RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The management of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** is responsible for all information and representations contained in the Annual Income Tax Return for the years ended December 31, 2020 and 2019. Management is likewise responsible for all information and representation contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representation contained in all the other tax returns filed for the reporting period, including but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, and any all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the years ended December 31, 2020 and 2019 and the accompanying Annual Income Tax Return are in accordance with the books and records of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** are complete and correct in all material respects.

Management likewise affirms that:

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

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

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

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

Signed this 12th day of April, 2021.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

Signed this 12th day of April, 2021.

Romeo G. Torno & Co.

Certified Public Accountants

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

BOA Accreditation No. 4618
July 22, 2020 – June 15, 2023

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** which comprise the statement of financial position as at December 31, 2020 and 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statement present fairly, in all material respects, the financial position of the **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** as at December 31, 2020 and 2019, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements Section in the report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Our audit was conducted for the purpose of forming an opinion on the basic (separate) financial statements taken as a whole. The supplementary information on taxes, duties and license fees in **Note 24** to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Romeo G. Torno & Co.

Certified Public Accountants

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

BOA Accreditation No. 4618
July 22, 2020 – June 15, 2023

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

We have audited the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** as at and for the period ended December 31, 2020, on which we have rendered the attached report dated April 12, 2021. The supplementary information shown in **Note 28** the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2020, as required by Part I, Section 4 of Rule 68 of the Securities Regulation Code is presented for the purpose of filing with the Securities and Exchange Commission and is not a required part of the basic statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Part I, Section 4 of Rule 68 of the Securities Regulation Code.

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

BY:

ROMEO G. TORNO & CO., CPA's
BOA Accreditation No. 4618
July 22, 2020 – June 15, 2023
BIR Accreditation No. 04-002375-000-2021
March 15, 2021, valid until March 15, 2024

ROMEO G. TORNO, CPA
Managing Partner
CPA Certificate No. 0043083
Tax Identification No. 107-071-246
BIR Accreditation No. 04-002375-001-2021
March 15, 2021, valid until March 15, 2024
SEC No. 1678 – A
May 3, 2018 valid until May 2, 2021
PTR No. SF3543362
January 6, 2021
City of San Fernando, Pampanga

April 12, 2021

City of San Fernando, Pampanga

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July 22, 2020 – June 15, 2023

STATEMENT OF REPRESENTATION

TO THE SECURITIES AND EXCHANGE COMMISSION:

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

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

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

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

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

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

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

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

Romeo G. Torno & Co.

Certified Public Accountants

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

BOA Accreditation No. 4618
July 22, 2020 – June 15, 2023

BY:

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City of San Fernando, Pampanga

April 12, 2021

City of San Fernando, Pampanga

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

COMPARATIVE FINANCIAL HIGHLIGHTS

As of December 31, 2020 and 2019

	2020	2019	Increase (Decrease)
FOR THE YEAR			
TOTAL INCOME	**₱ 10,169,176**	₱ 11,638,168	**₱ (1,468,993)**
TOTAL EXPENSES	**9,036,213**	9,475,978	**(439,765)**
NET INCOME	**1,132,962**	2,162,190	**(1,029,228)**
EARNINGS PER SHARE			
Ordinary Shares	**7.55**	15.51	**(7.95)**
RETURN ON AVERAGE EQUITY	**4.84%**	9.64%	**(4.80%)**
RETURN ON AVERAGE ASSETS	**1.19%**	2.38%	**(1.19%)**
NET INTEREST MARGIN	**8.70%**	10.45%	**(1.74%)**
TOTAL ASSETS	**103,813,912**	86,368,778	**17,445,135**
LOANS AND RECEIVABLES (NET)	**49,209,199**	49,372,126	**(162,928)**
LIQUID ASSETS	**52,980,408**	35,081,423	**17,898,985**
FIXED ASSETS	**1,104,697**	1,241,996	**(137,300)**
DEPOSIT LIABILITIES	**77,413,593**	60,727,170	**16,686,423**
OTHER LIABILITIES	**3,005,524**	2,261,914	**743,611**
EQUITY ACCOUNTS	**23,394,795**	23,379,694	**15,101**
BOOK VALUE PER SHARE			
Ordinary Shares	**155.97**	167.66	**(11.70)**
CAPITAL ADEQUACY RATIO	**22.49%**	25.50%	**(3.01%)**
PAST DUE RATIO	**11.70%**	5.57%	**6.14%**
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES	**68.44%**	57.77%	**10.67%**
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES & OTHER LIABILITIES	**65.88%**	55.69%	**10.19%**
DEBT TO EQUITY RATIO	**3.44:1**	2.69:1	**0.74:1**
RATIO OF TOTAL FIXED ASSETS OVER EQUITY ACCOUNTS	**4.72%**	5.31%	**(0.59%)**

(See Notes to Financial Statements)

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

	As at December 31	
	2020	2019
ASSETS		
Cash and Other Cash Items (Note 6.1)	₱ **2,435,343**	₱ 2,623,784
Due from Other Banks (Note 6.2)	**46,242,470**	28,236,793
Due from Bangko Sentral ng Pilipinas (Note 6.2)	**2,302,595**	2,220,846
Debt Securities Measured at Amortized Cost (Note 7)	**2,000,000**	2,000,000
Loans and Receivables, Net (Note 8)	**49,209,199**	49,372,126
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 9)	**1,104,697**	1,241,996
Investment Properties (Note 10)	**-**	207,000
Deferred Tax Asset (Note 22)	**231,915**	172,887
Other Assets (Note 11)	**287,694**	293,346
TOTAL ASSETS	₱ **103,813,912**	₱ 86,368,778
LIABILITIES & SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 12)	₱ **77,413,593**	₱ 60,727,170
Accrued Interest, Taxes and Other Expenses (Note 13)	**260,255**	175,355
Other Liabilities (Note 14)	**1,263,870**	880,763
Income Tax Payable (Note 22)	**305,299**	580,796
Deposit for Capital Subscription	**1,176,100**	625,000
TOTAL LIABILITIES	**80,419,117**	62,989,084
SHAREHOLDERS' EQUITY		
Ordinary Shares (Note 15)	**15,000,000**	13,944,300
Retained Earnings	**8,394,795**	9,435,394
TOTAL SHAREHOLDERS' EQUITY	**23,394,795**	23,379,694
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	₱ **103,813,912**	₱ 86,368,778
BOOK VALUE PER SHARE	₱ **155.97**	₱ 167.66

See accompanying Notes to Financial Statements.

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

	For the Years Ended December 31	
	2020	2019
INTEREST INCOME		
Loans and Receivables (Note 8)	**₱ 8,146,969**	₱ 9,354,512
Due from Other Banks (Note 6)	**135,298**	108,795
Debt Securities Measured at Amortized Cost (Note 7)	**52,000**	52,000
TOTAL INTEREST INCOME	**8,334,267**	9,515,307
INTEREST EXPENSE (Note 14)		
Deposit Liabilities (Note 12)	**628,275**	617,515
Bills Payable	**-**	157,083
TOTAL INTEREST EXPENSE	**628,275**	774,598
NET INTEREST INCOME	**7,705,992**	8,740,709
PROVISION FOR CREDIT LOSSES	**196,760**	320,468
NET INTEREST INCOME AFTER PROVISION	**7,509,232**	8,420,241
OTHER INCOME (Note 16)	**1,834,908**	2,122,861
TOTAL INCOME BEFORE OPERATING EXPENSES	**9,344,140**	10,543,102
OTHER OPERATING EXPENSE		
Compensation and Fringe Benefits (Note 17)	**5,488,799**	4,997,279
Other Operating Expenses (Note 19)	**1,420,619**	1,565,268
Taxes and Licenses (Note 24)	**618,120**	688,329
Depreciation and Amortization (Note 20)	**245,244**	243,868
TOTAL OTHER OPERATING EXPENSES	**7,772,782**	7,494,743
NET INCOME BEFORE INCOME TAX	**1,571,359**	3,048,358
INCOME TAX EXPENSE (BENEFIT) (Note 24)	**438,396**	886,168
NET INCOME AFTER INCOME TAX	**₱ 1,132,962**	₱ 2,162,190
EARNINGS PER SHARE	**₱ 7.55**	₱ 15.51

See accompanying Notes to Financial Statements.

