EXPANDING TO BRING BANKING CLOSER TO YOU

2019
ANNUAL REPORT

PoracBank

OUR BRANCHES

CORPORATE/HEAD OFFICE
Priser Trading Cor. Flora Ave., Sto. Rosario St.,
Angeles City, Pampanga
(045) 624-6177 to 79

PORAC BRANCH
General Luna St., Cangatba, Porac, Pampanga
(045) 624-6177 local 215 to 218

ANGELES BRANCH
Rizal Ext. Angeles City, Pampanga
(045) 624-6177 local 201 to 202

ANGELES-BALIBAGO BRANCH
Lot 2, Bayanihan Park, M.A. Roxas St., Malabanias,
Angeles City, Pampanga
(045) 624-6177 local 203 to 204

MAGALANG BRANCH
San Pedro I, Magalang, Pampanga
(045) 624-6177 local 208 to 209

MABALACAT BRANCH
Lot 1 Blk 2, Casmor Mabiga, Mabalact, Pampanga
(045) 624-6177 local 205

FLORIDA BLANCA BRANCH
Sta. Maria, Cor. Rizal St., Poblacion, Florida Blanca,
Pampanga
(045) 624-6177 local 210 to 211

ARAYAT BRANCH
Plaza Luma, Arayat, Pampanga
(045) 624-6177 local 212 to 214

DOLORES BRANCH
Emerald Business Center, McArthur Hi-way, Dolores,
City of San Fernando, Pampanga
(045) 624-6177 local 207

MEXICO BRANCH
San Antonio, Mexico, Pampanga
(045) 624-6177 local 206

ANGELES-PLARIDEL BRANCH
Plaridel St., Sto. Rosario, Angeles City,
Pampanga
(045) 624-6177 local 200

CONCEPCION-TARLAC BRANCH
Benj-Arl Blg, N. Dela Patric, L. Cortez St.,
Concepcion, Tarlac
(045) 624-6177 local 219

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CORPORATE PROFILE

Porac Bank is a closed family bank founded by Primo and Servillana David, Marciano Dizon, Mamerto De Mesa, Irmelo David, Vicente David and Juan Cuyugan in 1968 with the purpose of helping the communities around Porac reach their financial goals. Five decades later, Porac Bank witnessed a continued growth under the leadership of the four founders and their families. The sincere commitment of the four founders to serve the financial needs of their people has becomethe single most important legacy the founders has handed over to the succeeding generations. The importance of heritage has cultivated seasoned experts and leaders from the four families to wit: David, Dizon, De Mesa and Cuyugan. This, coupled with a customer-centric culture and a roster of dynamic professionals/ individuals certainly set Porac Bank apart from competition pushing it further to become one of the leading rural banks in Central Luzon.

Today, Porac Bank has expanded its branch network throughout the busiest and most progressive towns and cities of Pampanga including Angeles City, Mabalacat City, City of San Fernando and the towns of Magalang, Porac, Arayat, Mexico and Floridablanca. The bank offers traditional banking products viz. regular passbook savings, checking account, time deposit and loans for commercial, consumption, housing and agri/agra purposes. With a total of twelve branches in Pampanga, Porac Bank hopes to widen its reach and move its doors closer to the unbanked and underserved people in Central Luzon.

VISION

To be the preferred community bank in Central Luzon driven by generational relationships and shared growth.

MISSION

We are Porac Bank. We are in the business of fulfilling the aspirations of our stakeholders and building communities in Central Luzon

We provide prompt financial services to individuals of varied interest, thriving MSMEs through our customer-oriented professionals who are responsive, caring and open to the needs of our clients.

We are driven to be competitive to sustain growth and stability, prudent in management of our resources, steadfast in developing diversified businesses.

We uphold to protect the interest of our clients, employees and shareholders with integrity, fairness and honesty in all our dealings.

We partner with our employees in building a progressive and profitable banking institution by fostering a working environment that recognizes individual worth and rewards outstanding performance.

CORE VALUES

We believe in Malasakit –a long held Filipino virtue that is deeply embedded in our culture and what sets us apart from competition. It is what drives us to do business on a personal level in that we consider our employees and clients as if they are part of our own family. It is the proclivity to always go the extra mile and do more than what is expected of us of true altruism extended to secure the best interest of the bank and its stakeholder. We are Porac Bank and we are driven with Malasakit.

Malasakit cultivates positive relationships. Malasakit resonates with our people. It is what has allowed us to build and maintain generational relationships; one that goes beyond mere business and employee-employer connection.

Malasakit drives Excellence. Malasakit best describes the common and inherent desire among our people to provide banking solutions that will foster shared growth for the bank, the employees, the clients and the community it operates in. It is the consciousness that prods us to continuously seek better ways to help our stakeholders make the best possible financial decisions.

Malasakit drives Integrity. Malasakit is naturally exuded by our people towards the bank and its stakeholders. It fuels our commitment to uphold strong business ethics.

MESSAGE FROM THE CHAIRPERSON

The theme "Expanding to Bring Banking Closer to You" describes the bold path that the leadership of Porac Bank has taken in 2019 as it finally commenced with the first phase of its 5-year strategic expansion plan which can be summarized in two folds: Expansion in Central Luzon and Expansion in Service Capabilities. With the substantial increase in development in Pampanga and the surrounding provinces comes the greater need for support in country side development. Hence, this bold decision to expand is to keep up with the growing demand for affordable and great banking services and a testament of our thrust to provide the most efficient, cost-effective and accessible banking services to everyone.

As we prepare this report for you, we, together with the rest of the world, are facing an unprecedented uncertainty and other grappling effects of the global health and economic crisis posed by the COVID-19 pandemic. While we are yet to grasp the full extent of how the "New Normal" will affect the banking industry, the Bank, our employees and our clients, rest assured that we will continue to do our best in order to remain steadfast in our commitment of expanding to bring banking closer to you.

On behalf of the board of directors, management and staff of Porac Bank, we want to thank you for your continued confidence and support. We're looking forward to getting to know our new Central Luzon-based customers and providing them with the same service, commitment and expertise that our current customers have become accustomed to.

ALMA LIMJOCO
Chairperson, Porac Bank

PRESIDENT'S MESSAGE

"2019 was a year of wider horizon, of stronger posture in the banking industry, unprecedented growth and visions, finally realized."

Dear Stakeholders,

A lot was planned and a lot was executed. 2019 was a year of wider horizon; of stronger posture in the banking industry, unprecedented growth and visions, finally realized. We are proud to state that we did well on key strategic initiatives with an overall priority of Expanding to Bring Banking Closer to the People. We've succeeded on a few firsts and recorded significant achievements. GROWTH was evident, celebrated and was shared with our stakeholders.

Our resources grew to P2.048billion at the close of 2019 –the highest that the bank has ever witnessed in its 51 years of operations. In a span of ten years, we almost doubled our resources which was at PhP1.158billion in 2009.

Our loan portfolio soared to P1.292 Billion at the close of 2019. Gross Loan Portfolio strengthened and expanded by as much as 19.51% or an increase of P210.89million posted at a year-end level compared to PhP1.081billion in 2018. This is stemmed from the noted increase in the banks commercial loans particularly the small and medium enterprise and private corporation as we continually support the thriving and growing businesses in our community. However, there was a slight increase in the Bank's past due ratio from 10.58% in 2018 to 10.72% at the close of the year 2019 albeit, still below the industry average of 13.47%. Moving forward, the Bank is committed to further strengthen its credit underwriting process, credit monitoring process and collection strategy to address the shortcoming.

On a positive note, our deposits rose to PhP1.424billion or an increase of P89.1Million from last year. The opening of our Concepcion, Tarlac Branch gave us the opportunity to expand our market reach thus, increasing the deposit base in 2019.

As a result, the Bank's balance sheet key ratio Gross Loans to Deposit was fortified in 2019 which was posted at an impressive 90.72%, exceeding the industry average of 77.83%.

Total Income for the audited year increased by P23.043Million from P148.516Million in 2018 to P171.560Million by year-end 2019; a significant portion of the increase is attributable to income from disposable asset (ROPA) which was a proven success as one of the strategic initiatives of the bank.

Due to the inflation and considering the bank's growing operations, expenses likewise increased by P19.228Million from P127.822 Million in 2018 to P147.050 Million by year-end 2019;

Earnings from share likewise increased by P1.69 from P9.16 in 2018 to P10.85 in 2019; It must be noted however, that net interest margin decreased by P1.07% from 6.94% in 2018 to 5.87% in 2019. This is due to the increase in interest expenses from using the Bank's rediscounting line with Land bank.

While earning assets continue to increase in amount, the net interest margin continues to decline. In fact, net interest income decreased from P104.305Million in 2018 to P104.043Million 2019 as a result of decreasing interest rates for loan receivables.

Capital Adequacy Ratio decreased by 1.01% from 18.68% 2018 to 17.67% in 2019. The notable decrease in the Bank's CAR is due to several factors including the increase of ACL and Risk Weighted Assets. Where, Tier 1 Capital Ratio decreased from 17.87% in 2018 to 16.76% in 2019 while the Tier 2 Capital Ratio increased from 0.82% to 0.91% within the same period.

The Bank's ROA and ROE increased between years 2018 and 2019 from 1.25% to 1.29% and 7.08% to 8.48%, respectively. Likewise, net income after tax increased from P20.7Million in 2018 to P24.5Million by 31-December 2019.

At the branch level, majority of twelve branches contributed and attained an achievement level of minimum 85% for Total Gross Loans while ten out of twelve branches augmented the Bank's Total Deposit Liabilities and registered minimum achievement level of 80%.

Here at Porac Bank, we do business on a different level in that we make sure that relationship with our clients would continue, transaction after transaction; passed on from generation to generation. Creating and maintaining generational relationship is a priority. All these proves that we have succeeded at our first strategic priority that is to maintain a strong financial position.

Our second strategic initiative is focused on expansion. For so long, we have envisioned to expand our market reach both in terms of market penetration and product development. These were made possible in 2019 when the Bank's vigorous directorate, dedicated and competent team of Senior Management were complemented by a dynamic and capable human resource and stronger internal controls in place. It is upon realization of the foregoing that we become certain: WE ARE FINALLY READY TO EXPAND TO NEW TERRITORIES.

With these, we knew that we are on the right track towards the attainment of the bank's new vision that is to become the preferred community bank in Central Luzon fostering generational relationships and shared growth. In 2019, the bank earned another milestone -a big leap and a first for Porac Bank. At the start of 2019, we have officially opened the bank's first branch-lite unit and the first outside the province of Pampanga. After 4 months of operations, the Board and the Management saw the great opportunity for Porac Bank Concepcion Branch that they decided to convert the satellite unit into a full-servicing branch.

And so as envisioned, the branch-lite unit was immediately converted to a full-servicing branch by July 2019. Now the branch caters a wider array of services to serve a wider range of clients. With expansion as the second most important initiative, the bank applied for the establishment of its13th branch in the city of Tarlac, Tarlac. Coincident with the approval of the conversion of Concepcion Branch, the monetary board of the Bangko Sentral ng Pilipinas vested its approval for said initiative in July 2019.

Expansion encompasses almost all fronts of the business. We've also expanded our product lines for loan and implemented said additions in 2019. We officially rolled out an agricultural loan program guaranteed by the AGFP. The foregoing initiative has allowed the bank to serve the agri-agra sector which was otherwise challenging given the high level of credit risk inherent to said industry. We've also soft launched the CAR LOAN to our existing clients to help them realize their dream of owning their very first car or upgrading to anything they aspire to have.

"Our resources grew to P2.048Billion at the close of 2019 –the highest that the bank has ever witnessed in its 51 years of operations."

In the same year, we've inked another agreement with Landbank of the Philippines for the acquisition of an additional POS Cash-Out Terminal which was deployed in Florida branch. Through the foregoing initiative we aim to bring banking closer to the beneficiaries of the Pantawid ng Pamilyang Pilipino Program by providing a closer, more convenient withdrawal center where they can easily access their cash subsidies.

We also made sure that our employees benefit from this strategic priority. One of our priorities remain to be the Preferred Workplace by promoting a healthy work -life balance, participation in sports and other recreational activities. To that end, we invested greatly in our employees. We are excited to witness them be the best version of themselves by personally mentoring our Officers and providing relevant and effective trainings. We have expanded our employee benefits and recognition programs to encourage high level of engagement among our employees. We made sure that great performance is rewarded and employees are appreciated.

Finally, our fourth and last strategic priority is to strengthen reputational image and community engagement. This year, the Management and all the employees of the bank actively participated in a bid to help protect the environment. Together, we were able to plant 500 saplings of banana, cacao and Bamboo in Sapang Bato, Angeles City, Pampanga. We actively promote the reduction of carbon footprint in the workplace by encouraging employees to be responsible in using electricity and in reusing, reducing and recycling waste. Driven by our commitment to make a significant impact, we conducted a sequel to the Race for Hope. The event introduced us to a number of benefactors including influencers and private companies among others. This has allowed us to support the 52 members of the KidsCancerVive through the cash we've raised in the event amounting to P434, 205.63

We are telling our story as we invested in strengthening the Porac Bank Brand. The Management endeavored to apply consistency on all fronts of the business –from visual to auditory to the actual experience itself. As part of this endeavor, the Management plans to renovate its branches and offices to maintain a consistent architectural design unique to the Porac Bank brand. In 2019, we completely revamped Porac Bank Mabalacat and Porac Bank Florida Branch.

"WE ARE FINALLY READY TO EXPAND TO NEW TERRITORIES."

The revamp aims to, in addition to the foregoing, convey a stronger financial position and enhance customer experience. We have leverage the power of social media to tell our story to the stakeholders and an even wider reach of audience. Notwithstanding the numbers and data, we can say that we are the game changer among Rural Banks when it comes to delivering our brand promise in the social media sphere. To fortify our third strategic priority as we advance to new endeavors in the coming years, we redefined our core values and our credo which embodies the virtue of "Malasakit".

At the turn of the new decade, we must reaffirm our commitment to have common interests, united efforts and concerted actions in preserving Porac Bank's stability and vitality. As we are ushered in to a highly competitive global banking environment, it is incumbent upon us to strive for sustained growth and advancement and make this the centerpiece of our endeavor. Together, we must keep our aspirations burning and be ready to shift to high gear in 2020 as we jointly undertake to maintain and fortify a financially secure PORAC BANK.

It has been an amazing year for Porac bank, with operations soaring to new heights and community engagement, strengthened. We are energized by our current momentum and we are so proud to be Porac Bank as we celebrate successes and prepare for more!

