which I have rendered the attached report dated 25 March 2023.

In compliance with Revenue Regulations V-20, I am stating that I and the immediate members of my family is not related by consanguinity or affinity to the members of the Board of Directors, majority stockholders or principal officers of the Bank.

The schedule of taxes paid and accrued by the Bank for the year ended December 31, 2022 is embodied in Note 24 of the Audited Financial statements attached to the Income Tax Return.

  
**JACKIE LOU R. OCBENIA-DUNGCA, CPA**

CPA Cert. No. 0146814

TIN: 236-447-466-000

PTR No.: 4088200, January 09, 2023,

City of San Fernando Pampanga

BIR ACC. No.: 04-005756-001-2022, Expiring on January 2025

BOA ACC. No.: 5299, Expiring on June 30, 2024

BSP ACC No. 146814; CY 2021-2025

**March 25, 2023**

**Member: Philippine Institute of Certified Public Accountants**





## **JACKIE LOU ROXAS OCBENIA ACCOUNTING OFFICE**

**CERTIFIED PUBLIC ACCOUNTANT**

#212 Prk. 3 Brgy. Suclayin, Arayat, Pampanga  
Cp. #0919-272-3574/ jackielou\_ocbenia@yahoo.com

### **STATEMENT OF REPRESENTATION**

#### **TO THE SECURITIES AND EXCHANGE COMMISSION**

In connection with my examination on the financial statements of **Rural Bank of Sanchez Mira (Cagayan), Inc.**, for the year ended December 31, 2022 which are to be submitted to the Commission, I hereby represent the following:

1. That I am in the active practice of the accounting profession and duly registered with the Board of Accountancy (BOA);
2. That the financial statements are presented in conformity with the Philippine Financial Reporting Standards, in all cases where I shall express an unqualified opinion, except that in case of any departure from such principles, I shall indicate the nature of the departure, the effects thereof and the reasons why compliance with the principles would result in a misleading statement if such is a fact;
3. That I fully met the requirements of independence as provided in the Code of Professional Ethics for CPAs;
4. That in the conduct of such audit, I complied with the Philippine Standard of Auditing promulgated by the Board of Accountancy, in case of any departure from such standards or any limitations in the scope of my examination, I shall indicate the nature of the departure and the extent of limitation, the reasons therefore and the effects thereof on the expression of my opinion or which may necessitate the negation of the expression of an opinion; and
5. That relative to the expression of my opinion, on the financial statements, I shall not commit any act discreditable to the profession as provided under the Code of Professional Ethics for CPAs.

As a CPA engage in public practice, I make this representation in my individual capacity.

  
**JACKIE LOU R. OCBENIA-DUNGCA, CPA**

CPA Cert. No. 0146814

TIN: 236-447-466-000

PTR No.: 4088200, January 09, 2023,

City of San Fernando Pampanga

BIR ACC. No.: 04-005756-001-2022, Expiring on January 2025

BOA ACC. No.: 5299, Expiring on June 30, 2024

BSP ACC No. 146814; CY 2021-2025

**March 25, 2023**

**Member: Philippine Institute of Certified Public Accountants**





## JACKIE LOU ROXAS OCBENIA ACCOUNTING OFFICE

**CERTIFIED PUBLIC ACCOUNTANT**

#212 Prk. 3 Brgy. Suclayin, Arayat, Pampanga  
Cp. #0919-272-3574/ jackielou\_ocbenia@yahoo.com

### CERTIFICATION

**To Officer in Charge**

BangkoSentral ng Pilipinas  
Malate, Manila:

**Sirs/Mesdames**

In compliance with BSP Circular No. 1074, I certify the following in relation to the audit of our client, **Rural Bank of Sanchez Mira (Cagayan), Inc.** for the year ended **31 December 2022**, to state:

- I have not discovered any material findings involving fraud or dishonesty, including cases that were resolved during the period of audit;
- That I did not intend to resign nor pre-terminate my audit engagement with the Bank;
- No actual or potential losses discovered, the aggregate of which amounts to at least ten (10%) of the consolidated total assets of the Bank;
- I have not discovered any finding to the effect that the consolidated assets of the Bank, on a going concern basis, are no longer adequate to cover the total claims of creditors;
- I have not discovered any material breach of laws of BSP rules and regulations such as but not limited to (a.) prescribed Capital and liquidity ratios; and (b.) significant deficiency in allowance for credit losses; (c.) material weaknesses in fair value measurement methodology; and (d.) significant vulnerabilities to money laundering and combating the financing of terrorism;
- There is no material internal control weakness which may lead to financial reporting problems; and
- There are no findings on matters of corporate governance that may require urgent action by the BSP, such as non-compliance with the well-defined group requirement.

It is however understood that the accountability of an external auditor is based on matters within the normal coverage of an audit conducted in accordance with generally accepted auditing standards.

This certification is being issued in compliance with the requirements of Section 174 of the MORB, Appendix 39 and 55, as amended by BSP Cir. No. 1074, Series of 2020.