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2020 and 2019

	Ordinary Shares (Note 15)	Deposit for Stock Subscription	Retained Earnings - Free	Total
Balance at January 1, 2020	**₱ 13,944,300**	**₱ -**	**₱ 9,435,394**	**₱ 23,379,694**
Issuance of shares - stock dividends	**1,055,700**	**-**	**-**	**1,055,700**
Total comprehensive income for the year	**-**	**-**	**1,132,962**	**1,132,962**
Prior period adjustments	**-**	**-**	**(2,173,561)**	**(2,173,561)**
Balance at December 31, 2020	**₱ 15,000,000**	**₱ -**	**₱ 8,394,795**	**₱ 23,394,795**
Balance at January 1, 2019	₱ 13,584,200	₱ 625,000	₱ 7,253,132	₱ 21,462,332
Issuance of shares	360,100	-	-	360,100
Total comprehensive income for the year	-	-	2,162,190	2,162,190
Reclassification to deposit for stock subscription	-	(625,000)	-	(625,000)
Prior period adjustments	-	-	20,072	20,072
Balance at December 31, 2019	₱ 13,944,300	₱ -	₱ 9,435,394	₱ 23,379,694

See accompanying Notes to Financial Statements.

RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31	
	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Income before tax	₱ **1,571,359**	₱ 3,048,358
Adjustments for:		
Provision for Credit Losses on Loans and Receivables	**196,760**	320,468
Provision to Retirement	**333,696**	284,891
Depreciation and Amortization (Note 9 and 19)	**245,244**	243,868
Issuance of Stock Dividends Payable	**1,055,700**	-
Gain on Sale of ROPA	**(123,839)**	-
Interest Income	**(8,334,267)**	(9,515,307)
Interest Expense	**628,275**	774,598
Changes in Working Capital:		
Loans and Receivables (Note 8)	**(33,833)**	9,845,052
Other Assets (Note 11)	**5,652**	(170,271)
Deposit Liabilities (Note 12)	**16,686,422**	(6,509,376)
Accrued Interest, Taxes & Other Expenses (Note 13)	**84,900**	(97,797)
Other Liabilities (Note 14)	**49,410**	(333,019)
Interest Paid	**(628,275)**	(774,598)
Interest Received	**8,334,267**	9,515,307
Income Tax Paid	**(772,920)**	(830,451)
NET CASH FROM OPERATING ACTIVITIES	**19,298,551**	5,801,723
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in Investment Properties (Note 10)	-	(207,000)
Proceeds from Sale of Investment Property (Note 10)	**330,839**	-
Cash Payments on Premises, Furniture, & Equipment (Note 9)	**(107,944)**	(135,687)
NET CASH PROVIDED (USED IN) BY INVESTING ACTIVITIES	**222,895**	(342,687)
CASH FLOW FROM FINANCING ACTIVITIES		
Net Charges to Surplus/Prior Period Adjustments	**(2,173,561)**	20,072
Proceeds from issuance of Capital Stock	-	360,100
Payment on Borrowings/Bills Payable	-	(5,000,000)
Additional Deposit for Capital Subscription	**551,100**	-
NET CASH USED IN FINANCING ACTIVITIES	**(1,622,461)**	(4,619,828)
NET INCREASE IN CASH & CASH EQUIVALENTS	**17,898,985**	839,208
CASH & CASH EQUIVALENTS - BEGINNING	**33,081,423**	32,242,215
CASH & CASH EQUIVALENTS - ENDING	₱ **50,980,408**	₱ 33,081,423

See accompanying Notes to Financial Statements.

1. CORPORATE INFORMATION

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

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

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

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

Approval of Submission
The accompanying financial statements of the Bank for the year ended December 31, 2020 were authorized for issue by its Board of Directors on April 12, 2021.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

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

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

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

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

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

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

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

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

Statement of Compliance

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

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

Going Concern Assumption

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

New Standards, Amendments, and Interpretations Adopted

Amendments

- Amendments to PFRS 3, Definition of a Business
- Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material
- Amendments to PFRS 9, PAS 39 and PFRS 7, Interest Rate Benchmark Reform
- Amendment to PFRS 16, Covid-19-Related Rent Concessions

Pronouncement issued but not yet effective

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

Effective beginning on or after January 1, 2021

- PFRS 17, *'Insurance contracts'*

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

Effective beginning on or after January 1, 2022
- *Annual Improvements to PFRS Standards 2018-2020 Cycle issued in August 2020*
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract*
- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds before Intended Use*
- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent ' test for derecognition financial liabilities*
- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023
- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to PFRS 17, *Insurance Contracts*

Financial Instruments

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

Initial Recognition and Subsequent Measurement

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

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

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

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

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

Financial Assets

Classification and Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains or losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Bank. The Bank measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are

solely payments of principal and interest on the principal amount outstanding

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

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

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

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

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

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

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

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

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

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

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

Sales Contract Receivable

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

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2020 and 2019, the Bank does not have financial assets that are classified under this category.

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

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

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

As of December 31, 2020 and 2019, the Bank does not have financial assets that are classified under this category.

Financial Assets at fair value through profit or loss

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

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

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

As of December 31, 2020 and 2019, the Bank does not have financial assets that are classified as FVTPL

Reclassification

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

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

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

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

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

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

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

Financial Liabilities

Classification and Measurement

A financial liability is any liability that is:

a A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or

b Contract that will or may be settled in the entity's own equity instruments and is:

  i A non-derivative for which the entity is or may be obliged to deliver a favorable number of the entity's own equity instruments; or

  ii A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

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

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

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

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

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

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

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

As of December 31, 2020 and 2019, the Bank has not designated any financial liabilities upon initial recognition as at FVTPL.

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

Equity Instruments

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Instruments

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

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

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

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

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

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

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

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

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

a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b) The time value of money; and

c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

In applying this forward-looking approach, a distinction is made between:

I financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and

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

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

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

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

Restructured Loans

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

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there's an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of the business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

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

Other Assets

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

Premises, Furniture, Fixtures and Equipment's

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

The initial cost of premises, furniture, fixtures and equipment's comprises its purchase price including import duties, borrowing costs (during the construction period), and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes the cost of replacing the part of such asset when the recognition criteria are met and the estimated cost of dismantling and removing the asset and restoring the site.

Expenditures incurred after the premises, furniture, fixtures, and equipment have been put into operation, such as repairs and maintenance, are normally charged against income in the period the costs are incurred. In situations where it can be clearly determined that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs.

When major improvement is performed, its cost is recognized in the carrying amount of the premises, furniture, fixtures, and equipment as a replacement if the recognition criteria are satisfied.

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

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

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

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

Fully depreciated assets are retained in the accounts at one peso (₱ 1.00) net value until they are no longer in use and no further charge for depreciation is made with respect to those assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the account and any resulting gain or loss are reflected in the income for the period. Any disposal or deletion of property and equipment from the Bank's book of accounts should be approved by the management.

Investment Properties

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

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

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

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

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

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

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

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

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

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

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

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

Up to the date when an owner-occupied property becomes an investment property carried at fair value, the Bank depreciates the property and recognizes any impairment losses that have occurred. The Bank treats any difference at the date between the carrying amount of property as follows:

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

Intangible Assets

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

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

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

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

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

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

Equity

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

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

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

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

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

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

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

outstanding during the year.

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

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

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

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

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

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

Revenue within the scope of PFRS 15:

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

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

Revenue outside the scope of PFRS 15:

Interest Income

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

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

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

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

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

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

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

Leases

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

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

The cost of right of use asset comprises:

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

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

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

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

Depreciation of right of use asset
The lessee shall apply normal depreciation policy for right of use asset.

PFRS 16 provides that the lessee shall depreciate the right of use asset over the useful life of the underlying asset under the following conditions:

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

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

Measurement of Lease Liability
The lessee shall measure the lease liability at the present value of lease payments.
The lease payments shall be discounted using the interest rate implicit in the lease desired by the lessor.

If the implicit interest rate cannot be readily determined, the incremental borrowing rate of the lessee is used.