LOURDES CONNIE C. TAYAG
President/CEO

FINANCIAL HIGHLIGHTS

	2019	2018
Profitability		
Total Net Interest Income	104,043,766.00	104,305,897.00
Total Non-Interest Income	56,064,579.00	34,152,584.00
Total Non-Interest Expenses	128,838,921.00	119,109,567.00
Pre-provisioning Profit	45,911,469.01	28,286,215.50
Allowance for Credit Losses	58,976,888.00	49,045,038.00
Net Income	31,269,424.00	19,348,914.00
Selected Balance Sheet Data		
Liquid Assets	666,471,894.00	592,659,261.00
Gross Loans	1,292,092,964.47	1,081,198,297.47
Total Assets	2,048,131,067.00	1,766,189,271.00
Deposits	1,424,338,090.44	1,335,232,963.43
Total Equity	297,741,044.00	280,276,367.00
Selected Ratios		
Return on Equity	8.48%	7.08%
Return on Assets	1.29%	1.25%
Capital Adequacy Ratio	17.67%	18.68%
Per Common Share		
Basic Net Income per share	10.85	9.16
Diluted Net Income per share	10.85	9.16
Book Value per share	131.77	124.05
Others:		
Cash Dividends Declared	7,908,155.50	-
Headcount	160	153
Officers	25	25
Staff	135	128

Note: Figures are based on Audited Financial Statements of the bank for year 2019 and 2018

5- YEAR COMPARATIVE STATISTICS

LOAN PORTFOLIO

(IN MN PHP)

TOTAL RESOURCES

PHP 2 BILLION

1.29%
RETURN ON AVERAGE ASSET

22, 991
CASA & TD ACCOUNTS

17.67%
CAPITAL ADEQUACY RATIO

1, 274
LOAN ACCOUNTS

10.72%
PAST DUE RATIO

8.48%
RETURN ON AVERAGE EQUITY

160
NUMBER OF EMPLOYEES

STATEMENT OF FINANCIAL POSITION

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
STATEMENTS OF FINANCIAL POSITION

	As at December 31	
	2019	2018
ASSETS		
Cash and Other Cash Items (Note 6.1)	**₱ 17,947,947**	₱ 15,614,387
Due from BSP (Note 6.2)	**48,915,872**	46,300,179
Due from Other Banks (Note 6.2)	**208,873,401**	240,265,315
Debt Securities Measured at Amortized Cost (Note 7)	**390,734,674**	290,479,380
Loans & Receivable, Net (Note 8)	**1,262,719,641**	1,058,088,759
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 9)	**46,824,229**	36,355,849
Investment Property, Net (Note 10)	**38,434,411**	52,834,298
Deferred Tax Asset	**5,304,700**	5,372,571
Other Assets, Net (Note 11)	**12,682,490**	7,541,642
Retirement Benefit Asset (Note 12)	**15,693,702**	13,336,891
TOTAL ASSETS	**₱ 2,048,131,067**	₱ 1,766,189,271
LIABILITIES & SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 12)	**₱ 1,424,338,090**	₱ 1,335,232,963
Accrued Interest, Interest, Taxes and Other Expenses (Note 14)	**17,107,704**	14,436,592
Bills Payable (Note 13)	**270,000,000**	100,000,000
Deferred Tax Liability	**2,607,476**	2,607,476
Other Liabilities (Note 15)	**32,609,045**	32,238,108
Income Tax Payable (Note 25)	**3,727,708**	1,397,766
TOTAL LIABILITIES	**1,750,390,023**	1,485,912,905
SHAREHOLDERS' EQUITY		
Ordinary Share Capital	**225,947,300**	225,947,300
Retained Earnings - Free	**70,405,991**	52,606,991
Retained Earnings - Reserve for healthcare fund (Note 16)	**7,022,194**	7,022,194
Retained Earnings - Reserve for defined benefit cost- OCI (Note 16)	**(5,634,441)**	(5,300,119)
TOTAL SHAREHOLDERS' EQUITY	**297,741,044**	280,276,366
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**₱ 2,048,131,067**	₱ 1,766,189,271
BOOK VALUE PER SHARE	**₱ 131.77**	₱ 124.05

See accompanying Notes to Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
STATEMENTS OF COMPREHENSIVE INCOME

	For the Year Ended December 31	
	2019	2018
INTEREST INCOME		
Loans & Receivables (Note 17)	**₱ 106,933,109**	₱ 107,371,591
Due from Other Banks (Note 17)	**1,133,927**	729,815
Debt Securities Measured at Amortized Cost (Note 17)	**7,428,799**	6,262,794
TOTAL INTEREST INCOME	**115,495,835**	114,364,200
INTEREST EXPENSE		
Deposit Liabilities (Note 18)	**9,843,458**	9,310,428
Bills Payable	**1,608,611**	747,875
TOTAL INTEREST EXPENSE	**11,452,069**	10,058,303
NET INTEREST INCOME	**104,043,766**	104,305,897
PROVISION FOR CREDIT LOSSES	**-**	-
NET INTEREST INCOME AFTER PROVISION	**104,043,766**	104,305,897
OTHER INCOME (Note 19)	**56,064,579**	34,152,584
TOTAL INCOME BEFORE OPERATING EXPENSES	**160,108,345**	138,458,481
OTHER OPERATING EXPENSE		
Compensation & Fringe Benefits (Note 20)	**48,545,554**	44,574,320
Other Operating Expenses (Note 21)	**65,340,348**	61,294,272
Depreciation & Amortization (Note 22)	**8,665,732**	7,995,864
Taxes & Licenses (Note 25)	**6,287,287**	5,245,112
TOTAL OTHER OPERATING EXPENSE	**128,838,921**	119,109,567
NET INCOME BEFORE INCOME TAX	**31,269,424**	19,348,914
INCOME TAX EXPENSE (BENEFIT) (Note 25)	**6,759,926**	(1,344,979)
NET INCOME AFTER INCOME TAX	**₱ 24,509,498**	₱ 20,693,893
EARNINGS PER SHARE	**₱ 10.85**	₱ 9.16

See accompanying Notes to Financial Statements.

STATEMENT OF CHANGES IN EQUITY

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2019 and 2018

		ORDINARY SHARE CAPITAL (Note 16)		RETAINED EARNINGS - FREE (Note 16)		RETAINED EARNINGS – RESERVE (Note 16)		Total
Balance at January 1, 2019	₱	**225,947,300**	₱	**52,606,992**	₱	**1,722,075**	₱	**280,276,367**
Issuance of shares								-
Reserve for healthcare fund								-
Reserve for defined benefit cost- OCI								
Total comprehensive income for the year				**24,509,498**				**24,509,498**
Provisions and Adjustments				**1,197,657**		**(334,322)**		**863,335**
Cash dividend declared				**(7,908,156)**				**(7,908,156)**
Balance at December 31, 2019	₱	**225,947,300**	₱	**70,405,991**	₱	**1,387,753**	₱	**297,741,044**
Balance at January 1, 2018	₱	225,947,300	₱	76,286,435	₱	1,965,997	₱	304,199,732
Issuance of shares								-
Total comprehensive income for the year				20,693,893				20,693,893
Provisions and Adjustments				(18,389,397)		(243,922)		(18,633,319)
Stock dividend declared				(25,983,940)				(25,983,940)
Balance at December 31, 2018	₱	225,947,300	₱	52,606,992	₱	1,722,075	₱	280,276,367

See accompanying Notes to Financial Statements.

STATEMENT OF CASH FLOW

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
COMPARATIVE STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before Income Tax	**₱ 31,269,424**	₱ 19,348,914
Adjustments for:		
Depreciation& Amortization	**8,665,732**	7,995,864
Provision on credit losses	**-**	8,937,302
Net charges to surplus/Prior period adjustments	**863,335**	(18,633,319)
Stock Dividend Declared	**-**	(25,983,940)
Interest Income	**(115,495,835)**	(114,364,200)
Interest Expense	**11,452,069**	10,058,303
Changes in Working Capital:		
Loans & other Receivables	**(204,630,882)**	(73,191,785)
Investment Properties	**13,020,670**	(7,692,318)
Other Assets	**(5,140,848)**	(777,510)
Retirement benefit asset	**(2,356,811)**	(2,349,833)
Deferred tax asset	**67,871**	12,535,998
Deposits Liabilities	**89,105,127**	129,988,478
Other liabilities	**370,937**	34,370,615
Accrued Interest and other liabilities	**2,671,113**	52,794
Interest Received	**115,495,835**	114,364,200
Interest Paid	**(11,452,069)**	(10,058,303)
Income Tax Paid	**(4,429,985)**	1,608,416
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**(70,524,317)**	86,209,676
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase/(Decrease) in:		
Additions to bank premises	**(17,754,895)**	(9,192,757)
Acquisition of HTM investments	**(100,255,294)**	(114,663,758)
NET CASH USED BY INVESTING ACTIVITIES	**(118,010,189)**	(123,856,515)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Cash Dividends to Stockholders	**(7,908,156)**	-
Proceeds from bills payable	**170,000,000**	80,000,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	**162,091,845**	80,000,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(26,442,661)**	42,353,161
CASH AND CASH EQUIVALENTS, BEGINNING	**302,179,881**	259,826,720
CASH AND CASH EQUIVALENTS, ENDING	**₱ 275,737,220**	₱ 302,179,881

(See accompanying Notes to Financial Statements)

OPERATIONAL HIGHLIGHTS

BSP APPROVAL GRANTED TO PORAC BANK TO ESTABLISH 13TH BRANCH

A lot has been planned and a lot has been executed. Among these plans is the bank's vision to expand throughout Central Luzon.

In 2019, the bank applied for the establishment of another branch in the city of Tarlac, Tarlac which was approved by the monetary board of the Bangko Sentral ng Pilipinas on January 2019. Poised to become the next big metropolis after Manila, Tarlac seems the perfect focus of business expansion. With developments in the area both private and public, the Management anticipates the likely growth of the MSMEs in the area who are the bank's primary target market. The new branch is set to open to the public by January 2020.

PORAC BANK CONCEPCION BLU CONVERTED INTO FULL BRANCH

In July 2019, the monetary board of the Bangko Sentral ng Pilipinas has approved the bank's application to convert the newly opened branch lite unit in Concepcion, Tarlac into a full-servicing branch.

The branch-lite unit was officially opened in January 2019 and was initially intended to fortify the bank's deposit-generating function. Shortly after, the Management realized the opportunity present in the area which the bank couldn't fully seize yet given the limited activities that the branch-lite unit is allowed to perform. It is in this premise that the Management deemed it necessary to apply for the conversion of said BLU into a full branch. Upon issuance of the approval, restrictions in the banking activities were lifted for Porac Bank Concepcion Branch. This means that the branch can now cater to the needs of more clients and offer a wider array of services including but not limited to the acceptance of deposits, acceptance and grant of credit as well as bill payments.

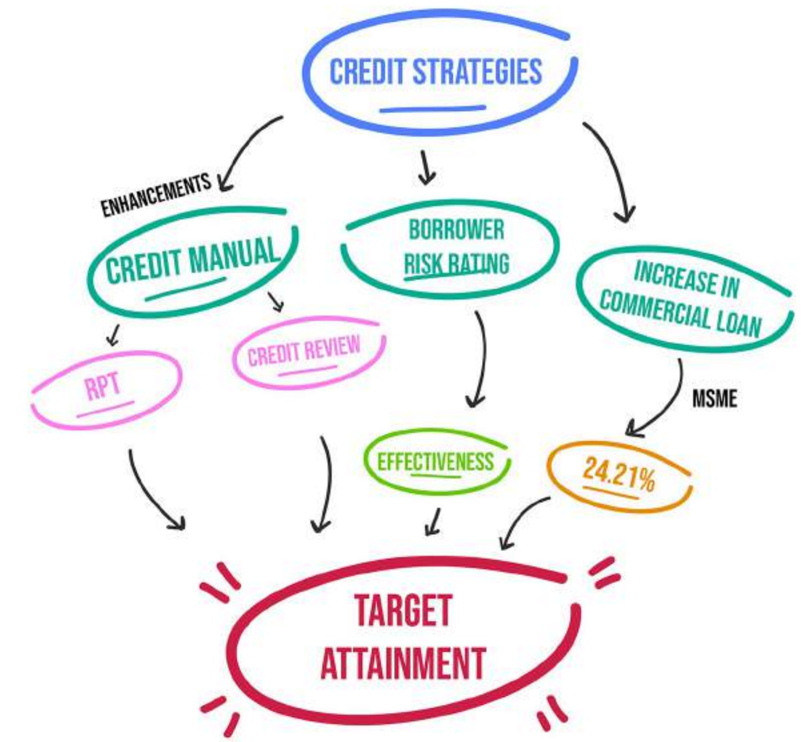
In 2019, the Bank recorded a 24.21% increase in commercial loans. A huge chunk of this is because of the significant increase in lending activities to Micro, Small and Enterprises from P769.961 Million in 2018 to P956.361 Million in 2019. Hence, reflects the Bank's strategic credit direction and commitment to support the MSME sector.

The Bank registered an all-time high level of loan portfolio after it surpassed the established targets thereto by 19.51%.

Enhancements in the Borrower Risk Rating System were made to include guidelines on relationship management and credit administration, enhancements on the guidelines for setting up allowance for credit losses, improvements in portfolio management, and board reporting among others.

Enhancements in the credit manual were made to strengthen processes including post-monitoring, credit review and handling of related party transactions among others.

2019 CREDIT ENHANCEMENTS



ENTERPISE-WIDE BUSINESS CONTINUITY TESTING

The Bank successfully conducted a table top testing in July 2019 followed by a full-scale or an enterprise-wide BCP testing in August of the same year using the hypothetical scenario that the Bank's primary server collapsed. The test aims to ensure the operational viability and effectiveness of the bank's BCP plan. Both tests revealed that employees have become more cognizant and ready in such stressed scenario to which, in the event of such disaster, execution of the bank's Business Continuity Plan will be more effective.

NEWLY RENOVATED PORAC BRANCHES

The Management endeavored to apply consistency on all fronts of the business –from visual to auditory to the actual experience itself. As part of this endeavor, the Management plans to renovate its branches and offices to maintain a consistent architectural design unique to the Porac Bank brand. In 2019, both Florida and Mabalacat branch underwent major renovation. The renovation aims to, in addition to the foregoing, convey a stronger financial position.

The renovation of Porac Bank Florida branch was completed in July 2019 and was celebrated through a ribbon-cutting ceremony attended by the clients, Officers, employees and Directors of the bank. The employees paraded around town to announce the newly renovated office of Porac Bank Florida branch.

FLORIDABLANCA BRANCH

MABALACAT BRANCH

"We, at Porac Bank, believe that planting a tree is a lifelong investment."