**JACKIE LOU O. DUNGCA, CPA**  
External Auditor

SUBSCRIBED AND SWORN to before me this

27 APR 2023

at

SANCHEZ MIRA CAGAYAN

Doc No.: 386  
Page No: 99  
Book No.: XX  
Series of 2023

**ATTY. MONICA D. CANONIZADO**

NOTARY PUBLIC Until December 31, 2024  
For the Province of Cagayan, Philippines  
Roll No. 72785

PTR No. CGYN12868030; 01/03/2023; Sanchez Mira  
IBP O.R. No. 253350; 12/26/2022; Ortigas  
C-1, Sanchez Mira, Cagayan  
canonizadomonica@gmail.com





**JACKIE LOU ROXAS OCBENIA ACCOUNTING OFFICE**  
**CERTIFIED PUBLIC ACCOUNTANT**

#212 Prk. 3 Brgy. Suclayin, Arayat, Pampanga  
Cp. #0919-272-3574/ jackielou\_ocbenia@yahoo.com

**CERTIFICATION**

**THE BOARD OF DIRECTORS**

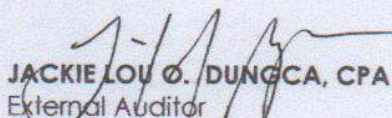
**Rural Bank of Sanchez Mira (Cagayan), Inc.**

Lagasca Cor. Marzan Sts. Centro I, Sanchez Mira 3518 Cagayan

**Sirs/Mesdames**

Relative to the audit of the financial statements of the **Rural Bank of Sanchez Mira (Cagayan), Inc.** for the year ended 31 December 2022, I certify:

- That I started the evaluation of the Bank's internal control and risk management system on the last week of December 2022 and subsequently conducted the field work on **24 January 2023**;
- That no material weakness or breach in the internal control and risk management system was noted in the course of my audit;
- That I submitted the results of my audit to the Audit Committee Head on **25 March 2023**;
- That I and the auditor in charge and the members of our immediate family are not related by consanguinity or affinity to the officers and majority stockholders of the bank, such that, our independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for CPA's and
- That I have complied with the disclosure requirements under Section 174 of the MORB and other information that may be required.

  
**JACKIE LOU O. DUNGCA, CPA**  
External Auditor

**SUBSCRIBED AND SWORN to before me this**

**27 APR 2023**

**at** **SANCHEZ MIRA CAGAYAN**

**Doc No.: 378**  
**Page No: 77**  
**Book No.: xx**  
**Series of 2023**

  
**ATTY. MONICA D. CANONIZADO**

**NOTARY PUBLIC** Until December 31, 2024  
**For the Province of Cagayan, Philippines**  
Roll No. 72785

**PTR No. CGYN12868030; 01/03/2023; Sanchez Mira**  
**IBP O.R. No. 253350; 12/26/2022; Ortigas**  
**C-1, Sanchez Mira, Cagayan**  
**canonizadomonica@gmail.com**





# JACKIE LOU ROXAS OCBENIA ACCOUNTING OFFICE

CERTIFIED PUBLIC ACCOUNTANT

#212 Prk. 3 Brgy. Suclayin, Arayat, Pampanga  
Cp. #0919-272-3574/ jackielou\_ocbenia@yahoo.com

The Board of Directors and Stockholders

**Rural Bank of Sanchez Mira (Cagayan), Inc.**

Lagasca Cor. Marzan Sts. Centro I, Sanchez Mira 3518 Cagayan

Sirs/Mesdames

In accordance with your instructions, I have undertaken the financial audit of the **Rural Bank of Sanchez Mira (Cagayan), Inc.**, for the year ended 31 December 2022. In this regard, I am respectfully submitting the following reports enumerated below:

1. Audited Financial Statements for the year ended 31 December 2022;
2. Supplemental and Written representations required by SEC;
3. Reconciliation statement of Audited Financial Statements vis-a-vis submitted balance sheet and income statement;
4. Certification by the EA under Section 174 of the MORB:
  - a. dates of start and termination of audit;
  - b. date of submission of the Financial Audit Report and certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit;
  - c. the absence of any direct or indirect financial interest and other circumstances that may impair the independence of the EA;
5. Reports required to be submitted under Appendix 55 (Appendix to Section 174),
  - a. Any material finding involving fraud or dishonesty (including cases that were resolved during the period of audit) and any potential losses the aggregate of which amounts to at least ten (10%) of the consolidated assets of the Bank;
  - b. Termination or resignation as EA and stating the reasons therefore;
  - c. Discovery of any material breach of laws of BSP rules and regulations such as but not limited to (a.) prescribed capital and liquidity ratios, (b.) significant deficiency in allowance for credit losses, (c.) material weaknesses in fair value measurement methodology, and (d.) significant vulnerabilities to money laundering and combating the financing of terrorism; and
  - d. Findings on matters of corporate governance that may require urgent action by the BSP.

During the course of my audit, I received excellent cooperation from the officers and members of your staff. To them, I express my appreciation and my thanks.

Respectfully yours,

**JACKIE LOU R. OCBENIA DUNGCA CPA**  
External Auditor

SUBSCRIBED AND SWORN to before me this

27

APR 2023

at **SANCHEZ MIRA CAGAYAN**

Doc No.: 070  
Page No: 77  
Book No.: XX  
Series of 2023

**ATTY. MONICA D. CANONIZADO**  
NOTARY PUBLIC Until December 31, 2024  
For the Province of Cagayan, Philippines  
Roll No. 72785  
PTR No. CGYN12868030; 01/03/2023; Sanchez Mira  
IBP O.R. No. 253350; 12/26/2022; Ortigas  
C-1, Sanchez Mira, Cagayan  
canonizadomonica@gmail.com