Components of lease payments

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

Operating lease model for lessee

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

- a Short-term lease
- b Low value lease

Lessor Accounting

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

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

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

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

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

Employee Benefits

- a Short term benefits

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

- b Retirement Benefits

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

Income Taxes

Current tax

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Among the salient features of the CREATE Act are the following:

a Reduction of Corporate Income Tax rate from 30% to 20% for domestic corporations with taxable income not exceeding P5M and total assets not exceeding P100M excluding land on which the entity's office, plant and equipment are situated or otherwise 25% if the said threshold is not met effective July 1, 2020 to June 30, 2023
b Reduction of Corporate Income Tax rate of domestic and foreign corporations from 30% to 25% effective July 1, 2020
c Reduction of Minimum Corporate Income Tax (MCIT) rate from 2% to 1% effective July 1, 2020 to June 30, 2023
d Repeal of Improperly Accumulated Earnings Tax (IAET)
e Repeal of 10% Special Income Tax for Regional Operating Headquarters (ROHQ) effective January 1, 2022
f Tax Exemption of foreign sourced dividends of domestic corporations subject to certain conditions
g Clarification on types of reorganizations covered by tax free exchanges

With the above provisions of the CREATE Act, the Income Tax Rate (ITR) and Minimum Corporate Income Tax (MCIT) of the Bank are reduced to 25% and 1% respectively from July 1, 2020 to December 31, 2020. Adjustments for the reduced Corporate Income Tax rate provided by the CREATE Act for the period of July 1, 2020 to December 31, 2020 shall be made accordingly subject to the implementing rules and regulations of the CREATE Act.

As of reporting date, the Bank still computed its Corporate Income Tax at 30% for the full year of 2020. Since, it was clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretation Committee Q&A No. 2020-07, the CREATE Act was not considered as substantively enacted as of December 31, 2020, even though some of the provisions have retrospective effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (there will be difference between the provision for current income tax per CY 2020 financial statements and the amount of income tax due per CY 2020 ITR).

As of December 31, 2020, the transitory effect to the Company's affected accounts is as follows:

Account	At 30%	At 30% & 25%	Transitory Effect
	Full Year 2020	On Applicable Periods	
Provision for Income Tax	497,424	451,787	45,637
Income Tax Payable	305,299	259,662	45,637

There is no other material financial impact to the Bank arising from the provisions of the CREATE Act as of December 31, 2020 and there are no other events after the reporting date that were identified to provide evidence of conditions or are indicative of conditions that would have any material financial impact to the Company.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

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

Judgments

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

a *Classification of financial instruments*

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

b *Determination of Functional currency*

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

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

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

c *Recognition of Provision and Contingencies*

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

d *Classification of Acquired Properties and Fair Value Determination of Non-current Assets Held for Sale and Investment Property*

At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

Estimates

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

a *Determination of Fair Values of Financial Assets and Liabilities*

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

b *Allowance for Credit Losses*

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

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

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

For unsecured loans and credit accommodations:

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

For secured loans and other credit accommodations:

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

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

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

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

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

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

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

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

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

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

For unsecured loans and other credit accommodations:

Number of days Unpaid/with	Classification	Minimum ACL	Stage

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

For secured loans and other credit accommodations:

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

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

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

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

Other Risk Assets

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

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

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

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

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

d *Useful life of Depreciable Investment Property*

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

e *Determination of Impairment of Non-financial Assets*

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

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

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

f *Recognition of Retirement Costs*

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

g *Recognition of Deferred Tax Assets*

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit Risk

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

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2020 and 2019:

	2020			
	Loans and Receivables	Due from BSP and Other Banks	Debt Securities Measured at Amortized Cost	Total
Agriculture, forestry and fishing	P 10,299,746	P -	P -	P 10,299,746
Real estate activities	9,278,444	-	-	9,278,444
Financial institutions	-	5,622,992	2,000,000	7,622,992
Government	-	42,922,073	-	42,922,073
Whole and retail trade, repair of motor vehicle, motorcycle	16,063,452	-	-	16,063,452
Other service activities	1,268,209	-	-	1,268,209
Loans to Individuals for personal use purposes	14,069,041	-	-	14,069,041
Total	**P 50,978,892**	**P 48,545,065**	**P 2,000,000**	**P101,523,957**

	2019			
	Loans and Receivables	Due from BSP and Other Banks	Debt Securities Measured at Amortized Cost	Total
Agriculture, forestry and fishing	P 9,296,616	P -	P -	P 9,296,616
Real estate activities	12,213,766	-	-	12,213,766
Financial institutions	-	1,675,245	2,000,000	3,675,245
Government	-	28,782,394	-	28,782,394
Whole and retail trade, repair of motor vehicle, motorcycle	13,189,261	-	-	13,189,261
Other service activities	1,292,040	-	-	1,292,040
Loans to Individuals for personal use purposes	14,953,376	-	-	14,953,376
Total	**P 50,945,060**	**P 30,457,639**	**P 2,000,000**	**P 83,402,699**

Credit quality per class of financial assets

The tables below show the credit quality per class of financial assets as at December 31, 2020 and 2019:

	2020				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	P 2,302,595	P -	P -	P -	P 2,302,595
Due from other banks	46,242,470	-	-	-	46,242,470
Debt Securities	2,000,000	-	-	-	2,000,000
Loans Receivable	44,937,016	3,036,681	1,721,023	1,284,172	50,978,892

Other receivables	201,700	-	-	-	201,700
	P 95,683,781	P 3,036,681	P 1,721,023	P 1,284,172	P101,725,657

	2019				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	P 2,220,846	P -	P -	P -	P 2,220,846
Due from other banks	28,236,793	-	-	-	28,236,793
Debt Securities	2,000,000	-	-	-	2,000,000
Loans Receivable	48,047,816	1,312,908	595,550	988,786	50,945,060
Other receivables	204,100	-	-	-	204,100
	P 80,709,555	P 1,312,908	P 595,550	P 988,786	P 83,606,799

**Amount is net of Unamortized Discount*

Aging analysis of past due but not impaired loans and receivables

The following tables show the total aggregate amount of loans and receivables that are contractually past due but not considered impaired per delinquency bucket as at December 31, 2020 and 2019.

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

	2019		
	less than 90 days	more than 90 days	Total
Receivable from customers:			
	P 1,993,135	P 904,109	P 2,897,244

Market Risk

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

Interest rate risk

Loans and receivables earn interest income at interest rates ranging 6.00% to 32.00% for year 2020 and 9.50% to 24.00% for year 2019. The Bank's interest rate on its deposit liabilities is ranging from 0.50% to 3.00% in year 2020.

However, the Bank earns interest at 0.50% to 1.00% from its deposits with other banks and 3.25% from its investments.

Fair Value Interest Rate Risk

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

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

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

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

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

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

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

	2019				
	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities:					
Deposit liabilities	P 49,335,027	P 3,400,950	P 7,991,193	P -	P 60,727,170
Other Liabilities	926,018	-	-	-	926,018
Total Financial Liabilities	50,261,045	3,400,950	7,991,193	-	61,653,188
Financial Assets:					
Cash and other cash items	2,623,784	-	-	-	2,623,784
Due from BSP	-	-	-	2,220,846	2,220,846
Due from other banks	28,236,793	-	-	-	28,236,793
Debt securities measured at amortized	-	-	-	2,000,000	2,000,000

cost					
Loans and receivable	4,467,163	5,213,274	13,891,073	27,373,549	50,945,060
Other Receivable	204,100	-	-	-	204,100
Total Financial Assets	35,531,840	5,213,274	13,891,073	31,594,395	86,230,583
Liquidity Position (Gap)	P (14,729,205)	P 1,812,324	P 5,899,880	P 31,594,395	P 24,577,395

Operational Risks

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

Minimum Liquidity Ratio (MLR)

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

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

PART I. MINIMUM LIQUIDITY RATIO (MLR)	
A. Stock of Liquid Assets	**50,980,408**
B. Qualifying Liabilities	**80,158,862**
Minimum Liquidity Ratio	**63.60%**

PART II. STOCK OF LIQUID ASSETS	
Cash on Hand	**2,435,343**
Bank Reserves in the BSP	**2,302,595**
Debt Securities representing claims on or guaranteed by the Philippine National Government and the BSP	**-**
Deposits in Other Banks	**46,242,470**
Total	**50,980,408**

PART III. QUALIFYING LIABILITIES	
A. Qualifying Liabilities	
1. Retail current and regular savings deposits with outstanding balance per account of ₱500,000 and below	**-**
2. Obligations arising from operational expenses	**260,255**
3. Total on-balance sheet liabilities	**80,419,117**
4. Deduct: [Sum of A1 to A4]	**80,158,862**
Total	**80,158,862**

6. CASH AND CASH EQUIVALENTS

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

		2020		2019
6.1 Cash and Other Cash Items				
Cash on Hand and in Vault	₱	**2,435,343**	₱	2,623,784

Total Cash and Other Cash Items		**2,435,343**		2,623,784
6.2 Due from BSP and Other Banks				
Due from Bangko Sentral ng Pilipinas		**2,302,595**		2,220,846
Due from Other Banks		**46,242,470**		28,236,793
Total Due from BSP and Other Banks		**48,545,065**		30,457,639
Total Cash and Cash Equivalent	**₱**	**50,980,408**	₱	33,081,423

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

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

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

Name of Banks		**2020**	**%**		2019	%
Land Bank of the Philippines	**₱**	**40,619,478**	**87.84%**	₱	26,561,548	94.07%
Philippine National Bank		**5,622,992**	**12.16%**		1,675,245	5.93%
Total	**₱**	**46,242,470**	**100.00%**	₱	28,236,793	100.00%

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

As of December 31, 2020, the Bank's SBL was registered at ₱5,848,699 and as per BSP Manual of Regulations, bank are exempted on the ceiling of single borrower's limit (SBL) on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for clearing operation.