On August 17, 2019 the Management and employees of Porac Bank gathered to plant 500 saplings of Banana, Cacao and Bamboo at Sitio Target, Sapang Bato, Pampanga in hopes that we can contribute to the improvement of the quality of our living environment through active planting and preservation of trees. As the old chinese proverbs says, *"The best time to plant a tree was 20 years ago. The second best time, is now."*

FINANCIAL LITERACY SEMINAR

As part of the bank's commitment to promote financial literacy, Porac Bank conducted an interactive workshop and seminar for the children of Tinker Kids Playgroup. The Bank believes that financial wellness is a concept that must be cultivated at an early age.

As such, our employees taught the children of Tinker Kids about the value of saving. To make the experience even better, the bank hosted a role-playing activity for the Tinker Kids. Where, they were given certain tasks in exchange for play money rewards which were then used to simulate the experience of owning a savings account with the Bank.

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

The bank's risk management framework encompasses the following theoretical underpinnings:

- Risk should be managed on an ongoing basis which connotes a continuous process of identifying, measuring, controlling and monitoring of risks throughout the life of a transaction. This then allows the bank adequate information and historical basis to establish effective risk mitigants.
- People remain the bank's greatest and most critical resource to attain success. As such, adherence to the highest ethical standards and best human resource practices along with the provision of continuous trainings to hone the skills of the employees are imperative for the success of the bank.

RISK APPETITE AND STRATEGY

In line with our belief that success and great rewards are only possible with calculative risk taking, Porac Bank adopts a conservative approach in accepting and managing risk exposures. The bank has well defined policies, procedures and limits in place to dictate its risk-taking activities. These limits are presented, monitored to and periodically evaluated by the board and/or the appropriate Management Committee.

The Bank has well defined policies, procedures and limits in place to dictate its risk-taking activities. These limits are presented, monitored to and periodically evaluated by the Board and/or the appropriate Management Committee.

RISK AREAS

Porac Bank faces risks inherent in the banking firm primarily in the form of credit, market liquidity, operational, and legal risk. The Bank's risk management framework is oriented towards the efficient management of these risks.

CREDIT RISK

Credit risk is the risk of failure that may result from the borrower's failure to comply with the terms and conditions of the loan agreed upon. Porac Bank manages this risk through:

- Use of internal credit risk rating system for corporate and consumer lending;
- Establishment of limits and strict adherence for the effective management of large exposures, concentration risk as well as exposure to a start-up business, out of the territory, RPT and DOSRI;
- Use of credit manual approved by the Board anchored from BSP Circular 855 for guidance in the credit workflow process for corporate and individual borrowers;
- Continuous development of credit policies and underwriting process to ensure compliance with the highest standards of due diligence in lending;
- Regular and practical evaluation of the ability of current borrowers to fulfill their financial obligation with the bank throughout the life of such transaction.

FUNDING LIQUIDITY RISK

Funding liquidity risk pertains to the possibility that the Bank may fail to generate the necessary funds to meets its obligations when they become due as well as large and sudden demands for cash from its depositors without excessive costs. Maturity mismatch between the bank's assets and liabilities exposes the bank to such risk.

To monitor the bank's exposure to liquidity risk, a volume gap analysis is undertaken on a monthly basis following the Maximum Cumulative Outflow model. To further assess the bank's liquidity position, stress testing is conducted regularly. The bank adheres to a boardapproved Contingency Funding Plan to ensure that the bank is ready should a liquidity problem arise.

MARKET RISK

Market risk refers to the risk of loss that the Bank may suffer as a consequence of significant events in the financial market such as changes in monetary policies. The bank's current business activities exposes it largely to interest rate risk which covers the volatility of the bank's investments particularly in government bonds. To bank monitors such risk through a price gap analysis which is further augmented by periodic stress testing.

OPERATIONAL RISK

Poor Board and Management oversight, weak internal control, failed and/or inadequate systems, processes and people give rise to operational risk. Operational risk encompasses fraud, operational glitches and strategic risk.

The bank adopts an ongoing approach in managing operational risk as follows:

- Regular monitoring and evaluation of processes, people and systems;
- Implementation of stringent internal control policies;
- Continuous streamlining of business processes;
- Periodic risk assessment of the activities and engagements of the bank particularly those considered critical in the day to day operations of the bank;
- Implementation of an effective incident reporting mechanism;
- Adhering to a board-approved business continuity plan to ensure non-disruption of operations in the face of adversity; and
- Continuous training and development further augmented by periodic performance evaluation

OPERATIONAL RISK REPORTING

It is the thrust of the Rural Bank of Porac (Pamp), Inc. to promote the adoption of an effective risk management system that will enable the sustenance of a safe and sound banking operations for the bank.

The Operational Risk Manual embodies a comprehensive guideline in identifying, evaluating, measuring, monitoring and reporting of al operational risks associated with the activities conducted by the each unit of the bank. These guidelines aim to align the bank's risk management practices with international standards and best practices in the industry.

The bank implemented a process of regularly monitoring operational risk profiles and material risk exposures to losses on a continuing basis. The process takes into account both qualitative and quantitative assessment of exposure to all types of operational risk.

The process likewise assess the quality and appropriateness of corrective or mitigating actions and ensure that adequate controls and systems are in place to identify and address problems before they become major concern.

In effect, branches are required to identify, measure and report risk exposures arising from process/ policy infringement, operational lapses and the like on a monthly basis. These risks are then, through the Executive Committee, regularly reported to the Board of Directors for evaluation or proper disposition.

LEGAL RISK

Legal risk is often caused by poorly documented transactions resulting in an economic or reputational loss due to regulatory or legal problems. It may also lead from inadvertent or intentional non-compliance with laws, rules, regulations and ethical norms.

Porac Bank manages legal risk through periodic compliance controls, process standardization, contracts, and documentation requirements. Also, outstanding court cases, contracts, and comparable records are kept centralized to allow for easier supervision and reporting of the same to the Board of Directors.

OVERALL GOVERNANCE

The Board of Directors sets the risk appetite of the Bank. Since the dissolution of the Risk Oversight Committee, the Board has assumed direct and bigger participation in evaluating, enhancing and even formulating risk strategies together with the appropriate Management Committee, as applicable.

REPORTING AND MANAGING RISK

Since the dissolution of the Risk Oversight Committee in 2019, the functions of the Risk Oversight Committee were assumed by the Board of Directors and the remaining Management Committees, as follows:

- The Executive Committee has assumed the responsibility of monitoring and managing operational risks;
- The Credit Committee has assumed the responsibility of monitoring and managing credit risk;
- Liquidity, legal, interest, reputational and liquidity risk shall directly be monitored and managed by the board of Directors.

Hence, the Management Committees and the Board shall integrate the following responsibilities in their respective functions:

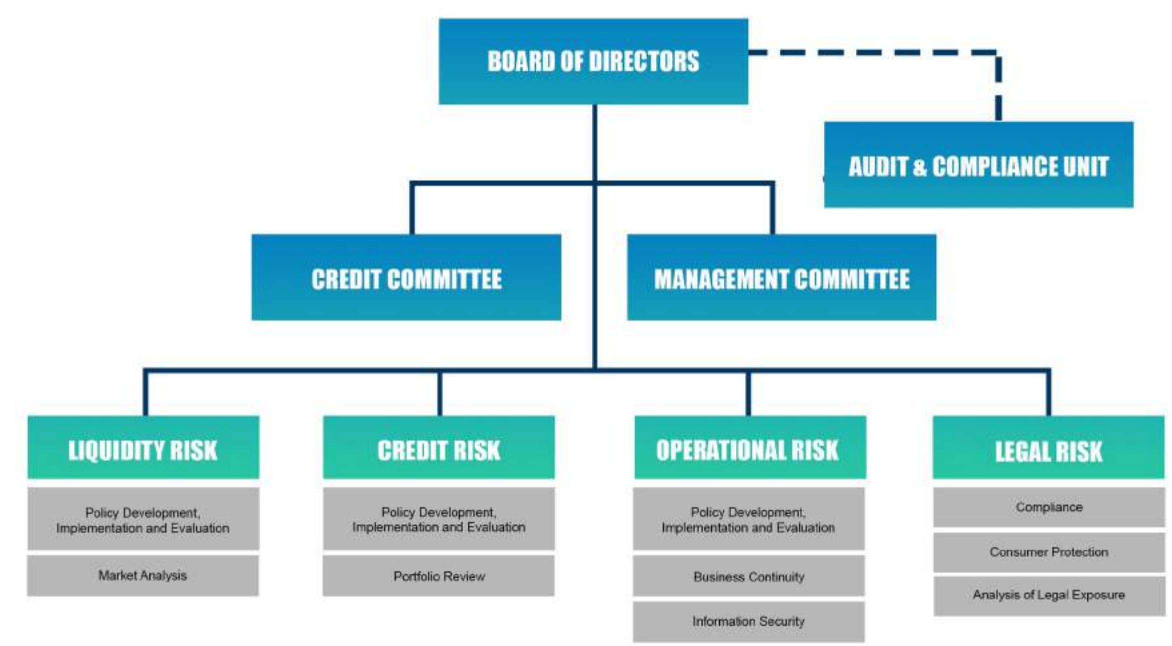
- Conduct the necessary analyses to allow the same bodies to monitor and manage the Bank's risk profile;
- Formulate strategies for managing and controlling risks;
- Develop policiesconsistent with the risk management practices of the Bank;
- Review the adequacy of the bank's risk management policies and ensure effective implementation thereof;
- Identify, monitor and evaluate risk exposure and minimize the possible impact thereof on the Bank;

RISK MANAGEMENT STRUCTURE

The bank adopts a three-line defense model in managing risks as follows:

- Process owners or their business units constitute the bank's first line of defense. The process of identifying, evaluating and monitoring of risk is integrated in the day to day operations of these units. In addition, business units are responsible for ensuring effective implementation of policies and procedures. Business units report to the Senior Vice President for Operations any matters deemed significant in managing risk.
- The second line of defense refers to the audit and compliance unit. Both of which play a vital role in ensuring the effective implementation of policies and procedures through independent testing systems. The foregoing allows the Bank to capture/ measure risks in an accurate manner and recommend as needed, enhancements to such policies and procedures necessary for efficiently mitigating risks.
- The third line of defense refers to the Management Committees and/or Board of Directors, which are responsible for establishing and regularly reviewing the risk management framework, structures, limit setting and overall oversight of current and potential risks. The Board of Directors approves the bank's risk strategy and aligns the bank's direction to it. The same body plans and dictates the action to be taken to effectively manage risk.

RISK MANAGEMENT STRUCTURE



CONSUMER PROTECTION

Porac Bank fully supports the policy of the State to protect the interest of the consumers, promote their welfare and to establish standards of conduct for the banking industry. It is one with the Bangko Sentral ng Pilipinas (BSP) in providing disclosure and transparency, protection of client information, fair treatment, effective recourse as well as financial education and awareness to its consumers.

The Board of Directors (BOD) has the ultimate responsibility for the level of customer risk assumed by Porac Bank. Accordingly, the Board approves the Bank's overall business strategies and significant policies, including those related to managing and taking customer risks. The Senior management on the other hand is responsible for implementing a program to manage the customer compliance risks associated with the Bank's business model, including ensuring compliance with laws and regulations on both a long-term and a day-today basis.

Porac Bank identifies its customer protection risks in each principle through analyzing its effects to the Bank and the customer. The following were specifically recognized or identified risks by the Bank under the different principles or protection standards of consumer protection: 1) Oversight Bodies; 2) Disclosure and Transparency; 3) Conflict of Interest; 4) Protection of Customer Information; 5) Fair Treatment; 6) Remuneration Structure; 7) Effective Recourse ; 8) Financial Education and Awareness.

The Bank designed an operational channel in handling customer complaints. It has designated its Branch Managers to serve as the Customer Assistance Officers (CAOs), while appointed a Head, Consumer Assistance Officer assigned in the Corporate Office. The Head, Consumer Assistance Officer shall then report to the SVP for Operations and/or the President for the latter to present and discuss the report on complaints to the Board which will provide action based on the recommendations of the Head of CAOs and/or the SVP Operations.

In 2019, The Bank has improved the reporting procedure of customer complaints from its branches to the Consumer Protection Office through converting to electronic filing of complaints where CAOs can report and lodge complaints easily. The same reporting tool also enables the bank to utilize a central database for all customer complaints.

Below is the corporate structure of Porac Bank in handling complaints:

1 CUSTOMERCONCERN/ COMPLAINT

2 CHANNELS:
- E-MAIL
- MOBILE NO.
- FACEBOOK
- VIBER
- WALK-IN

3 ONLINE FILING

4 FEEDBACK/SOLUTION

ANTI-MONEY LAUNDERING

It is the policy of the bank to protect the integrity and confidentiality of bank accounts and ensure that it shall not be used as money laundering site or a conduit for the proceeds of an unlawful activity. Porac Bank prohibits and actively prevents money laundering and any activity that facilitates money laundering and/or funding of terrorist or criminal activities by promoting high ethical standards and complying with relevant laws, rules and regulations.

BASIC PRINCIPLES AND POLICIES TO COMBAT MONEY LAUDERING AND TERRORIST FINANCING

The bank's AMF/CFT framework is founded on the following principle:

- Comply with the highest ethical standards to sustain a sound banking system;
- Protect the bank and its stakeholders against potentially malicious individuals and organizations by obtaining adequate information from each client;
- Adopt a sound AML / CFT system to identify, evaluate, monitor and control relevant risks ;
- Promote faithful compliance by institutionalizing shared responsibilities across every member of the organization with existing laws to combat money laundering and terrorist financing;
- Ensure full cooperation with AMLC for the effective implementation and enforcement of the AMLA and its IRR.

BOARD AND SENIOR MANAGEMENT OVERSIGHT

The board of directors shall be responsible for ensuring that the provisions of the MTPP manual and the AMLA and its implementing rules and regulations, as amended, are fully observed.

Likewise, the Senior Management shall be responsible for maintaining company activities appropriately aligned with the Board's strategic objective, risk, and corporate values.

The senior management shall establish a control and balance management structure to cultivate a culture of accountability and transparency.

RECENT UPDATES IN THE MTPP MANUAL

In compliance with the latest regulatory developments in anti-money laundering embodied in BSP Circular 1022 and the AMLC Advisory on Digitization of Customer Records, revisions in the Bank's MTPP (previously termed MLPP) manual were approved by the Board of Directors in December 2019, which includes the following enhancements:

(a) Inclusion of Tax Crime such as Tax Evasion and Illegal Investment Activities such as Ponzi Scheme in the list of unlawful activities;

(b) clarification on the definition of beneficial owner and PEP as well as the inclusion of the Philippine ID and Source of Wealth among others in the Definition of Terms;

(c) adaptation of institutional risk assessment;

(d) enhancements in the updating policy requirement on the basis of risk and materiality;

(e) infusion of the Bank's policy and procedure in the Digitization of Customer Records; and

(f) enhancements in the Bank's filing system of customer records.

The foregoing enhancements in the MTPP manual has been disseminated to all concerned personnel and placed in full effect starting February 2020.