On 19 March 2020, the Monetary Board, on its Resolution issued the Memorandum No. M-2020-011 Increasing the single borrower's limit (SBL) from 25% to 30% for a period of six (6) months from March 19, 2020.

As of December 31, 2020, none of the Banks has exceeded the prescribed limit or ₱ 100 million under Circular No. 734 Series of 2011.

Cash in bank represents current and saving deposits account in local bank. Current account and savings account earn interest at 0.05% in 2020 and 0.10% in 2019. While, high-yield savings account earn interest at 1.00% in 2020 and 2019.

Due from other banks generally earns interest at prevailing bank deposit rates. Total interest income earned amounted to ₱ 135,298 and ₱ 108,795 for the years ended December 31, 2020 and 2019, respectively. Deposit with the BSP is non-interest bearing.

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

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

7. DEBT SECURITIES MEASURED AT AMORTIZED COST

This account consists of:

		2020		2019
Treasury Bonds	₱	**2,000,000**	₱	2,000,000
Total	₱	**2,000,000**	₱	2,000,000

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

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

Debt securities measured at amortized cost earn interest income amounted to ₱52,000 for 2020 and 2019.

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

8. LOANS AND RECEIVABLES

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

		2020	%		2019	%
Current Loans	₱	**46,116,561**	**88.30%**	₱	49,266,846	94.43%
Past Due Loans		**5,780,770**	**11.07%**		2,553,452	4.89%
Items in Litigation		**331,142**	**0.63%**		350,386	0.67%
Total		**52,228,473**	**100.00%**		52,170,684	100.00%
Less: Unamortized Discounts		**1,249,581**			1,225,624	
Total, net of discount		**50,978,892**			50,945,060	
Less: Allowance for Credit Losses						
Specific		**1,284,172**			988,786	
General		**485,521**			584,148	
Total Loans and Receivables, net	₱	**49,209,199**		₱	49,372,126	

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

Loans and receivables earn interest income at interest rates ranging 6.00% to 32.00% for year 2020 and 9.50% to 24.00% for year 2019. Total earned interest amounts to ₱8,146,969 and ₱9,354,512 for 2020 and 2019, respectively.

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

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

	2020	2019
Balance at beginning of year	₱ 1,572,934	₱ 1,272,537
Provision (IS)	196,760	320,469
Adjustment	(1)	(20,072)
Balance at end year	₱ 1,769,693	₱ 1,572,934

The total Allowance for Credit Losses of ₱1,769,693 which composed of general and specific loan loss provisions as stated above is in compliance with the BSP Manual of Regulations (Sec. 143 Appendix 15) or Circular No. 1011.

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

Classification of loans: (Net of Unamortized Discounts)

As to Maturity:

	2020	%	2019	%
Due within one (1) year	₱ 24,300,226	47.67%	₱ 21,650,641	42.50%
Due beyond one (1) year	26,678,666	52.33%	29,294,419	57.50%
Total Loan Portfolio	₱ 50,978,892	100.00%	₱ 50,945,060	100.00%

As to Status:

	2020	%	2019	%
Current Loans	₱ 44,937,016	88.15%	₱ 48,047,816	94.31%
Past Due Loans				
Performing	3,036,681	5.96%	1,993,135	3.91%
Non-Performing	2,674,053	5.25%	553,723	1.09%
Items in Litigation	331,142	0.65%	350,386	0.69%
Total Loan Portfolio	₱ 50,978,892	100.00%	₱ 50,945,060	100.00%

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

Product Line	Performing	2019 Non-Performing	Total
Agrarian Reform Loans	₱ 2,663,862	₱ 223,052	₱ 2,886,914
Other Agricultural Credit Loans	6,409,633	70	6,409,703
Small Scale Enterprise	11,336,663	481,657	11,818,319
Medium Scale Enterprise	1,370,941	-	1,370,941
Loans to Individuals for Housing Purposes	12,160,925	52,842	12,213,766
Loans to Individuals for Personal Use Purposes	14,875,345	78,031	14,953,376
Loans to Individuals for Other Purposes	1,223,582	68,457	1,292,040
Total Loan Portfolio	**₱ 50,040,951**	**₱ 904,109**	**₱ 50,945,060**

As to Security:

		2020	%		2019	%
Secured						
Real Estate Mortgage	₱	**35,872,043**	**70.37%**	₱	36,800,291	72.24%
Other Collateral		**1**	**0.00%**		5,943	0.01%
Unsecured		**15,106,848**	**29.63%**		14,138,826	27.75%
Total Loan Portfolio	₱	**50,978,892**	**100.00%**	₱	50,945,060	100.00%

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

Percentage Per Total Loan Portfolio	2020	%	2019	%
Agriculture, forestry and fishing	**₱ 10,299,746**	**20.20%**	₱ 9,296,616	18.25%
Real estate activities	**9,278,444**	**18.20%**	12,213,766	23.97%
Whole and retail trade, repair of motor vehicle, motorcycle	**16,063,452**	**31.51%**	13,189,261	25.89%
Other service activities	**1,268,209**	**2.49%**	1,292,040	2.54%
Loans to Individuals for personal use purposes	**14,069,041**	**27.60%**	14,953,376	29.35%
Total Loan Portfolio	**₱ 50,978,892**	**100.00%**	₱ 50,945,061	100.00%

Percentage Per TIER 1 Capital	2020	%	2019	%
Agriculture, forestry and fishing	**₱ 10,299,746**	**44.67%**	₱ 9,296,616	40.30%
Real estate	**9,278,444**	**40.24%**	12,213,766	52.94%
Whole and retail trade, repair of motor vehicle, motorcycle	**16,063,452**	**69.66%**	13,189,261	57.17%
Other service activities	**1,268,209**	**5.50%**	1,292,040	5.60%
Loans to Individuals for personal use purposes	**14,069,041**	**61.02%**	14,953,376	64.82%
Total Loan Portfolio	**₱ 50,978,892**		₱ 50,945,061	

The BSP considers that significant credit exposures exist when total loan to a particular economic sector exceeds 30% of the total loan portfolio or 10% of TIER 1 Capital. As at December 31, 2020, one (1) industry exceeds 30% of the total loan portfolio and four (4) industries exceeds 10% of Bank's TIER 1 Capital.

9. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

This account consists of:

	Land	Building	Furniture, Fixtures, and Equipment	Other Office Equipment	Information Technology Equipment	Transportation Equipment	Total
As at December 31, 2020							
Cost	₱ 3,500	₱ 2,066,337	₱ 233,218	₱ 211,040	₱ 846,931	₱ 1,645,006	₱ 5,006,032
Accumulated Depreciation	-	1,080,501	214,994	184,547	784,618	1,636,675	3,901,335
Net carrying amount	₱ 3,500	₱ 985,835	₱ 18,224	₱ 26,493	₱ 62,313	₱ 8,331	₱ 1,104,697
As at December 31, 2019							
Cost	₱ 3,500	₱ 2,066,337	₱ 211,818	₱ 225,039	₱ 760,388	₱ 1,645,006	₱ 4,912,088
Accumulated Depreciation	-	950,501	199,209	166,296	728,515	1,625,571	3,670,091
Net carrying amount	₱ 3,500	₱ 1,115,836	₱ 12,609	₱ 58,743	₱ 31,873	₱ 19,435	₱ 1,241,997

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2020 and 2019 is shown below:

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

	2019						
	Land	Building	Furniture, Fixtures, and Equipment	Other Office Equipment	Information Technology Equipment	Transportation Equipment	Total
Cost							
Balance at beginning of year	₱ 3,500	₱ 2,066,337	₱ 359,200	₱ -	₱ 702,358	₱ 1,645,006	₱ 4,776,401
Additions	-	-	13,156	64,501	58,030	-	135,687
Reclassification	-	-	(160,538)	160,538	-	-	-
Balance at end of year	3,500	2,066,337	211,818	225,039	760,388	1,645,006	4,912,088
Accumulated Depreciation							
Balance at beginning of year	-	792,353	340,037	-	679,368	1,614,466	3,426,224
Additions	-	158,148	17,615	7,853	49,147	11,105	243,868
Reclassification	-	-	(158,443)	158,443	-	-	-
Balance at end of year	-	950,501	199,209	166,296	728,515	1,625,571	3,670,092
Net Book Value	₱ 3,500	₱ 1,115,836	₱ 12,609	₱ 58,743	₱ 31,873	₱ 19,435	₱ 1,241,996

Depreciation amounting to ₱245,244 and ₱243,867 in 2020 and 2019, respectively, are shown as separate components of operating expenses in the Statements of Comprehensive Income.

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

The value of the Bank premises, furniture, fixtures and equipment of ₱1,104,697, net of accumulated depreciation, as of December 31, 2020 is 4.72% of the Bank's total net worth. This is lower than the 50% maximum ratio required under BSP regulation (MORB Section 109).

The Bank, after due consideration of the assessment of its impairment, believes that there are no indications that the property and equipment as of December 31, 2020 and 2019 are impaired or its carrying amount cannot be recovered.

As of December 31, 2020 and 2019, no amount of bank premises, furniture, fixtures and equipment was used as collateral for liabilities.

10. INVESTMENT PROPERTIES

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

This account consists of:

	2020	2019
Land	₱ -	₱ 207,000
Net Carrying Amount	₱ -	₱ 207,000

A reconciliation of the carrying amounts of the Bank's investment property at the beginning and end of 2020 and 2019 is shown in below:

	2020	2019
Balance at beginning of year	₱ 207,000	₱ -
Additions	-	207,000
Sold within the year	(207,000)	-
Balance at end of year	₱ -	₱ 207,000

As at December 31, 2020, the Bank sold its investment property and its corresponding gain on sale is reported under Other Income amounting to ₱123,839.

11. OTHER ASSETS

This account consists of:

	2020	2019
Financial Assets		
Accounts Receivables	₱ 201,700	₱ 204,100
Non-Financial Assets		
Prepaid Expenses	36,278	17,782
Petty Cash Fund	10,000	10,000
Stationery and Supplies on Hand	39,715	61,464
Net Other Assets	₱ 287,694	₱ 293,346

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

As at December 31, 2020 and 2019, the Bank did not provide additional allowance for credit losses on Accounts Receivable.

12. DEPOSIT LIABILITIES

This account consists of:

	2020	%	2019	%
Saving Deposit	₱ 77,413,593	100.00%	₱ 60,727,170	100.00%
Total Deposit Liabilities	₱ 77,413,593	100.00%	₱ 60,727,170	100.00%

Savings Deposits are composed of regular savings accounts which are withdrawable upon demand, special savings account which have special terms and withdrawable at certain period of time, and dormant savings account. Deposit liabilities are stated at amounts they are to be paid which approximate the deposits plus accrued interest on the date of withdrawal. Total deposits for the year decreased by ₱ 16,686,423 or 27.48% over the figures of 2019.

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

On March 23, 2020, the Monetary Board in its Resolution No. 423 approved a reduction of 100 basis points in the reserve requirement (RR) ratios of deposits and deposit substitute liabilities of thrift banks (TBs), rural banks (RBs) and cooperative banks (Coop Banks) decreasing the reserve requirement to two percent (2%). The required reserve as of December 31, 2020 amounted to ₱1,548,272 or 2% of the total deposit liabilities. This amount is in the form of deposit with Bangko Sentral ng Pilipinas which has a balance of ₱2,302,595 as at December 31, 2020 which is higher than the required reserves for rural banks.

Interest expense on deposit liabilities charged to statement of comprehensive income in 2020 and 2019 amounted to ₱628,275 and ₱617,515, respectively.

13. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

This account consists of:

		2020		2019
Accrued Other Expenses Payable	₱	**260,255**	₱	273,152
Total	₱	**260,255**	₱	273,152

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

14. OTHER LIABILITIES

This account consists of:

		2020		2019
Accounts Payable	₱	**123,934**	₱	125,388
Withholding Tax Payable		**123,707**		25,749
SSS, Medicare and Pag-Ibig Contribution Payable		**45,077**		41,784
SSS, Pag-Ibig Loan Payable		**5,153**		-
Due to the Treasurer of the Philippines		**2,873**		2,873
Dividends Payable		**963,125**		733,097
Total	₱	**1,263,870**	₱	928,891

The above liabilities are settled either by cash or check payments. As December 31, 2020 and 2019, no amount of assets was used as collateral, security or guarantee for the above liabilities.

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

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

SSS, Medicare and Pag-ibig Contribution are employee's contribution which are to be remitted by the Bank on January 2021.

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

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

15. SHAREHOLDERS' EQUITY

Ordinary Shares

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

Authorized ordinary share capital as of December 31, 2020 amounted to ₱ 15,000,000 or 150,000 shares with a par value of ₱ 100 each. Total subscribed ordinary shares amounted to ₱ 15,000,000 or 150,000 shares and paid up ordinary shares amounted to ₱ 15,000,000 or 150,000 shares as of December 31, 2020.

Under Section 121: Minimum Required Capital, Rural Banks with head office only in all other areas outside NCR are required to comply with the minimum capital of ₱ 20 Million within five (5) years. A capital build up program is also required to be submitted to the BSP within one (1) year from date of the circulars effectively. The Bank is compliant with the minimum capital as of December 31, 2020.

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

	2020		2019	
Common stock	**Shares**	**Amount**	Shares	Amount
Common stock - ₱100 par value 150,000 authorized shares	**150,000**	**₱ 15,000,000**	150,000	₱ 15,000,000
Issued & Outstanding at the beginning of the year	**139,443**	**13,944,300**	142,092	14,209,200
Additional Capital Infusion	**10,557**	**1,055,700**	3,601	360,100
Reclassification/Adjustment	-	-	(6,250)	(625,000)
Common stock at the end of the year	**150,000**	**₱ 15,000,000**	139,443	₱ 13,944,300

The Bank previously declared a cash and stock dividend amounting to ₱1,100,000 and ₱1,055,700 respectively. The declaration of cash dividend was made on June 19, 2020 and subsequently paid on July 8, 2020 under Board Resolution No. 2020-82.

The declaration of stock dividend is summarized below:

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

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

Retained Earnings - Free

	2020	2019
Balance, Beginning	₱ 9,435,394	₱ 7,253,132
Net Income	1,132,962	2,162,190
Provision and Adjustments	(2,173,561)	20,072
Balance, Ending	₱ 8,394,795	₱ 9,435,394

Provision and Adjustments

The breakdown of provision and adjustments is as follows:

	2020	2019
Previous Year Adjustment		
Income Tax Expense	₱ 25,233	₱ -
Income Tax Benefit on DTA	(96,140)	-
Insurance Expense	(17,782)	-
Current Year Adjustment		
Adjustment on booked percentage tax for 4th quarter	(81)	-
Stock dividend declared	(1,055,700)	-
Adjustment of income tax 2019	(25,232)	-
Cash dividend declared	(1,100,000)	-
Setting up DTA for provision for credit losses	96,140	-
Adjustment on General Loan Loss Provision	-	20,072
Net Adjustment to Retained Earnings - Free	₱ (2,173,562)	₱ 20,072

Capital Management

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

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

Regulatory Qualifying Capital

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

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

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

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

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

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

The CAR of the Bank as at December 31, 2020 and 2019, as reported to the BSP, is shown in the table below:

	2020	2019
Tier 1 Capital	**₱ 23,058,183**	₱ 23,070,119
Tier 2 Capital	**485,521**	584,148
Total Qualifying Capital	**23,543,704**	23,654,267
Risk Weighted Assets	**₱104,681,725**	₱ 92,781,465
Tier 1 Capital Ratio	**22.03%**	24.87%
Tier 2 Capital Ratio	**0.46%**	0.63%
Total Capital Adequacy Ratio (CAR)	**22.49%**	25.50%

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

A. Calculation of Qualifying Capital	**2020**	2019
A.1 Tier 1 Capital		
Core Tier 1 Capital		
Paid-Up Capital - Ordinary	**₱ 15,000,000**	₱ 13,944,300
Retained Earnings	**8,394,795**	9,435,394
Deductions from Core Tier 1 Capital		
Deferred Tax Assets, Net of Deferred Tax Liability	**231,915**	172,887
Total outstanding unsecured credit accommodations to DOSRI	**104,697**	136,688
Total Tier 1 Capital	**23,058,183**	23,070,119
A.2 Tier 2 Capital		
Upper Tier 2 Capital		
General Loan Loss Provision	**485,521**	584,148
Total Tier 2 Capital	**485,521**	584,148
Total Qualifying Capital	**₱ 23,543,704**	₱ 23,654,267

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

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. As at December 31, 2020 and 2019, the Bank was in compliance with CAR requirement.