In addition, continuous training and seminars are being conducted to ensure that employees are kept abreast of the latest development in anti-money laundering laws, rules, regulations and procedures an imperative initiative for an effective AML system.

MEET OUR LEADERS

ALMA D. LIMJOCO
CHAIRMAN

LOURDES CONNIE C. TAYAG
EXECUTIVE DIRECTOR

NAPOLEON TEDD D. LIMJOCO
CORPORATE SECRETARY

WILFRED JOSEPH T. DAVID
EXECUTIVE DIRECTOR

THE BOARD OF DIRECTORS

ELOISA D. SARMIENTO
NON-EXECUTIVE DIRECTOR

MARK PRIMO T. DAVID
NON-EXECUTIVE DIRECTOR

BENJAMIN D. DIZON
NON-EXECUTIVE DIRECTOR

MARY VALERIE JOY V. DAVID
NON-EXECUTIVE DIRECTOR

ANNA CLAUDINE T. DAVID
NON-EXECUTIVE DIRECTOR

RENE B. DE MESA
INDEPENDENT DIRECTOR

RALPH PRIMO A. DAVID
NON-EXECUTIVE DIRECTOR

AIDA D. CORONEL
NON-EXECUTIVE DIRECTOR

PORAC BANK BOARD OF DIRECTORS

ALMA D. LIMJOCO, 69
Filipino
CHAIRMAN

Board Chairperson Alma D. Limjoco was first seated as member of the board of directors of Porac Bank in 1988. She graduated from St. Scholastica's College in 1971 with a bachelor's degree in Commerce. Board Chairperson Limjoco previously served as Branch Manager and President/Chairman of Porac Bank. Likewise, she is the Director/Treasurer of Gold Fleuret, Gold Fleuret Realty and Development and Florida Agri Business Corporation and the President/Director of Priser Trading Corporation.

LOURDES CONNIE C. TAYAG, 47
Filipino
EXECUTIVE DIRECTOR

Director/ President Lourdes Connie Tayag is a graduate of St. Scholastica's College in 1993 with a degree in AB Mass Communication. In 2010, she graduated from Holy Angel University with a degree in BS Nursing and later earned her master's degree in Business Administration from Ateneo Graduate School of Business in 2015. Prior to her appointment as President, she was the Corporate Secretary of the bank from 2001-2009 and has been elected as member of the board since 2010. She is likewise a Director /Treasurer of Sta. Rita College.

WILFRED JOSEPH T. DAVID, 46
Filipino
EXECUTIVE DIRECTOR

Director Wilfred Joseph T. David graduated from the University of the Philippines in 1993 with a bachelor's degree in Business Management and later earned a degree in Bachelor's of Law at Harvardian Colleges in 2004. He has been a director of the bank since 2014 and is currently one of the SVP for Operations of the bank.

NAPOLEON TEDD D. LIMJOCO, 41
Filipino
CORPORATE SECRETARY

Mr. Napoleon Tedd D. Limjoco graduated from the University of Asia and the Pacific in 1999 with a bachelor of arts in Humanities major in Business Administration. He earned his Master's Degree in Management. He currently holds the position of Senior Vice President for Operations and concurrently acts as Corporate Secretary. He is likewise the Vice President of Gold Fleuret Corporatio, President of Gold Fleuret Realty and Development Corporation and the Vice President of Florida Agri Business.

MARK PRIMO T. DAVID, 41
Filipino
NON-EXECUTIVE DIRECTOR

Director Mark Primo T. David graduated from Angeles University in 2000 with a degree in BS Computer Science. He has been a member of the board since 2010. He held the position of Admin Supervisor at the Office of City Administrator —Angeles City.

ELOISA D. SARMIENTO, 80
Filipino
NON-EXECUTIVE DIRECTOR

Director Eloisa Sarmiento graduated from University of Santo Tomas in 1960 with a bachelor's degree in Education major in Home Economics. She has been a member of the board since 1995.

AIDA D. CORONEL, 82
Filipino
NON-EXECUTIVE DIRECTOR

Director Aida D. Coronel graduated from the University of Santo Tomas in 1959 with a degree in BS Commerce. She has been a member of the board since 1988.

MARY VALERIE JOY V. DAVID, 46
Filipino
NON-EXECUTIVE DIRECTOR

Director Mary Valerie Joy V. David graduated from St. Scholastica College in 1994 with a degree in Bachelor of Science in Hotel and Restaurant Management. She is elected as a member of the board since February 9, 2019.

RALPH PRIMO A. DAVID, 44
Filipino
NON-EXECUTIVE DIRECTOR

Director Ralph Primo David holds a bachelor's degree in business management from Republic Central Colleges and has been a member of the board since 2007

RENE B. DE MESA, 71
Filipino
INDEPENDENT DIRECTOR

Independent Director Rene B. De Mesa graduated from Araneta University in 1969 with a degree in BS Agriculture. He has been a member of the board since 2003. He is likewise a Director of De Mesa Farm.

ANNA CLAUDINE T. DAVID, 46
Filipino
NON-EXECUTIVE DIRECTOR

Ms. Anna Claudine T. David has been a member of the board since 2003. She graduated from Assumption College in 1993 with a degree in Bachelor of Science in Comerce major in International Business and earned her master's degree in Business Administration from the University of Western Australia. She is likewise the managing Director of Factset Philippines, Inc.

BENJAMIN D. DIZON, 43
Filipino
NON-EXECUTIVE DIRECTOR

Director Benjamin Dizon graduated with a degree in Bachelor of Science in Medical Technology at University of Santo Tomas in 1997 and later earned his degree in Doctor of Medicine in 2001 at University of Santo Tomas. He is currently a Resident Doctor in Ophthalmology at St. Luke's Medical Center, The owner of Dizon Eye and Skin Clinic, he is also a physician at St. Luke's MAB; Clinica Henson and appointed as Company Physician of Porac Bank. He has been a member of the board since March 1, 2019.

	No. of Meetings Attended	Total No. of Meetings	% Rating	%Shareholdings	Shares Held
Alma D. Limjoco	39	43	91%	14.79%	Direct
Lourdes Connie C. Tayag	40	43	93%	13.84%	Direct
Wilfred Joseph T. David	43	43	100%	8.88%	Direct
Mark Primo T. David	43	43	100%	1.55%	Direct
Eloisa D. Sarmiento	42	43	98%	1.99%	Direct
Anna Claudine T. David	32	43	74%	0.50%	Direct
Benjamin D. Dizon	42	43	98%	1.55%	Direct
Aida D. Coronel	42	43	98%	1.60%	Direct
Mary Valerie Joy V. David	42	43	98%	5.70%	Direct
Ralph Primo A. David	38	43	88%	1.75%	Direct
Rene B. De Mesa	42	43	98%	3.35%	Direct

NOTE: No major stockholder owns more than twenty percent (20%) shares of stock. No indirect shares

THE EXECUTIVE OFFICERS

NAPOLEON TEDD LIMJOCO
SVP FOR OPERATIONS

LOURDES CONNIE TAYAG
PRESIDENT

WILFRED JOSEPH DAVID
SVP FOR OPERATIONS

MARIA MILAGROS ESPIRITU
VP FOR ACCOUNTING

JEREMY SUN
SVP FOR IT

FRANCEL PIA PENA
VP FOR PROPERTY MANAGEMENT

EMILY GUANZON
CHIEF COMPLIANCE OFFICER

CYNTHIA GUTIERREZ
AVP FOR HR&ADMIN

ANA TERESA BANAWA
INTERNAL AUDITOR

EILEEN MANALOTO
CHIEF ACCOUNTANT

KIMBERLY PANUSTAN
LOAN OFFICER

REYANN PATIO
EXECUTIVE ASSISTANT

PAUL JOHN JARANILLA
ORGANIZATIONAL DEVELOPMENT MANAGER

THE EXECUTIVE OFFICERS

Lourdes Connie C. Tayag, 47, is the President/CEO of the Rural Bank of Porac since March 2010. She forms part as Chair of the Executive Committee, Credit Committee and Property Management Committee. She is also the Director and Treasurer of Sta. Rita College. Prior to her election as President, she was the bank's Corporate Secretary from 2001 to 2010. She obtained a degree in A.B. Mass Communication at St. Scholastica's College in 1993, a Bachelor's degree in Science of Nursing at the Holy Angel University in 2010 and in 2015, a Master's Degree in Business Administration at Ateneo Graduate School of Business.

Napoleon Tedd D. Limjoco, 41, currently holds office at the Rural Bank of Porac (Pamp), Inc. as SVP for Operations and Corporate Secretary since 2011 and 2014, respectively. He is a member of various management committees including the Executive Committee, Credit Committee and Property Management Committee. Prior to his appointment as SVP for Operations, he held various positons in the bank from 2007 to 2014 including but not limited to Area Manager and AVP for Operations.He was elected the President of the Pampanga Federation of Rural Banks from 2010-2011. He also worked at Petron Corporation as Market Analyst from 2000 to 2007. He obtained a Bachelor's degree of Arts in Humanities Major in Business Administration in 1999 at the University of Asia and Pacific and a Master's Degree of Science in Management in 2000.

Wilfred Joseph T. David, 46, currently holds office at the Rural Bank of Porac (Pamp), Inc. as Director/ SVP for Operations. He is a member of various management committees including the Executive Committee, Credit Committee and Property Management Committee. His banking career started in 1992 at Metrobank where he worked as New Accounts until 1993. From 1994-1997 he worked at Far East Bank and Trust Co. as SDD. Prior to his appointment as SVP for Operations, he held various positons in the bank from 2008 to 2014 including but not limited to Management Trainee, Area Manager and AVP for Operations. He graduated with a degree in Business Management in 1993 at the University of the Philippines. He also obtained a degree in Bachelor of Laws in 2004.

Jeremy M. Sun, 43, was appointed the SVP for IT on July 2014. He graduated with a bachelor's degree in Electronics and Communications Engineering at Holy Angel University in year 2000 and has obtained a certificate for CISCO CERTIFIED NETWORK ASSOCIATE from the University of the Philippines in year 2013. He was a former Network Engineer at the University of the Philippines from 2001 to 2008. After which, he became the Consultant Engineer of the same institution from 2008 to 2012. From year 2006 to 2012, he worked at the Philippine General Hospital as Consultant Engineer.

Francel Pia D. Pena, 39, was appointed the VP for Property Management in 2014. She graduated in 2002 with a bachelor's degree in science of Family and Life Development and took post graduate studies in Arts of Reading at Philippine Normal University.

Maria Milagros T. Espiritu, 55, was appointed the VP for Accounting on August 2015. Prior to said appointment, she worked at the Philippine National Bank from 1996-2014 under various roles and positions including Bank Teller, Investment Specialist, Customer Relations Officer, Relationship Officer and Branch Manager. She graduated at the University of the Philippines in 1983 with a bachelor's degree in arts of economics and took post graduate studies of professional studies major in management at the Pampanga State University.

Emily L. Guanzon, 49, graduated in 1991 with a degree in BSBA major in Accounting at the Holy Angel University and passed the CPA licensure examination in the same year. She now holds office at the Rural Bank of Porac as the Chief Compliance thereof. Prior to said appointment, she held various positions in the bank including but not limited to Cashier/ OIC, BookkeeperInternal Auditor

Cynthia C. Gutierrez, 52, was first hired as the HRD head in 1997 until 2014. Where, she was appointed the AVP for HR. She graduated from Angeles University Foundation in 1988 with a degree in Bachelor of Science in Commerce major in Economics. She took post graduate studies of Business Administration in the same school.

Ana Teresa M. Banawa, 55, graduated with a degree in BSBA Major in Accounting at the Holy Angel University in 1985. She became a Certified Public Accountant in Year 1987. She was initially hired by the bank as Assistant Auditor in 2011 until she was appointed the Internal Audit Head on October 05, 2015.

Kimberly S. Pabustan, 26, graduated magna cum laude at Systems Plus College Foundation in 2015 with a degree in Bachelor of Science in Accountancy and passed the CPA licensure examination in 2015. She was initially hired by the bank in 2016 as Credit Reviewer until she was promoted to ranks as Loan Officer on January 16, 2018.

Paul John P. Jaranilla, 27, was appointed the bank's Organizational Development Manager on November 2018. He was initially hired as Admin Staff/ Reliever on September 2013 and was, not long after, promoted to HR/ Admin Associate. He graduated from Holy Angel University in 2013 with a degree in BS Accounting Technology and obtained a Master's Degree in Business Management in 2016.

Rey Ann M. Patio, 26, appointed as the Executive Assistant (EA) to the President on June 05, 2015. Prior to her appointment as EA, she held the position of Disbursing Clerk from May 2013 until she was promoted to Treasury Assistant. She graduated from Holy Angel University in 2013 with a degree in Marketing Management. She obtained a Master's Degree in Business Management from the same school in year 2018.

Eileen D. Manaloto, 26, graduated magna cum laude from Holy Angel University with a degree in BS in Accounting Technology in 2013 and a degree in BS Accountancy in 2014. Ms. Manaloto passed the licensure examination for Certified Public Accountant on October of the same year. She started her career as the Assistant to the Internal Audit Head of Porac Bank from February 2015 to August 2015. After which she was assigned as the Chief Accountant of the Rural Bank of Porac.

EXECUTIVE COMMITTEE

Chairperson: Lourdes Connie C. Tayag
Members: Wilfred Joseph T. David
Napoleon Tedd D. Limjoco

The Executive Committee acts as the highest decision-making body second to the board for matters concerning operations, security, human resources, budgeting and business planning among others.

In 2019, the dissolution of the Risk Oversight Committee has caused the transfer of certain functions of the former Committee under the authority of the Executive Committee including but not limited to the oversight of legal risk, market and liquidity risk, operational and credit risk.

	No. of Meetings Attended	Total No.of Meetings	% Ratings
Lourdes Connie C. Tayag	8	8	100%
Wilfred Joseph T. David	8	8	100%
Napoleon Tedd D. Limjoco	8	8	100%

Accomplishments:

• Facilitated the implementation of the strategic plans for year 2019

• Facilitated the conversion of the Branch-lite unit in Concepcion branch into full branch

• Successfully obtained BSP approval for the establishment of the bank's 13th branch in Tarlac City, Tarlac;

• Approved and endorsed to the board, the implementation of the AGFP-backed agricultural loan and pilot implementation of the Car Loan

• Approved and endorsed to the board amendments of various policies including the Contingency Funding Plan and Policy on Investment, among others

• Successfully executed the bank's Philantrophic endeavors such as the Tree Planting in August 2019, Race for Hope Year 2 in November 2019 and the Handog Pag-ibig for the KidsCancerVive in December 2019.