Financial Performance

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

	2020	2019
Return on Average Equity	**4.84%**	9.64%
Return on Average Assets	**1.19%**	2.38%
Net Interest Margin	**8.70%**	10.45%
Debt to Equity Ratio	**3.44:1**	2.69:1
Earnings Per Share	**7.55**	15.51
Book Value Per Share	**155.97**	167.66

The Bank's ROE, ROA and Net Interest Margin Ratio as at December 31, 2020 and 2019 was computed as follows:

A. RETURN ON AVERAGE EQUITY

Formula: ROE = Net Income after Tax / Average Capital

		2020	2019
Net Income(Loss)		**₱ 1,132,962**	₱ 2,162,190
Total Shareholders' Equity			
	2020	**23,394,795**	
	2019	**23,379,694**	
	2019		23,379,694
	2018		21,462,332
Total		**46,774,489**	44,842,026
Average Equity		**23,387,245**	22,421,013
Return on Average Equity		**4.84%**	9.64%

B. RETURN ON AVERAGE ASSETS

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

		2020	2019
Net Income		**₱ 1,132,962**	₱ 2,162,190
Total Assets			
	2020	**103,813,912**	
	2019	**86,368,778**	
	2019		86,368,778
	2018		95,329,860
Total		**190,182,690**	181,698,638
Average Assets		**95,091,345**	90,849,319
Return on Average Assets		**1.19%**	2.38%

C. NET INTEREST MARGIN

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

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

	2020	2019
Net Interest Income	₱ 7,705,992	₱ 8,740,709
Total Interest Earnings Assets		
2020	97,451,668	
2019	79,608,919	
2019		79,608,919
2018		87,737,143
Total	177,060,587	167,346,062
Average Interest Earnings Assets	88,530,294	83,673,031
Net Interest Margin	**8.70%**	10.45%

D. DEBT TO EQUITY RATIO

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

	2020	2019
Total Liabilities	₱ 80,419,117	₱ 62,989,084
Total Equity	23,394,795	23,379,694
Debt to Equity	**3.44:1**	2.69:1

16. OTHER INCOME

This account consists of:

	2020	2019
Fees and Commission Income	₱ 265,446	₱ 327,020
Gains from Sale of ROPA	123,839	-
Miscellaneous Income	41,311	95,229
Application Fees	1,404,112	1,614,312
Recovery on Charged-Off Asset	200	86,300
Total	₱ 1,834,908	₱ 2,122,861

17. COMPENSATION AND BENEFITS

This account consists of:

	2020	2019
Salaries and Wages	₱ 2,791,084	₱ 2,589,026
Fringe Benefit - Officers and Employees	1,735,159	1,535,965
SSS, PHIC, HDMF Contribution	318,860	289,397
Directors and Committee Members' Fee	310,000	298,000
Contribution to retirement/provident fund	333,696	284,891
Total	₱ 5,488,799	₱ 4,997,279

18. RETIREMENT BENEFITS

This account consists of:

The Bank has a defined contribution plan provided for the retirement plan required to be paid under RA No. 7641. Under PAS 19, "Employee Benefits", the cost of defined contribution plan including those mandated under RA No. 7641 should be determined using the term or years of service of an employee. The accumulated balance of retirement obligation amounted to ₱3,235,601 which was deposited in a separate account registered as Rural Bank of Sanchez Mira (Cagayan), Inc. Retirement Plan.

		2020		2019
Post Retirement Benefit Obligation	₱	**3,235,601**	₱	2,901,905

Movements of retirement obligation movement as follow:

		2020		2019
Balance at beginning of year	₱	**2,901,905**	₱	2,617,014
Additional		**333,696**		284,891
Adjustments/Payments		**-**		-
Balance at end of year	₱	**3,235,601**	₱	2,901,905

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

19. OTHER OPERATING EXPENSE

This account consists of:

		2020		2019
Power, Light and Water	₱	**97,190**	₱	110,620
Security, Messenger and Janitorial		**147,113**		118,457
Postage, Telephone and Telegram		**48,107**		60,111
Insurance - PDIC		**128,346**		131,415
Insurance - Others		**87,074**		64,189
Stationeries and Supplies Used		**76,791**		62,113
Miscellaneous		**164,774**		239,562
Representation and Entertainment		**25,688**		18,172
Management and Other Professional Fees		**310,000**		234,411
Transportation and Travelling		**18,819**		54,018
Trainings and Seminars		**15,500**		128,117
Fuel and Lubrication		**82,726**		63,245
Repairs and Maintenance		**68,959**		55,345
Information Technology		**62,889**		60,794
Membership Fees and Dues		**5,520**		9,520
Advertising and Publicity		**23,359**		46,613
Supervision Fees		**15,101**		14,756
Fines, Penalties and Other Charges		**22,262**		3,341
Litigation Expense		**5,426**		70,969
Donations and Charitable Contributions		**14,975**		19,500
Total	₱	**1,420,619**	₱	1,565,268

20. DEPRECIATION AND AMORTIZATION

This account consists of:

		2020		2019
Depreciation Expense - Buildings	₱	**130,000**	₱	158,148
Depreciation Expense - Furniture and Fixtures		**15,785**		17,615
Depreciation Expense - Information Technology Equipment		**56,103**		49,147
Depreciation Expense - Other Office Equipment		**32,250**		7,853
Depreciation Expense - Transportation Equipment		**11,105**		11,105
Total	₱	**245,244**	₱	243,868

21. COMMITMENTS AND CONTINGENCIES

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

a.) The Bank is a plaintiff to various cases arising from the collection suits pending in courts for claims against delinquent borrowers of the bank. The final decision of which cannot be determined at present. The amount of loans and receivables under litigation amounted to ₱331,142 as of December 31, 2020.

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

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

d.) As of December 31, 2020 and 2019, the Bank has no off-balance sheet commitments and contingent accounts.

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

22. INCOME TAXES

Under Philippine tax laws, the Bank is subject to percentage and other taxes presented as 'Taxes and licenses' in the statements of income as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp taxes.

Republic Act No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 30.00%, and deductible interest expense shall be reduced by 33.00% of interest income subjected to final tax. Current tax regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Further, current tax regulations set a limit for entertainment, amusement and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services. The Bank recorded EAR expenses amounted to ₱ 25,688 and ₱ 18,172, in 2020 and 2019, respectively.