• Reviewed, approved and endorsed to the board, bonus programs to further improve employee retention;

• Reviewed and approved several programs for the employees aimed towards strengthening employee engagement;

• Approved and endorsed succession plan for business units;

CREDIT COMMITTEE

Chairperson: Lourdes Connie C. Tayag
Members: Wilfred Joseph T. David
Napoleon Tedd D. Limjoco
Francel Pia D. Peña

The Credit Committee reviews, approves and endorses applications, policies and reports relating the bank's credit granting function. Ensures that credit transactions with DOSRI/RP are conducted at arm's length. In 2019, the dissolution of the Risk Oversight Committee has caused the transfer of certain functions of the former Committee under the authority of the Credit Committee particularly the management of credit risk.

Accomplishment:

• Reviewed and approved credit within the authority of the Credit Committee

• Proposed, endorsed and facilitated the implementation of new credit products such as the AGFP-backed agriculture loan and the car loan;

• Reviewed, monitored and facilitated compliance with existing credit limits;

• Reviewed and approved process enhancements to increase efficiency of the credit department;

	No. of Meetings Attended	Total No.of Meetings	% Ratings
Lourdes Connie C. Tayag	45	50	90%
Wilfred Joseph T. David	50	50	100%
Napoleon Tedd D. Limjoco	46	50	92%
Francel Pia D. Peña	38	50	76%

PROPERTY MANAGEMENT COMMITTEE

Chairperson: Lourdes Connie C. Tayag
Members: Wilfred Joseph T. David
Napoleon Tedd D. Limjoco
Francel Pia D. Peña

The Property Management Committee defines the pricing objective for ROPA and other assets of the bank and sets out plan to dispose the same to support the bank's profitability target.

Accomplishment:

• Approved disposal plan for ROPA and other assets of the bank;

• Approved strategies to facilitate the successful disposal of long-standing ROPA items or those that have been with the bank for more than 5-years;

• Facilitated the attainment of profitability target from ROPA

	No. of Meetings Attended	Total No.of Meetings	% Ratings
Lourdes Connie C. Tayag	2	2	100%
Wilfred Joseph T. David	2	2	100%
Napoleon Tedd D. Limjoco	2	2	100%
Francel Pia D. Peña	2	2	100%

AUDIT & COMPLIANCE COMMITTEE

Chairperson: Rene B. De Mesa
Members: Mark Primo T. David
Benjamin C. Dizon
Alternate: Anna Claudine T. David

The Audit and Compliance Committee is responsible in reviewing internal control and risk management systems as well as compliance with existing laws, rules and regulations.

	No. of Meetings Attended	Total No.of Meetings	% Ratings
Rene B. De Mesa	13	13	100%
Mark Primo T. David	13	13	100%
Benjamin C. Dizon	11	13	85%

Accomplishment:

• Reviewed effectiveness of internal controls and risk management systems

• Monitored the implementation of approved Audit and Compliance Committee recommendations.

• Actively pursued the resolution of internal audit issues cited by BSP examiners.

• Reviewed, monitored the audit plans and programs for the year as well as compliance testing plans for the year;

• Performed audits on an unannounced basis.

• Facilitated the compliance of auditees with relevant BSP regulations

• Modified the internal audit group's scoring guide to correspond with management's own measures of performance.

• Revised the risk based audit methodology to improve the audit approach.

• Participated in the organization's annual strategic planning to ensure that available audit resources are being utilized in an efficient and effective manner in achieving the bank's goals and objectives.

CORPORATE GOVERNANCE

FRAMEWORK. The Board of Directors of Porac Bank recognizes the importance of good corporate governance and corporate social responsibility in promoting and strengthening the trust of its stakeholders and believes that good corporate governance and corporate social responsibility will enhance shareholder value.

To be the Bank of Choice for our Customers, Shareholders, Employees and Community, the Board will conduct itself in accordance with the highest standard of ethical conduct and in accordance with law, in the best interests of its stakeholders.

COMPOSITION. The business affairs of Porac Bank is conducted under the supervision and control of eleven (11) Board of Directors, including one (1) independent director pursuant to Section 15 and 17 of R.A. No. 8791

SELECTION. In proposing directors, the Board will take into consideration experience in at least one area of significance to the Board (e.g. banking, business, marketing, technology, public service, human resources, finance, accounting, law, management or management consulting); ability to contribute to deliberations of the Board; ability to exercise sound business judgment; ability to think strategically; demonstrated leadership experience; also seeking a high level of professional skill and integrity, as well as other appropriate personal qualities.

The Board of Directors will propose candidates to be elected as a director in order to replace a vacant position. Proposed candidates are assessed based on the qualification and disqualification criteria of the bank which is anchored from the BSP's fit and proper standards.

Newly appointed directors will be provided with appropriate briefings and information relating to the Bank, and be advised of the legal, regulatory, good corporate governance and other duties of Directors as required by the BSP.

ROLE AND CONTRIBUTION OF THE EXECUTIVE, NON-EXECUTIVE AND INDEPENDENT DIRECTOR.
Non-executive directors, who shall include independent directors, shall comprise at least majority of the board of directors whose role is to promote the independent oversight of management by the board of directors. Whilst, executive director manages the daily activities and ensures the board's vision is met.

OVERALL RESPONSIBILITY. The duties and responsibilities of the Board as stipulated by law, Articles of Incorporation,

Articles of Incorporation, By-Laws and resolutions of shareholders, include the following:

(a) directing the policies, strategies and financial objectives of the Bank and approving policies and operational directions proposed by management as well as overseeing and monitoring management's implementation of those policies, strategies, and financial objectives, with the aim of maximizing economic value and shareholders' wealth.

(b) devising structures and procedures designed to ensure compliance with the regulatory requirements, the Articles of Incorporation resolutions of the Board and shareholders meetings and ethical standards, in good faith and with care;

(c) developing structures and procedures to ensure appropriate system for risk management, internal compliance, audit and control.

(d) developing structures and procedures to ensure a strong and appropriate capital fund for business and risk operations.

(e) monitoring and assessment of management performance in the implementation of Boardapproved policies and budgets.

(f) getting criteria for, and evaluating, the performance of the Chairman of the Executive Committee, the President, senior members of the management which include, Senior Vice Presidents (SVPs), Vice Presidents (VPs) or other equivalent positions to SVPs, VPs in different name;

(g) Ensuring that there is preparation and bookkeeping on accounting reports and related documents as well as disclosure of appropriate information to shareholders, depositors, and the general, public.

(h) reviewing on a regular and continuing basis the succession plan for the position of Chairman of the Executive Committee and the President.

(i) observing and ensuring compliance with the Director's Code of Conduct.

(j) setting policies pertaining to good corporate governance and corporate social responsibility.

CHAIRMAN'S ROLE. In accordance with BSP issued Circular 969, the Chairperson of the board of directors of Porac Bank shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. He shall:

(1) ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;

(2) ensure a sound decision making process;

(3) encourage and promote critical discussion;

(4) ensure that dissenting views can be expressed and discussed within the decision-making process;

(5) ensure that members of the board of directors receives accurate, timely, and relevant information;

(6) ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and

(7) ensure conduct of performance evaluation of the board of directors at least once a year.

(7) ensure conduct of performance evaluation of the board of directors at least once a year.

CODE OF BUSINESS CONDUCT.
Porac Bank Board recognizes their commitment to observe highest ethical standards in all their business dealings and to uphold full compliance with all applicable laws, rules and regulations. In line with this, the Code of Business Conduct aims to lay down the standards that Porac Bank expects of its board in fulfilling their roles and responsibilities as incumbent board members. This Code intends to articulate the acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest and personal gain at the expense of Porac Bank. Through this Code, Porac Bank seeks to develop a Culture of Accountability among its board of directors and to enhance their practice of good corporate governance.

PERFORMANCE ASSESSMENT.
Evaluating the performance and effectiveness of the Board as a body, the various committees and the Senior Management link performance to the mission of the Board, the company and the department or office. It promotes improvement in the banking function, recognizes exceptional professional performance, and ultimately achieves a workplace of high performing individuals and groups and brings about continued improvement in the work processes of the company.

The Board of Directors is assigned to facilitate the annual evaluation of the performance and effectiveness of the Board itself as a body, as well as its various committees, its Senior Management and the Bank.

A set of questionnaires/forms is answered by each member of the Board to evaluate the performance of various committees taking into account different areas of concern and/or factors such as the degree of management, effectiveness and overall performance.

For year 2019, the performance assessment conducted by the Board enabled the same to ponder on the different areas of improvement and admirable performance of the Board itself, the Management Committees and the Senior Management. The end result exhibited an overall creditable performance in their mandated functions.

ON-GOING ORIENTATION & EDUCATION.
Porac Bank ensures that the on-going orientation and education program for the board, senior management, officers and employees are in place and are laid-out in the annual training program approved by the Board.

Prior to appointment of a board of director, the same shall be able to attend a seminar on corporate governance and must undergo on-boarding orientation. Continuing refresher and education is also given to the board and employees such as the annual AML seminar and other training program deemed fitting and necessary.

RETIREMENT.
The Bank has adopted a policy where the retirement age for directors and the senior management and officers are at 80 years old and 65 years old or the compulsory retirement age mandated by law, respectively. However, a deviation from the said policy, limited to postponement of a director's retirement, may be allowed so long as the Board deems it necessary to continually utilize the wisdom and experience of the director for the benefit of the Bank and all of its stakeholders.

Regular directors shall serve a one-year term and until their successors are elected. An independent director of Porac Bank, on the other hand, may only serve as such for a maximum cumulative term of nine (9) years, which shall be reckoned from 2012. After which, the independent director shall be perpetually barred from serving as independent director, but may continue to serve as regular director.

SUCCESSION.

The board-approved succession plan for directors and officers contains the following sections: 1.) Goals of the Succession Plan; 2.) Criteria for Selection of Successor; 3.) Planning and Review; 4.) Procedure; 5.) Assessment of Candidates; 6.) Emergency Succession; 7.) Communication of Policy. This succession plan shall allow the prospective successor to undergo assessment of qualification to become director in accordance with BSP Circular No. 969 to ensure fitness and propriety of the candidates prior to their appointment or election.

REMUNERATION.

The Board of Directors determines the remuneration of the Senior Management based on the annual performance evaluation which they conduct covering various factors for consideration such as management, functional, personal and targets at the same time assessing the decision skills, strategic skills and leadership skills of the said officers. The four most highly compensated management officers are the President, Senior Vice President, Vice President and Assistant Vice President.

The executive directors of Porac are entitled to fixed pay salary, benefits, bonuses and retirement program just like its employees. On the other hand, Non-Executive Directors of Porac Bank receives per diem on every board meetings.

EXPENDITURE MANAGEMENT POLICY.

The expenditure management policy has been approved by the board to serve as a guiding framework for the allocation of expenditures of Porac Bank by determining regular finances and restricted expenses in order to ensure financial discipline and operational efficiency amongst the management.

In effect, this policy shall restrict or prohibit excessive/ luxurious and/ or other expenses of similar nature that are no longer deemed reasonable for capital outlays; staff, office and facility development; performance incentives and other considerations pertinent to business operations.

WHISTE BLOWING POLICY.

Porac Bank is geared towards the attainment and adherence of ethical, moral and legal conduct in the operation of its business. To assure that these standards are met and maintained, the bank complies with BSP Circular No. 499 or the establishment of effective whistle-blowing procedures by which employees can convey any concerns or suspicions that may arise in the course of performing their jobs to strengthen the Bank's system on detection and prevention of corporate fraud.

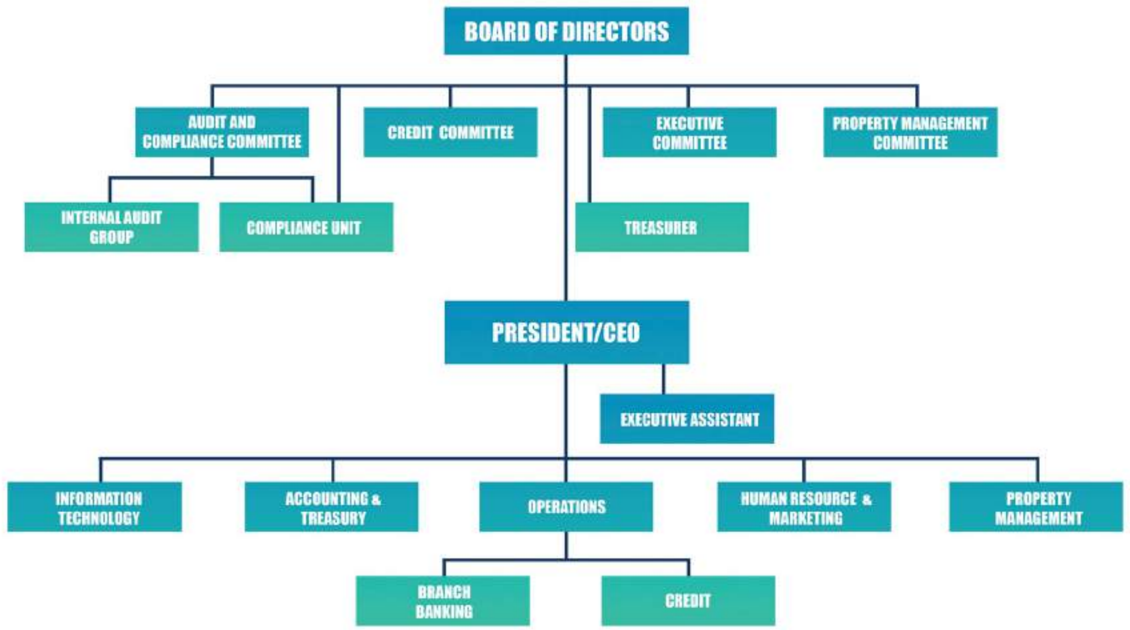
The Whistle blowing Policy applies to all ranks, from Bank's Directors, the Senior Management, permanent and probationary officers/managers and staffs of the Head Office and its branches.

DIVIDEND POLICY.

The procedures in distributing/ paying dividends entail prior board approval for cash dividends and a majority or at least 2/3 affirmative votes of the stockholders for (1) dividends on record and (2) payment dates based on BSP policies on declaration of dividends and with due recommendation from the Senior Management.

The net amount available for dividend declaration is based on the unrestricted retained earnings and undivided profits which shall be based on a sound accounting system and loss provisioning process that considers relevant adjustments to capital including losses, bad debts and unearned profits or income.

In 2019, the bank declared cash dividend equivalent to 3.50% of its subscribed capital amounting to 7,908,155.50. Date of record was on December 31, 2018 and date of distribution was on February 21, 2019.



AUDIT & COMPLIANCE

Porac Bank's corporate compliance and internal audit functions are designed as an integrated process, independent from the business operations they assess to effectively manage its business risks and promote compliance with pertinent banking laws, rules and regulations, policies and standards of good practice and provide reasonable assurance regarding the achievement of objective in the effectiveness and efficiency of operation and reliability of financial reporting.

The Compliance Unit and Internal Audit Group conducts audits from an objective and comprehensive standpoint, independent of operational reporting lines, by assessing the suitability and effectiveness of business activities associated with compliance and risk management and offering advice and remedial recommendations in connection with any problems that may be identified.

The Compliance Unit and Internal Audit Group are directly reporting to the Board of Directors thru the Audit and Compliance Committee. With the Board of Directors' oversight, management has established structures, appropriate authorities and responsibilities and channels to support the regular monitoring and reporting of internal control processes.

On behalf of the Board, the Audit and Compliance Committee oversees the monitoring and review of the internal control system. Since the Committee receives reports from the Compliance Unit and Internal Audit Group on the bank's risk management and internal control systems, it provides the link between the auditors and the Board. The Committee is then well placed to advise the Board on the effectiveness of directives to mitigate risks in the achievement of Porac Bank's objectives.

RELATED PARTY TRANSACTIONS

Porac Bank recognizes the potential for conflicts of interest resulting from transactions with DOSRI and its related parties. To this end, the Management has put in place, an integrated strategy that ensures fair management of transactions with DOSRI and their related parties which are anchored on the latest legislations, laws and regulations related thereto. This is to safeguard the bank and its stakeholders against the possible conduct of abusive and malicious related party transactions. Through this strategy, the Board of Directors guarantees that related parties are always independent of each other.

The HRD commonly reviews related parties and their personal and business affiliates in order to ensure accurate and continuous identification of related parties. Deliberation and approval of related party transactions are consistent with present and relevant bank policies.

Related party transactions are monitored on an ongoing basis and are reported to the Board of Directors to ensure that such transactions remain within prescribed limits and are entered into for and in the best interest of the bank.

Significant related party transactions recorded in 2019 or those that crossed the materiality threshold set for each type of transaction are summarized in the table below. As required by the bank's RPT policy, these transactions were confirmed by a majority of the stockholders during the annual stockholder's meeting and were also reported to appropriate governing bodies.

Counterparty	Relationship between parties	Total Credit Transactions	Total Non Credit Transactions	Type of Transactions
PRISER Trading Inc.	Related Interest	0	P6,856,386.92	Others –monthly rental payments for the lease of (a) 4-storey building in Sto. Rosario Street, Angeles City that houses Porac Bank Head/ Corporate Center (b) 2-storey building in Cangatba, Porac that houses Porac Bank Porac Branch and (c) 2-storey building in Plaridel Street, Angeles City for Porac Bank Plaridel Branch amounting to P221,994.44, P80, 525.50 and P42,871.79, respectively. The lease contracts shall be for a period of 15 years, 3 years and 25 years which matures on 31-Janaury 2030, 31-December 2021 and 30-June 2024, respectively. All of which are subject to a 10% annual escalation.
B&H Fuel Bar	Related Party	0	P581,769.45	Others- Payment for incurred expenses on fuel and gasoline for official business purposes.
Total Exposure		0	P7,438,156.37	

**No material credit transactions crossed the materiality threshold.*

RACE FOR HOPE 2

Driven by our commitment to make a significant impact to the community we're in, a sequel to the Race for Hope was organized last October 27, 2019. This fundraising event was organized for the benefit of KidzCancerVive- an organization that helps and provides assistance to children and their families as they battle against cancer. The event introduced us to a number of benefactors including influencers and private companies among others. Mr. Kimpoy Feliciano, a vlogger, influencer and actor joined this cause and supported the bank's Race for Hope Year 2. It was a fun filled and blessed day as the bank and its stakeholders gathered together to support a cause that will make a difference in the life of the children.

We are humbled by the generosity of the many who've supported the Race for Hope Year 2. The little efforts have made such an impact which has allowed the bank to support the 52 members of the KidsCancerVive through the cash we've raised amounting to P434, 205.63. On behalf of the KidsCancerVive, we would like to thank everyone who supported this fight against cancer, for bringing hope to our beneficiaries through this Race for Hope.

REWARDING OUTSTANDING PERFORMANCE:

ENABLING EXPANSION TO BRING BANKING CLOSER THROUGH EMPOWERED EMPLOYEES

In 2019, the Bank made it clear that aside from its vision of becoming the preferred Rural Bank, it too, wants to position itself as one of the preferred employers in the province of Pampanga. Hence, parallel to the growth of the bank's operations, our employee base likewise grew to include a total of 160 strong and dynamic individuals despite the attrition rate of 15.64%.

In line with our mission of fostering a working environment that recognizes individual worth and outstanding performance, the Bank remained committed in pursuing a number of priorities including employee retention as well as continuous growth and development.

As such, we have put in place, programs and strategies that are centered on work-life balance, gender balance and recognition based on merit and performance. Following this premise, the Bank has awarded select employees and branches for outstanding performance and consistently practicing our Corporate values.

BRANCH OF THE QUARTER:
FIRST QUARTER

Most Compliant in Updating & Risk Profiling

BRANCH OF THE QUARTER:
SECOND QUARTER

Highest Increase in ADB of Deposits

BRANCH OF THE QUARTER:
THIRD QUARTER

Most Compliant Branch in Terms of Operational Standards

BRANCH OF THE QUARTER:
FOURTH QUARTER

Most Improved Branch in Terms of Financial Ratios

OUTSTANDING EMPLOYEES

ANNE CAMILLE SAN GABRIEL
HR/ADMIN ASSISTANT
ROOKIE OF THE YEAR

DAWN P. MARTILINO
MARKETING CREATIVE SPECIALIST
EMPLOYEE OF THE YEAR (CORPORATE)

ANALIZA G. MALLARI
MANAGER - MABALACAT BRANCH
EMPLOYEE OF THE YEAR (BRANCH)

LUCY BETH D. PABALATE
MANAGER - BALIBAGO BRANCH
BEST IN LOAN PRODUCTION

ANTHONY JOHN M. LOPEZ
MARKETING ASSISTANT
OUTSTANDING MARKETING ASSISTANT

EMPLOYEE OF THE QUARTER

RICA S. ORBE
TREASURY ASSISTANT
CORPORATE OFFICE
1ST QUARTER OF 2019

ZOREN G. CAPITULO
INDEPENDENT CREDIT REVIEWER
CORPORATE OFFICE
2ND QUARTER OF 2019

MICHELLE YSABEL C. LOANZON
CREDIT SUPPORT STAFF
CORPORATE OFFICE
3RD QUARTER OF 2019

KLEIN L. RODRIGUEZ
ASSISTANT COMPLIANCE
CORPORATE OFFICE
4TH QUARTER OF 2019

ANTHONY JOHN M. LOPEZ
MARKETING ASSISTANT
CONCEPCION BRANCH
1ST QUARTER OF 2019

DONNA JILL E. DIMABUYU
BRANCH SERVICE ASSOCIATE
PORAC BRANCH
2ND QUARTER OF 2019

PRINCESS SARAH D. LICUP
MANAGEMENT TRAINEE
PLARIDEL BRANCH
3RD QUARTER OF 2019

DIANNA S. SANTOS
BRANCH SERVICE ASSOCIATE
PORAC BRANCH
4TH QUARTER OF 2019

TRAINING AND DEVELOPMENT

"Inculcating the right culture early on is critical in shaping the right competencies and achieving company objectives."

Inculcating the right culture early on is critical in shaping the right competencies and achieving company objective. As such, the onboarding training is perhaps one of the most important trainings that the Bank has executed in 2019. It is when the employees learn of the Bank's policies, procedures and best practices including AML, Code of Discipline, Financial Consumer Protection and Whistle Blowing Policy among others.

In 2019, the Bank carried out several interactive seminars and workshops including Credit Investigation, MTPP policies, procedures and practices, Self-Defense and Annual AML Seminar among others.

CARING FOR OUR EMPLOYEES

We, at Porac Bank, believe that our people are our greatest asset. As such, we take great lengths in ensuring that our people enjoy a healthy work-life balance, a strong sense of belonging and a safe working environment. To this end, we have conducted several safety drills and trainings throughout the year to prepare our employees for emergency situations.

We make sure that our employees have adequate access to health and dental programs and as part of this program, employees are subject to an annual physical examination. We would also like to emphasize that a great part of our health program is the 24/7 medical assistance extended by our very own Director, Dr. Benjamin Dizon to employees in need.

"We, at Porac Bank, believe that our people are our greatest asset."

We also conducted bank-wide sports tournaments including basketball, volleyball, badminton, bowling and cheer dance competition to promote a healthy lifestyle.

SPORTSFEST AND YEAR-END PARTY

To celebrate our successes for the year and allow for a healthy corporate atmosphere, the Bank hosted its annual year-end party where employees enjoyed a night of recognitions, good food and entertainment with a unique theme conceptualized by our employees that is "Netflix and Chill".

PRODUCTS & SERVICES

SAVINGS DEPOSIT

Whether you're putting away money for a special purchase, building personal wealth, or saving for an unexpected expense, our low maintenance savings account will help you reach your short and long-term financial goals.

DEMAND DEPOSIT

Sometimes all you really want is something steady and secure. A time deposit will give you just that. Increase your yield with higher interest rates as amount of placement increases.

TIME DEPOSIT

Whatever your personal or business transaction is, the convenience of a worry-free, cash-less system gives you great flexibility in managing your money.

LOANS AGAINTS TIME DEPOSITS

SSS PENSIONERS LOAN

EASY CASH LOAN

AGRICULTURAL LOAN

We offer farmers easier access to credit that will open opportunities for the set-up, expansion and rehabilitation of their agribusiness as well as open doors to modern agricultural methods and technical advancements.

COMMERCIAL LOAN

This product appeals to small and medium business owners and private corporations for business purposes. Whether you're increasing your inventory, purchasing new equipment, or expanding your business, we will make the process easy for you.

HOUSING LOAN

Are you looking to purchase a new home? Come talk to the people you know you can trust, to determine how much house you can truly afford.

BILLS PAYMENT

DEPOSIT PICK-UP FACILITY

ATM/POS MACHINES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **RURAL BANK OF PORAC, INC.** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the year ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation financial statements that are free from material misstatement, whether due to fraud or error.

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

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

ROMEO G. TORNO & CO., CPA's, 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.

ALMA D. LIMJOCO
Chairman of the Board

LOURDES CONNIE C. TAYAG
President

ANNA CLAUDINE T. DAVID
Treasurer

Signed this 11th day of June 2020.

Bureau of Internal Revenue
Revenue Region No. 04
RDO 21A, North Pampanga
COLLECTION SECTION
NO PAYMENT RETURNS WITH ATTACHMENTS
RECEIVED
JUN 29 2020

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The management of **RURAL BANK OF PORAC, INC.** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2019 and 2018. Management is likewise responsible for all information and representation contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representation contained in all the other tax returns filed for the reporting period, including but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, and any all other tax returns.

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

ALMA D. LIMJOCO
Chairman of the Board

LOURDES CONNIE C. TAYAG
President

ANNA CLAUDINE T. DAVID
Treasurer

Signed this 11th day of June 2020.

RECEIVED
JUN 29 2020

D. Credit Risk

D.1 The Past due ratio has increased from 10.58% to 10.72% which comprises of the Past Due Account and the Items under Litigation.

Recommendation
The Bank should continue to strengthen their strategic plan in lowering the said ratio. They also need to enhance the quality of some of their loans and establish additional procedure in reviewing/ investigating the capacity to pay of the borrower before granting the loan since 0.37% of the past due loans are unsecured in nature. Constant loan collection follow ups and strict monitoring of loan account movements is also recommended.

D.2 The policy on Related Party Transactions is not religiously followed by the Bank in terms of lack of effort in determining the amount of grant on loans and supply of goods/services.

Recommendation
The Board has to set a policy on the level of approving authority on sale of real and other properties acquired and other assets. It must also be indicated in the policy the guidelines to be followed in setting the price for that asset or property.

E. Operational Risk

E.1 Net Income of the bank for the year 2019 is ₱ 24.5 million which is higher than the 2018 Net Income of ₱ 20.7 million. The Interest income from loans and discounts decreased by ₱ 0.4 million compared to last year. Deposit Liabilities increased by ₱ 89.1 million. The main sources of income of the bank are income from its Loans and Receivables and income from Investments.

E.2 The Bank deviates with the accrual basis of accounting resulting in a higher income due to non-recognition of accrued interests and other expenses.

Recommendation
Under the Philippine Financial Reporting Standards, an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.

Very truly yours,

Romeo G. Torno, CPA
External Auditor

June 11, 2020

Romeo G. Torno & Co.

Certified Public Accountants

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

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

CERTIFICATION

In compliance with Bangko Sentral ng Pilipinas Circular No. 1074, Series of 2020, We, **Romeo G. Torno & Co.**, with office address at 4th Block Dolores Homesite, City of San Fernando, Pampanga, after having been sworn on oath in accordance with law voluntarily depose and say: That,

1. Our Firm, Romeo G. Torno & Co. is included in the list of BSP (Bangko Sentral ng Pilipinas) Selected External Auditors for institutions under Category B, with accreditation valid until September 3, 2019, (Based on Circular 1040 series of 2019 on Revised Framework on the Selection of External Auditor whose inclusion in the List of Selected Auditors for BSFIs is valid to cover the audit of 2018 financial statements are hereby given one (1) year extension on their inclusion in the List of Selected External Auditors for BSFIs allowing them to engage in the audit of the 2019 financial statements) a professional accounting firm duly registered with the Board of Accountancy of the Professional Regulation Commission to conduct audit services, entitled to practice under laws governing the practice of public accounting in the Philippines;
2. Our Firm is in good standing as an Audit Firm registered with the Professional Regulation Commission (PRC) and Board of Accountancy (BOA), and entitled to practice as such under the laws governing the practice of public accounting in the Philippines;
3. That we possess the Independence as defined in the Code of Professional Ethics for Certified Public Accountants as promulgated by the Board of Accountancy and approved by the Professional Regulation Commission;;That we complied with all the required disclosure in the audited financial statements provided under the provisions of the Manual of Regulations for Banks (MORB)
4. That no termination or resignation of the external auditor in the course of the audit that may warrant explanation
5. That we have performed external audit of the financial statements of **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** with principal office address at Priser Building Sto. Rosario St., Cor. Flora Ave., Barangay Sto. Rosario, Angeles City, Pampanga for the year ended December 31, 2019;
6. Our audit commenced on January 22, 2020 until June 11, 2020;
7. That we have submitted the Audited Financial Statements of **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** with my audit report dated June 11, 2020;
8. That we have complied with the provisions of the Bangko Sentral ng Pilipinas (BSP) Appendix to Section 174 on Financial Audit stating that confidentiality clause pertinent to read-only access to the BSPs Report of Examination;
9. In the course of our audit of the bank, there was no material weakness or breach in the internal control and risk management systems noted during our audit;
10. That there is no significant doubt as to the ability of the **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** to continue as a going concern;
11. That we, the audit team, auditor-in-charge of the engagement and members of our immediate family do not have any direct or indirect financial interest with the Bank and our independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for Certified Public Accountants;