Provision for income tax consists of:

		2020		2019
Current	₱	**497,424**	₱	982,308
Deferred		**(59,028)**		(96,140)
Income tax expense reported in statements of comprehensive income	₱	**438,396**	₱	886,168

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

Current Tax

		2020		2019
Statutory income tax:	₱	**471,408**	₱	914,509
Income tax effects of:				
Provision for credit losses on loans and receivables		**59,028**		96,140
Net operating loss carry-over (NOLCO)		-		-
Interest income subject to final tax		**(56,189)**		(48,239)
Interest expense reduced by 33% income subject to final tax		**23,178**		19,898
Bad debts written-off		-		-
Current Tax Expense	₱	**497,424**	₱	982,308

Deferred Tax

Movements in the recognized deferred tax assets are as follows:

		2020		2019
Balance at beginning of the year	₱	**172,887**	₱	76,747
Allowance for credit and impairment losses		**59,028**		96,140
Balance at end of the year	₱	**231,915**	₱	172,887

Computation of Income Tax:

		2020		2019
Income before tax per books	₱	**1,571,359**	₱	3,048,358
Add: Non-deductible Expenses/Taxable Other Income				
Provision for Credit Losses on Loans and Receivables		**196,760**		320,468
Interest expense reduced by 33% income subject to final tax		**77,260**		66,328
Total		**1,845,379**		3,435,154
Less: Non-taxable Income and Income Subjected to Final Tax				
NOLCO		-		-
Accounts Written off		-		-
Interest Income Subject to Final Tax		**187,298**		160,795
Total		**187,298**		160,795
Net Taxable Income (Loss)		**1,658,081**		3,274,361
Tax Rate		**30%**		30%
Normal Corporate Income Tax		**497,424**		982,308
Minimum Corporate Income Tax		**75,972**		112,513
Income Tax Due		**497,424**		982,308
Less: Payments/Tax Credits				
Payments for the three (3) quarters		**192,125**		401,513
Income Tax Still Due/(Overpayment)	₱	**305,299**	₱	580,795

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

	2020	2019
Revenue	₱ **8,334,267**	₱ 9,515,307
Cost of Revenue	**6,183,261**	5,851,720
Gross Income	**2,151,006**	3,663,588
Add: Other Income	**1,834,908**	2,122,861
Less: Interest Income Subjected to Final Tax	**(187,298)**	(160,795)
Total Gross Income	**3,798,617**	5,625,653
MCIT Rate	**2%**	2%
Minimum Corporate Income Tax	₱ **75,972**	₱ 112,513

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

23. RELATED PARTY TRANSACTIONS

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

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

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

Remunerations of Key Management Personnel

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

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

	2020	2019
Short-term employee benefits	₱ **5,155,103**	₱ 4,712,387
Post-employment benefits	**333,696**	284,891
Total	₱ **5,488,799**	₱ 4,997,278

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

Regulatory Reporting

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

In the ordinary course of business, the Bank has loan transactions with certain directors, officers, stockholders and related interest (DOSRI). Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risk. The amount of individual loans to DOSRI, of which seventy (70%) must be secured, should not exceed the amount of his deposits and book value of his paid-in capital in the Bank. In the aggregate, loans to DOSRI should not exceed the Bank's total capital funds or fifteen percent (15%) of the Bank's total loan portfolio, whichever is lower. As of December 31, 2020 and 2019, the Bank has DOSRI loans amounting to ₱663,716 and ₱614,097 in its books, respectively. The Bank has no related party loans other than those granted to DOSRI.

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

2020	**DOSRI Loans**	**Related Party Loans Inclusive of DOSRI**
A.1. Outstanding Balance	₱ 663,716	₱ 663,716
A.2. Total Loan Portfolio	52,228,473	52,228,473
B. Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1. / A.2.)	**1.27%**	**1.27%**
C. Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans		
Unsecured	104,697	104,697
Total DOSRI/RP Loan	663,716	663,716
	15.77%	**15.77%**
D. Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans		
Past Due	446,156	446,156
Total DOSRI/RP Loan	663,716	663,716
	67.22%	**67.22%**
E. Percentage of Non-Performing DOSRI/RP to Total DOSRI/RP Loans		
Non-Performing	-	-
Total DOSRI/RP Loan	663,716	663,716
	0.00%	**0.00%**

2019	**DOSRI Loans**	**Related Party Loans Inclusive of DOSRI**
A.1. Outstanding Balance	₱ 614,097	₱ 614,097
A.2. Total Loan Portfolio	52,170,684	52,170,684
B. Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1./A.2.)	**1.18%**	**1.18%**
C. Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans		
Unsecured	136,688	136,688
Total DOSRI/RP Loan	614,097	614,097
	22.26%	**22.26%**

D. Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans		
Past Due	-	-
Total DOSRI/RP Loan	614,097	614,097
	0.00%	**0.00%**

E. Percentage of Non-Performing DOSRI/RP to Total DOSRI/RP Loans		
Non-Performing	-	-
Total DOSRI/RP Loan	614,097	614,097
	0.00%	**0.00%**

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

Revenue Regulation (RR) No 15-2010

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

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

Percentage Taxes (Gross Receipts Tax)

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

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

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

b) On dividends...0%

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

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

The GRT in 2020 consists of taxes paid on:

Interest income on loans and other related income from lending operations	416,713
Other income	128,444
Total	545,157

Documentary Stamp

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

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

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

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

Taxes and Licenses

a. Local		
Business Permit	₱	63,185
Real Property Tax		4,549
Others		4,730
b. National		
Percentage Tax		545,157
Others		-
Annual Registration-BIR		500
Total-Taxes and Licenses	₱	618,120

Withholding taxes in 2020 are categorized into:

Final withholding tax on interest expense	₱	125,655
Withholding taxes on compensation and benefits		135,365
Expanded withholding tax		30,123
Total	₱	291,143

Tax Assessments and Cases

As at December 31, 2020, the Company has no outstanding assessment notice from the BIR or cases in court or bodies outside the BIR.

Revenue Regulation (RR) No 19-2011
The Bank reported the following schedules and information on taxable income and deductible expenses to be taken in 2020:

Sale of Services

Details of the Bank's taxable sale of services are as follows:	**2020**
Taxable Services	**₱ 10,169,176**
Interest income subject to final tax:	
Due from Other Banks	**(135,298)**
Debt Securities Measured at Amortized Cost	**(52,000)**
Total	**₱ 9,981,878**

Cost of Services

Details of the Bank's tax deductible cost of services accounts are as follows:		2020
Direct Charges - Salaries and wages	₱	5,488,799
Direct Charges - Insurance (PDIC)		128,346
Direct Charges – Supervision Fee		15,101
Direct Charges - others (interest expense net of 33% limit)		
Interest expense		628,275
Less: Limit (33% of interest income subj. to final tax)		(77,260)
Total	₱	6,183,261

Itemized Deductions

Details of the Bank's itemized deductions are as follows:		2020
Advertising & Publicity	₱	23,359
Depreciation		245,244
Donations and Charitable Contributions		14,975
Fines and Penalties		22,262
Fuel & Lubricants		82,726
Information Technology Expense		62,889
Insurance - Others		87,074
Litigation Expenses		5,426
Management and Other Professional Fees		310,000
Membership Fees & Dues		5,520
Miscellaneous		164,774
Postage, Telephone, Cables & Telegram		48,107
Power, Light & Water		97,190
Repairs and Maintenance		68,959
Representation and Entertainment		25,688
Security, Messenger and Janitorial Service		147,113
Stationeries & Supplies Used		76,791
Taxes and Licenses		618,120
Training and Seminars		15,500
Transportation and Travelling		18,819
Total	₱	2,140,536

Total Deductible Expense	₱	8,323,797
Expense Reported in Audited Financial Statements		8,597,817
Difference*	₱	(274,020)

*Reconciliation of Difference:		
Interest Limit	₱	77,260
Provision for Credit Losses		196,760
Total	₱	274,020

25. AGGREGATE AMOUNT OF SECURED LIABILITIES AND ASSETS PLEDGED AS SECURITY

As of December 31, 2020, the Bank has no secured liabilities and assets pledged as security.

26. RECLASSIFICATION OF ACCOUNTS

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

27. OTHER MATTERS

1. Anti-Money Laundering Act (AMLA)

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

2. As of December 31, 2020, all of the bank's directors had undergone the requirements for corporate governance as confirmed by the Monetary Board as mandated by MORB Subsection 901.

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

28. LIST OF EFFECTIVE STANDARDS AND INTERPRETATION

In compliance with the requirements of Part 1 Section 4(J) of SRC Rule 68, as amended, as of December 31, 2020 and 2019, below is the list of all the effective standards and interpretations under PFRS that are either "Adopted", "Not Adopted" or "Not Applicable".

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✔		
PFRSs Practice Statement Management Commentary				✔
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✔		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✔		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✔		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✔		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✔
	Amendments to PFRS 1: Government Loans			✔
PFRS 2	Share-based Payment	✔		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✔		
PFRS 3 (Revised)	Business Combinations			✔
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✔
	Amendments to PFRS 3: Scope Exceptions for Joint Ventures			✔
PFRS 4	Insurance Contracts			✔
	Amendments to PFRS 9 and PFRS 4: Financial Guarantee Contracts			✔
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✔
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✔
	Amendments to PFRS 5: Changes in methods of disposal			✔
PFRS 6	Exploration for and Evaluation of Mineral Resources			✔
PFRS 7	Financial Instruments: Disclosures	✔		
	Amendments to PFRS 7: Transition	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✔		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✔		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✔		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✔		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✔		
	Servicing Contracts			✔
	Applicability of the Amendments to PFRS 7 to condensed interim financial statements			✔
PFRS 8	Operating Segments			✔
PFRS 9	Financial Instruments: Recognition and Measurement	✔		
	Amendments to PFRS 9: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✔		
	Amendments to PFRS 9: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 9: The Fair Value Option	✔		
	Amendments to PFRS 9 and PFRS 4: Financial Guarantee Contracts	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✔		
	Amendments to Philippine Interpretation IFRIC–9 and PFRS 9: Embedded Derivatives	✔		
	Amendment to PFRS 9: Eligible Hedged Items	✔		
PFRS 10*	Consolidated Financial Statements			✔
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✔
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✔
PFRS 11*	Joint Arrangements			✔
	Amendments to PFRS 11: Accounting for Acquisition of Interests in Joint Operations		✔	
PFRS 12*	Disclosure of Interests in Other Entities with transition guidance	✔		
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✔
	Clarification of the Scope of the Standard			✔
PFRS 13*	Fair Value Measurement	✔		
PFRS 14*	Regulatory Deferral Accounts			✔
PFRS 15*	Revenue from Contracts with Customers	✔		
	Clarifications to PFRS 15	✔		
PFRS 16	Leases	✔		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✔		
	Amendment to PAS 1: Capital Disclosures	✔		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✔		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✔		
	Amendments to PAS 1: Disclosure Initiative		✔	
PAS 2	Inventories			✔
PAS 7	Statement of Cash Flows	✔		
	Amendments to PAS 7: Disclosures Initiative	✔		
PAS 8	Accounting Policies, Changes in Accounting	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
	Estimates and Errors			
PAS 10	Events after the Balance Sheet Date	✔		
PAS 11	Construction Contracts			✔
PAS 12	Income Taxes	✔		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✔		
PAS 16	Property, Plant and Equipment	✔		
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation			✔
	Clarification of Acceptable Methods of Depreciation and Amortization	✔		
PAS 18	Revenue	✔		
PAS 19 (Amended)	Employee Benefits	✔		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✔		
	Plan Amendment, Curtailment or Settlement	✔		
	Defined Benefit Plans: Employee Contributions			✔
	Discount Rate: Regional Market Issue			✔
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✔
PAS 21	The Effects of Changes in Foreign Exchange Rates			✔
	Amendment: Net Investment in a Foreign Operation			✔
PAS 23 (Revised)	Annual Improvements: Borrowing Costs	✔		
PAS 24 (Revised)	Related Party Disclosures	✔		
	Key Management Personnel	✔		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✔		
PAS 27 (Amended)	Consolidated and Separate Financial Statements			✔
	Separate Financial Statements			✔
	Amendments to PAS 27: Equity Method on Separate Financial Statements			✔
PAS 28 (Amended)*	Investment in Associates	✔		
	Investments in Associates and Joint Ventures	✔		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and Its Associate or Joint Ventures			✔
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation exception			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
PAS 29	Financial Reporting in Hyperinflationary Economies			✔
PAS 31	Interests in Joint Ventures			✔
PAS 32	Financial Instruments: Disclosure and Presentation	✔		
PAS 33	Earnings per Share	✔		
PAS 34	Interim Financial Reporting			✔
	Amendments to PAS 34: Disclosure of Information elsewhere in the Interim Financial Report			✔
PAS 36	Impairment of Assets	✔		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✔		
PAS 38	Intangible Assets	✔		
	Amendments to PAS 38 Revaluation Method- Proportionate Restatement of Accumulated Amortization			✔
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✔
PAS 40	Investment Property	✔		
PAS 41	Agriculture			✔
	Amendments to PAS 41: Bearer Plants			✔
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✔
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✔
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✔		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✔
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✔
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✔
IFRIC 8	*Scope of PFRS 2*			✔
IFRIC 9	Reassessment of Embedded Derivatives			✔
	Amendments to Philippine Interpretation IFRIC–9 and PFRS 9: Embedded Derivatives			✔
IFRIC 10	*Interim Financial Reporting and Impairment*			✔
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✔
IFRIC 12	Service Concession Arrangements			✔
IFRIC 13	Customer Loyalty Programmes			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✔
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✔
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✔
IFRIC 17	Distributions of Non-cash Assets to Owners	✔		
IFRIC 18	Transfers of Assets from Customers			✔
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✔
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✔
IFRIC 21	Levies			✔
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✔
IFRIC 23	Uncertainty over Income Tax Treatments	✔		
SIC-7	Introduction of the Euro			✔
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✔
SIC-12	Consolidation - Special Purpose Entities			✔
	Amendment to SIC - 12: Scope of SIC 12			✔
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✔
SIC-15	Operating Leases - Incentives			✔
SIC-21	Income Taxes – Recovery of Revalued Non-Depreciable Assets			✔
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✔
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✔
SIC-29	Service Concession Arrangements: Disclosures.			✔
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✔
SIC-32	Intangible Assets - Web Site Costs			✔

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

On January 30, 2020, the Department of Health (DOH) reported the first case of COVID-19 infection in the country and by March 9, 2020, President Rodrigo Roa Duterte formally declared a state of public health emergency due to an increasing number of COVID-19 local transmissions. Two days after, by March 11, 2020, the World Health Organization (WHO) officially declared COVID-19 as a pandemic.

In a move to contain the spread of the COVID-19 virus, President Duterte issued Presidential Proclamation No. 929 on March 16, 2020, declaring a state of calamity throughout the country and imposing an Enhanced Community Quarantine (ECQ) throughout the island of Luzon, in effect placing the island of Luzon on lockdown until May 15, 2020. During this lockdown period, nonessential businesses were temporarily closed, curfews were implemented and travel restrictions were enforced.

In consideration of the need to revive the economy while at the same time protecting public health, the quarantine category in Luzon was gradually eased by the Inter Agency Task Force (IATF) to Modified Enhanced Community Quarantine (MECQ) until May 31, 2020 and General Community Quarantine (GCQ) starting June 1, 2020.

On July 30, 2020, the quarantine category of the province of Pampanga was further eased to Modified General Community Quarantine (MGCQ) by the IATF through Resolution No. 63 as a slowdown in COVID-19 cases was noted in the province. To-date, the province of Pampanga remains under MGCQ.

The aforementioned quarantine measures implemented by the national government through the IATF and localized lockdowns implemented by various local government units significantly impacted the Bank's operation from March 17, 2020 to May 15, 2020 in terms of granting loans and collection as well as the opportunity of gaining revenues from interest on interest, other charges while continuing to incur fixed operating costs such as salaries, lease, utilities and other contracted expenses.

Majority of the Banks's borrowers availed of the grace period/moratorium provided by the Republic Act No. 11469, also known as the "Bayanihan to Heal as One Act" wherein loan repayments, including interest & penalties falling due during the nationwide ECQ/MECQ were not due and demandable.

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

-END OF REPORT-

Romeo G. Torno & Co.

Certified Public Accountants

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

BOA Accreditation No. 4618
July 22, 2020 – June 15, 2023

SUPPLEMENTAL STATEMENT

The Board of Directors

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

We have examined the financial statements of **RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.** for the year ended December 31, 2020 on which we have rendered the attached report dated April 12, 2021.

In connection with our audit, we obtained a certification from the Company's corporate secretary as to the number of stockholders and their corresponding shareholdings as at December 31, 2020 and conducted certain tests necessary to validate the related Company's entries and balances.

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

BY:

ROMEO G. TORNO & CO., CPA's
BOA Accreditation No. 4618
July 22, 2020 – June 15, 2023
BIR Accreditation No. 04-002375-000-2021
March 15, 2021, valid until March 15, 2024

ROMEO G. TORNO, CPA
Managing Partner
CPA Certificate No. 0043083
Tax Identification No. 107-071-246
BIR Accreditation No. 04-002375-001-2021
March 15, 2021, valid until March 15, 2024
SEC No. 1678 – A
May 3, 2018 valid until May 2, 2021
PTR No. SF3543362
January 6, 2021
City of San Fernando, Pampanga

April 12, 2021

City of San Fernando, Pampanga