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_

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CERTIFICATION

In compliance with Bangko Sentral ng Pilipinas Circular No. 1074, Series of 2020, We, **Romeo G. Torno & Co.**, with office address at 4th Block Dolores Homesite, City of San Fernando, Pampanga, after having been sworn on oath in accordance with law voluntarily depose and say: That,

1. Our Firm, Romeo G. Torno & Co. is included in the list of BSP (Bangko Sentral ng Pilipinas) Selected External Auditors for institutions under Category B, with accreditation valid until September 3, 2019, (Based on Circular 1040 series of 2019 on Revised Framework on the Selection of External Auditor whose inclusion in the List of Selected Auditors for BSFIs is valid to cover the audit of 2018 financial statements are hereby given one (1) year extension on their inclusion in the List of Selected External Auditors for BSFIs allowing them to engage in the audit of the 2019 financial statements) a professional accounting firm duly registered with the Board of Accountancy of the Professional Regulation Commission to conduct audit services, entitled to practice under laws governing the practice of public accounting in the Philippines;
2. Our Firm is in good standing as an Audit Firm registered with the Professional Regulation Commission (PRC) and Board of Accountancy (BOA), and entitled to practice as such under the laws governing the practice of public accounting in the Philippines;
3. That we possess the Independence as defined in the Code of Professional Ethics for Certified Public Accountants as promulgated by the Board of Accountancy and approved by the Professional Regulation Commission;;That we complied with all the required disclosure in the audited financial statements provided under the provisions of the Manual of Regulations for Banks (MORB)
4. That no termination or resignation of the external auditor in the course of the audit that may warrant explanation
5. That we have performed external audit of the financial statements of **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** with principal office address at Priser Building Sto. Rosario St., Cor. Flora Ave., Barangay Sto. Rosario, Angeles City, Pampanga for the year ended December 31, 2019;
6. Our audit commenced on January 22, 2020 until June 11, 2020;
7. That we have submitted the Audited Financial Statements of **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** with my audit report dated June 11, 2020;
8. That we have complied with the provisions of the Bangko Sentral ng Pilipinas (BSP) Appendix to Section 174 on Financial Audit stating that confidentiality clause pertinent to read-only access to the BSPs Report of Examination;
9. In the course of our audit of the bank, there was no material weakness or breach in the internal control and risk management systems noted during our audit;
10. That there is no significant doubt as to the ability of the **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** to continue as a going concern;
11. That we, the audit team, auditor-in-charge of the engagement and members of our immediate family do not have any direct or indirect financial interest with the Bank and our independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for Certified Public Accountants;

Romeo G. Torno & Co.
Certified Public Accountants

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_email add: rgt_ops@yahoo,com_

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12. That, there are no actual or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")**
13. That, there are no matters to report on corporate governance that may require urgent action by the Bangko Sentral ng Pilipinas (BSP); and
14. That, there are no matters to report with regard to any material findings involving fraud, dishonesty, breach of laws or any potential or contingent losses.
15. That there are no matters to report regarding fraud, dishonesty, breach of laws, etc.
16. That there are no matters to report regarding material breach of laws or BSP Rules and regulation such as but not limited (a) Capital Adequacy Ratio (b) Loans and Other Risk Assets Review and Classification
17. That the Financial Audit Report (FAR) together with the Letter of Comments (LOC) was submitted to the Board of Directors addressed to the Chairman on June 11, 2020.
18. That the submitted LOC discloses our findings, comments and recommendation
19. That, there are no any findings to the effect that the consolidated assets of the Bank, on a going concern basis, are no longer adequate to cover the total claims of creditors.

It is however, understood that the accountability of the external auditor is based on matters within the normal coverage of an audit conducted in accordance with Philippine Standards on Auditing.

In truth whereof, I hereunto set my hand this JUN 2 6 2020 day of ________ 2020 at City of San Fernando, Pampanga.

ROMEO G. TORNO
Affiant

Subscribed and sworn to before me this JUN 2 6 2020 day of ________ 2020 by affiant who exhibited to me his Community Tax Certificate No. ________ issued in _____ on ____________.

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Series of 2020

ATTY. APOLLO J. UMADHAY
Notary Public
Until December 31, 2021
Notarial Comm. No. 08-20
Roll No. 55331
IBP No. 095607, 20DEC2019
PTR No. 6562285, 02JAN2020
City of San Fernando, Pampanga
MCLE No. VI-0029377 11/20/19

INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
Priser Building Sto. Rosario St., Cor. Flora Ave., Barangay Sto. Rosario, Angeles City, Pampanga

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** which comprise the statement of financial position as at December 31, 2019 and 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statement present fairly, in all material respects, the financial position of the **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** as at December 31, 2019 and 2018, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

Our audit was conducted for the purpose of forming an opinion on the basic (separate) financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

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

We have audited the financial statements of **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** as at and for the period ended December 31, 2019, on which we have rendered the attached report dated June 11, 2020. The supplementary information shown in Note 28 the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2019, as required by Part I, Section 4 of Rule 68 of the Securities Regulation Code is presented for the purpose of filing with the Securities and Exchange Commission and is not a required part of the basic statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Part I, Section 4 of Rule 68 of the Securities Regulation Code.

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

Romeo G. Torno & Co.

Certified Public Accountants

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

BOA Accreditation No. 4618
SEC Accreditation Number: 0278-FR-1
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BY:

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

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

June 11, 2020

City of San Fernando, Pampanga

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STATEMENT OF REPRESENTATION

TO THE SECURITIES AND EXCHANGE COMMISSION:

In connection with our examinations of the financial statements of the **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** 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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SUPPLEMENTAL STATEMENT

The Stockholders and Board of Directors

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
Priser Building Sto. Rosario St., Cor. Flora Ave., Barangay Sto. Rosario, Angeles City, Pampanga

We have examined the financial statements of **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** for the year ended December 31, 2019 on which we have rendered the attached report dated June 11, 2020.

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

In compliance with SRC Rule 68, we are stating that said company has a total number of fifty-three (53) stockholders owning one hundred (100) or more shares each.

BY:

ROMEO G. TORNO &CO.,CPAs
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City of San Fernando, Pampanga

June 11, 2020

City of San Fernando, Pampanga

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
COMPARATIVE FINANCIAL HIGHLIGHTS
As of December 31, 2019 and 2018

	2019	2018	Increase (Decrease)
FOR THE YEAR			
TOTAL INCOME	**₱ 171,560,414**	₱ 148,516,784	**₱23,043,631**
TOTAL EXPENSES	**147,050,916**	127,822,890	**19,228,026**
NET INCOME	**24,509,498**	20,693,893	**3,815,605**
EARNINGS PER SHARE			
Ordinary Shares	**10.85**	9.16	**1.69**
RETURN ON AVERAGE EQUITY	**8.48%**	7.08%	**1.40%**
RETURN ON AVERAGE ASSETS	**1.29%**	1.25%	**0.04%**
NET INTEREST MARGIN	**5.87%**	6.94%	**(1.07%)**
AT YEAR END			
TOTAL ASSETS	**2,048,131,067**	1,766,189,271	**281,941,796**
LOANS AND RECEIVABLES (NET)	**1,262,719,641**	1,058,088,759	**204,630,882**
LIQUID ASSETS	**666,471,894**	592,659,261	**73,812,633**
FIXED ASSETS	**46,824,229**	36,355,849	**10,468,380**
DEPOSIT LIABILITIES & DUE TO BSP	**1,424,338,090**	1,335,232,963	**89,105,127**
OTHER LIABILITIES	**32,609,045**	45,216,395	**(12,607,351)**
EQUITY ACCOUNTS	**297,741,044**	280,276,367	**17,464,677**
BOOK VALUE PER SHARE			
Ordinary Shares	**131.77**	124.05	**7.73**
CAPITAL ADEQUACY RATIO	**17.67%**	18.68%	**(1.01%)**
PAST DUE RATIO	**10.72%**	10.58%	**0.14%**
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES & DUE TO BSP	**46.79%**	44.39%	**2.41%**
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES OTHER LIABILITIES	**45.74%**	42.93%	**2.81%**
DEBT TO EQUITY RATIO	**5.88:1**	5.30:1	**0.58:1**
RATIO OF TOTAL FIXED ASSETS OVER EQUITY ACCOUNTS	**15.73%**	12.97%	**2.76%**

(See accompanying Notes to Financial Statements)

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
STATEMENTS OF FINANCIAL POSITION

	As at December 31	
	2019	2018
ASSETS		
Cash and Other Cash Items (Note 6.1)	₱ **17,947,947**	₱ 15,614,387
Due from BSP (Note 6.2)	**48,915,872**	46,300,179
Due from Other Banks (Note 6.2)	**208,873,401**	240,265,315
Debt Securities Measured at Amortized Cost (Note 7)	**390,734,674**	290,479,380
Loans & Receivable, Net (Note 8)	**1,262,719,641**	1,058,088,759
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 9)	**46,824,229**	36,355,849
Investment Property, Net (Note 10)	**38,434,411**	52,834,298
Deferred Tax Asset	**5,304,700**	5,372,571
Other Assets, Net (Note 11)	**12,682,490**	7,541,642
Retirement Benefit Asset (Note 12)	**15,693,702**	13,336,891
TOTAL ASSETS	**₱ 2,048,131,067**	₱ 1,766,189,271
LIABILITIES & SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 12)	**₱ 1,424,338,090**	₱ 1,335,232,963
Accrued Interest, Interest, Taxes and Other Expenses (Note 14)	**17,107,704**	14,436,592
Bills Payable (Note 13)	**270,000,000**	100,000,000
Deferred Tax Liability	**2,607,476**	2,607,476
Other Liabilities (Note 15)	**32,609,045**	32,238,108
Income Tax Payable (Note 25)	**3,727,708**	1,397,766
TOTAL LIABILITIES	**1,750,390,023**	1,485,912,905
SHAREHOLDERS' EQUITY		
Ordinary Share Capital	**225,947,300**	225,947,300
Retained Earnings - Free	**70,405,991**	52,606,991
Retained Earnings - Reserve for healthcare fund (Note 16)	**7,022,194**	7,022,194
Retained Earnings - Reserve for defined benefit cost- OCI (Note 16)	**(5,634,441)**	(5,300,119)
TOTAL SHAREHOLDERS' EQUITY	**297,741,044**	280,276,366
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**₱ 2,048,131,067**	₱ 1,766,189,271
BOOK VALUE PER SHARE	₱ **131.77**	₱ 124.05

See accompanying Notes to Financial Statements.

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
STATEMENTS OF COMPREHENSIVE INCOME

	For the Year Ended December 31	
	2019	2018
INTEREST INCOME		
Loans & Receivables (Note 17)	**₱ 106,933,109**	₱ 107,371,591
Due from Other Banks (Note 17)	**1,133,927**	729,815
Debt Securities Measured at Amortized Cost (Note 17)	**7,428,799**	6,262,794
TOTAL INTEREST INCOME	**115,495,835**	114,364,200
INTEREST EXPENSE		
Deposit Liabilities (Note 18)	**9,843,458**	9,310,428
Bills Payable	**1,608,611**	747,875
TOTAL INTEREST EXPENSE	**11,452,069**	10,058,303
NET INTEREST INCOME	**104,043,766**	104,305,897
PROVISION FOR CREDIT LOSSES	**-**	-
NET INTEREST INCOME AFTER PROVISION	**104,043,766**	104,305,897
OTHER INCOME (Note 19)	**56,064,579**	34,152,584
TOTAL INCOME BEFORE OPERATING EXPENSES	**160,108,345**	138,458,481
OTHER OPERATING EXPENSE		
Compensation & Fringe Benefits (Note 20)	**48,545,554**	44,574,320
Other Operating Expenses (Note 21)	**65,340,348**	61,294,272
Depreciation & Amortization (Note 22)	**8,665,732**	7,995,864
Taxes & Licenses (Note 25)	**6,287,287**	5,245,112
TOTAL OTHER OPERATING EXPENSE	**128,838,921**	119,109,567
NET INCOME BEFORE INCOME TAX	**31,269,424**	19,348,914
INCOME TAX EXPENSE (BENEFIT) (Note 25)	**6,759,926**	(1,344,979)
NET INCOME AFTER INCOME TAX	**₱ 24,509,498**	₱ 20,693,893
EARNINGS PER SHARE	₱ **10.85**	₱ 9.16

See accompanying Notes to Financial Statements.

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2019 and 2018

	ORDINARY SHARE CAPITAL (Note 16)	RETAINED EARNINGS - FREE (Note 16)	RETAINED EARNINGS – RESERVE (Note 16)	Total
Balance at January 1, 2019	**₱ 225,947,300**	**₱ 52,606,992**	**₱ 1,722,075**	**₱ 280,276,367**
Issuance of shares				**-**
Reserve for healthcare fund				**-**
Reserve for defined benefit cost- OCI				
Total comprehensive income for the year		**24,509,498**		**24,509,498**
Provisions and Adjustments		**1,197,657**	**(334,322)**	**863,335**
Cash dividend declared		**(7,908,156)**		**(7,908,156)**
Balance at December 31, 2019	**₱ 225,947,300**	**₱ 70,405,991**	**₱ 1,387,753**	**₱ 297,741,044**
Balance at January 1, 2018	₱ 225,947,300	₱ 76,286,435	₱ 1,965,997	₱ 304,199,732
Issuance of shares				-
Total comprehensive income for the year		20,693,893		20,693,893
Provisions and Adjustments		(18,389,397)	(243,922)	(18,633,319)
Stock dividend declared		(25,983,940)		(25,983,940)
Balance at December 31, 2018	₱ 225,947,300	₱ 52,606,992	₱ 1,722,075	₱ 280,276,367

See accompanying Notes to Financial Statements.

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
COMPARATIVE STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before Income Tax	**₱ 31,269,424**	₱ 19,348,914
Adjustments for:		
Depreciation& Amortization	**8,665,732**	7,995,864
Provision on credit losses	**-**	8,937,302
Net charges to surplus/Prior period adjustments	**863,335**	(18,633,319)
Stock Dividend Declared	**-**	(25,983,940)
Interest Income	**(115,495,835)**	(114,364,200)
Interest Expense	**11,452,069**	10,058,303
Changes in Working Capital:		
Loans & other Receivables	**(204,630,882)**	(73,191,785)
Investment Properties	**13,020,670**	(7,692,318)
Other Assets	**(5,140,848)**	(777,510)
Retirement benefit asset	**(2,356,811)**	(2,349,833)
Deferred tax asset	**67,871**	12,535,998
Deposits Liabilities	**89,105,127**	129,988,478
Other liabilities	**370,937**	34,370,615
Accrued Interest and other liabilities	**2,671,113**	52,794
Interest Received	**115,495,835**	114,364,200
Interest Paid	**(11,452,069)**	(10,058,303)
Income Tax Paid	**(4,429,985)**	1,608,416
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**(70,524,317)**	86,209,676
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase/(Decrease) in:		
Additions to bank premises	**(17,754,895)**	(9,192,757)
Acquisition of HTM investments	**(100,255,294)**	(114,663,758)
NET CASH USED BY INVESTING ACTIVITIES	**(118,010,189)**	(123,856,515)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Cash Dividends to Stockholders	**(7,908,156)**	-
Proceeds from bills payable	**170,000,000**	80,000,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	**162,091,845**	80,000,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(26,442,661)**	42,353,161
CASH AND CASH EQUIVALENTS, BEGINNING	**302,179,881**	259,826,720
CASH AND CASH EQUIVALENTS, ENDING	**₱ 275,737,220**	₱ 302,179,881

(See accompanying Notes to Financial Statements)

RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

1. CORPORATE INFORMATION

The **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** was incorporated on November 12, 1968 to engage in business of rural banking. Consequently on December 11, 1968, it was granted authority by the Monetary Board to operate as a rural bank.

The registered principal office of the Bank is located at Priser Building Sto. Rosario St., Cor. Flora Ave., Barangay Sto. Rosario, Angeles City, Pampanga. It has twelve (12) branches located in the following areas:

1. Gen. Luna St., Cangatba, Porac, Pampanga
2. San Pedro I, Magalang, Pampanga
3. Rizal Avenue Extension, Angeles City
4. Plaza Luma, Arayat, Pampanga
5. San Antonio, Mexico, Pampanga
6. Emerald Business Center, McArthur Highway, Dolores, City of San Fernando, Pampanga
7. Lot 1 Block 2 Casmor Phase II, Mabiga, Mabalacat, Pampanga
8. Sta. Maria Cor. Rizal St., Poblacion, Floridablanca, Pampanga
9. Lot 2, Bayanihan Park, M.A. Roxas St., Malabanias, Angeles City
10. Plaridel St., Sto. Rosario, Angeles City
11. Benj-Arl Building, N. Dela Patria, L. Cortez St., Concepcion, Tarlac
12. Priser Building Sto. Rosario St., Cor. Flora Ave., Barangay Sto. Rosario, Angeles City, Pampanga

The **RURAL BANK OF PORAC (PAMPANGA), INC. (The "BANK")** Board of Directors is composed of eleven (11) members; One (1) of them is an independent director.

Approval of Financial Statements
The accompanying financial statements of the Bank for the year ended December 31, 2019 were authorized for issue by its Board of Directors on June 11, 2020.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

New Standards, Amendments, and Interpretations Adopted

New Standards

- *PFRS 16, 'Leases'*

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

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

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

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

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

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

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

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

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

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

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

<u>Amendments</u>

- *PFRS 2, 'Share based payments', on clarifying how to account for certain types of share-based payment transactions (effective 1 January 2018)*
- *PFRS 4, 'Insurance contracts' regarding the implementation of PFRS 9,* 'Financial instruments'
- PAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 July 2018.
- Amendments to PAS 40, Investment Property, Transfers of Investment Property
- *IFRIC 22, 'Foreign currency transactions and advance consideration'*
- *PFRS 3 and PFRS 11. The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.*
- *PAS 12. The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.*
- *PAS 23. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.*

<u>Pronouncement issued but not yet effective</u>
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.

<u>Effective beginning on or after January 1, 2020</u>
- 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*

<u>Effective beginning on or after January 1, 2021</u>
- *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.

<u>Financial Instruments</u>

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

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

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

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

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

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

<u>Financial Assets</u>

Classification and Subsequent Measurement

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

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

Financial assets at amortized cost (debt instruments)

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

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

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

The Bank's investments are under this category.

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

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

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

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

The Bank has no financial assets under this category.

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

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

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

The Bank has no financial assets under this category.

Financial Assets at fair value through profit or loss

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss

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

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

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

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

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

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

The Bank has no financial assets under this category.

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is

adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

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

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

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

Derecognition of Financial Assets

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

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

Financial Liabilities

A financial liability is any liability that is:

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

Subsequent measurement

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

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

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

Derecognition

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

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Balance Sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there's an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amount in the balance sheet.

Equity Instruments

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

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

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

Financial Assets

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

Cash and Cash Equivalents

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

Cash on Hand

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

Due from Bangko Sentral ng Pilipinas

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

Due from Other Banks

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

Loans and Receivables

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

Restructured Loans

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

Loans & Discounts

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

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

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

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

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

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

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

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

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

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

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

Debt Securities Measured at Amortized Cost (formerly Held-to-Maturity Financial Assets)

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

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

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

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

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

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

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

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

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

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

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

Impairment of Premises, Furniture, Fixtures & Equipment

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

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

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

Investment Properties
Initially, investment properties are measured at cost including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measured. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

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

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period when the costs are incurred.

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

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

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

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

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

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

Other Assets

Other assets account represents residual accounts which were not classified as a separate line item in the manual of accounts as provided in Circular 512 as amended by Circular 520 issued by the Bangko Sentral ng Pilipinas.

Impairment of Non-Financial Assets
The Bank assesses at each reporting date if there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and value in use. When the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments and time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognized in the Income Statement in the expense categories.

The assessment is made at each reporting date. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount net of depreciation that would have been determined, had no impairment loss have been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial Liabilities

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

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

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

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

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

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

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

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

Revenue Recognition
The Company 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 Company expects to be entitled in exchange for those goods or services. The Company assesses its revenue arrangements against specific criteria in order to determine whether it is acting as principal or as an agent. The Company is acting principal in its revenue arrangements to its customers, revenue is recognized on a gross basis. However, if the Company is acting as an agent to its customers, only the amount of net commission retained is recognized as revenue.

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

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

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

Revenue within the scope of PFRS 15:

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.

Leases

Lease Recognition – January 1, 2019

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

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

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

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

Presentation of right of use asset
The bank presented the right of use asset as separate line item as noncurrent asset in the statement of financial position.
(As an alternative, the lessee may include the right of use asset in the appropriate line item within which the corresponding underlying asset would be presented if owned.)

Depreciation of right of use asset
The lessee shall apply normal depreciation policy for right of use asset.
PFRS 16 provides that the lessee shall depreciate the right of use asset over the useful life of the underlying asset under the following conditions:
a. The lease transfers ownership of the underlying asset to the lessee at the end of the lease term.
b. The lessee is reasonably certain to exercise a purchase option.

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

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

Components of lease payments
a. Fixed lease payments or periodic rental.
b. Variable lease payments.
c. Exercise price of a purchase option if the lessee is reasonably certain to exercise the option.

d. Amount expected to be payable by the lessee under a residual value guarantee.
e. Termination penalties if the lease term reflects the exercise of a termination option.

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

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

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

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

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

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

Lease Recognition – Prior to January 1, 2019

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

i. Operating Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A re-assessment is made after the inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether the fulfillment is dependent on specified asset; or
d. There is a substantial change to the asset.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Equity

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

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

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

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

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

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

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

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

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

As of December 31, 2019 and 2018, the Bank has no DSS recorded in its books.

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

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

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

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

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

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
181 days and over	Loss	100%	3

For secured loans and other credit accommodations:

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

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

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

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

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

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

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

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

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

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

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

For unsecured loans and other credit accommodations:

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

For secured loans and other credit accommodations:

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

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

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

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

Other Risk Assets

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

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

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

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

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

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

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

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

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

that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit Risk

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

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

	2019			
	Loans and Receivables*	**Due from BSP and Other Banks**	**Debt Securities Measured at Amortized Cost**	**Total**
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal	103,804,588			103,804,588
Agriculture, forestry and fishing	33,698,263			33,698,263
Financial institutions		208,873,401		208,873,401
Government		48,915,872	390,734,674	439,650,546
Education	1,236,465			1,236,465
Construction	35,449,907			35,449,907
Manufacturing	76,345,938			76,345,938
Financial and insurance activities	3,800,000			3,800,000
Household Consumption	40,049,343			40,049,343
Transportation and storage	23,103,727			23,103,727
Real estate activities	843,501,482			843,501,482
Accommodation and Food Services	44,671,649			44,671,649
Administrative and support service activities	396,180			396,180
Arts, entertainment and recreation	559,558			559,558
Electricity, gas, stream and air-conditioning supply	4,816,393			4,816,393
Human health and social work activities	44,432,120			44,432,120
Mining and quarrying	17,717,196			17,717,196
Other service activities	12,365,346			12,365,346
Total	**1,285,948,155**	**257,789,273**	**390,734,674**	**1,934,472,102**

	2018			
	Loans and Receivables	Due from BSP and Other Banks	Debt Securities Measured at Amortized Cost	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal	129,012,172			129,012,172
Agriculture, forestry and fishing	39,624,749			39,624,749
Financial institutions		240,265,315		240,265,315
Government		46,300,179	290,479,380	336,779,559
Education	1,472,014			1,472,014
Construction	28,062,120			28,062,120
Manufacturing	71,000,934			71,000,934
Professional, Scientific and Technical				-
Financial and insurance activities	12,739,534			12,739,534
Household Consumption	40,411,776			40,411,776
Transportation and storage	3,465,755			3,465,755
Real estate activities	591,171,857			591,171,857
Accommodation and Food Services	54,101,686			54,101,686
Administrative and support service activities	634,024			634,024
Arts, entertainment and recreation	1,129,524			1,129,524
Electricity, gas, stream and air-conditioning supply	6,800,953			6,800,953
Human health and social work activities	49,955,038			49,955,038
Mining and quarrying	19,339,415			19,339,415
Water supply, sewerage. waste management, and remediation	2,325,766			2,325,766
Other service activities	25,500,276			25,500,276
Total	1,076,747,594	286,565,494	290,479,380	1,653,792,468

**Amount is net of Unamortized Discount*

Credit quality per class of financial assets

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

	2019				
	High grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Due from BSP	48,915,872				48,915,872
Due from other banks	208,873,401				208,873,401
Loans Receivable*	1,147,827,625	29,346,864	94,287,557	14,486,109	1,285,948,155
Sales Contract Receivable	28,754,486		11,257,557		40,012,043
Other receivables:					
Accounts receivable	5,133,874				5,133,874
Accrued Interest Receivable		704,475			704,475
Debt Securities Measured at Amortized Cost	390,734,674				390,734,674

Total	**1,830,239,932**	**30,051,339**	**105,545,114**	**14,486,109**	**1,980,322,494**

			2018		
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	46,300,179				46,300,179
Due from other banks	208,873,401				208,873,401
Loans Receivable	962,711,422	63,996,858	50,039,314	-	1,076,747,594
Sales Contract Receivable	24,347,016		9,866,120		34,213,136
Other receivables:					
Accounts receivable	1,433,175				1,433,175
Accrued Interest Receivable		465,507			465,507
Debt Securities Measured at Amortized Cost	290,479,380				290,479,380
	1,534,144,573	64,462,365	59,905,434	-	1,658,512,372

**Amount is net of Unamortized Discount*

Aging analysis of past due but not impaired loans and receivables

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

			2019		
at Amortized Cost	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**181 days and up**	**TOTAL**
Past Due Performing	25,156,384	4,190,480	-	-	**29,346,864**
Past Due Non Performing	20,030,202	5,442,772	12,587,293	56,227,290	**94,287,557**
Items In Litigation	-	-	-	10,864,582	**10,864,582**
TOTAL	**45,186,586**	**9,633,252**	**12,587,293**	**67,091,872**	**134,499,003**

			2018		
at Amortized Cost	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**181 days and up**	**TOTAL**
Past Due Performing	48,616,335	15,380,523	-	-	**63,996,858**
Past Due Non Performing	8,270,496	503,980	16,698,223	24,566,615	**50,039,314**
Items In Litigation	-	-	-	-	**-**
TOTAL	**56,886,831**	**15,884,503**	**16,698,223**	**24,566,615**	**114,036,172**

Market Risk

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

Interest rate risk

The Bank's loan receivables earn effective interest rates ranging from 6.00% to 20.00% for 2019 and 2018, respectively. The Bank's interest rate on its deposit liabilities is 0.25% on its savings and demand accounts, and ranges from 0.50% to 3.00% on its time deposits. The interest rate on its bills payable ranges from 5.00% to 6.00% for 2019 and 2018.

However, the Bank earns 2.125% to 6.125% from its investment in bonds and treasury bills and ranging from 0.125% to 1.00% on its savings and time deposits with other Banks.

Fair Value Interest Rate Risk

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

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

Cash Flow Interest Rate Risk

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

Liquidity Risk

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

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

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

				2019		
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to 12 months**	**Beyond 1 year**	**Total**
Financial Liabilities						
Deposit liabilities	**1,082,207,409**	**204,329,319**	**125,083,141**	**7,123,043**	**5,595,179**	**1,424,338,091**
Bills Payable		**180,000,000**	**-**	**90,000,000**		**270,000,000**
Other Liabilities:						
Accrued expenses	**14,602,396**					**14,602,396**
Accrued interest payable	**274,392**	**593,403**	**353,203**	**1,087,974**	**196,335**	**2,505,308**
Accounts payable	**5,947,850**					**5,947,850**
Total Financial Liabilities	**1,103,032,047**	**384,922,722**	**125,436,344**	**98,211,017**	**5,791,514**	**1,717,393,644**
Financial Assets						
Cash and other cash items	**17,947,947**					**17,947,947**
Due from BSP	**48,915,872**					**48,915,872**
Due from other banks	**198,783,502**			**10,089,899**		**208,873,401**
Loans and receivable*	**18,560,937**	**11,580,802**	**13,630,938**	**56,500,452**	**1,185,675,026**	**1,285,948,155**
Sales Contract Receivable	**679,654**	**145,411**	**620,725**	**1,908,240**	**32,586,736**	**35,940,766**
Accounts receivable	**5,133,874**					**5,133,874**
Accrued Interest Receivable	**704,475**	**-**				**704,475**
Debt Securities Measured at Amortized Cost		**190,002,099**	**19,999,647**	**-**	**180,732,928**	**390,734,674**
Total Financial Assets	**290,726,261**	**201,728,312**	**34,251,310**	**68,498,591**	**1,398,994,690**	**1,994,199,164**
Liquidity Position (Gap)	**812,305,786**	**183,194,410**	**91,185,034**	**29,712,426**	**(1,393,203,176)**	**(276,805,519)**

				2018		
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities						
Deposit liabilities	985,493,686	227,989,844	109,052,109	1,150,813	11,546,512	1,335,232,963
Bills Payable		100,000,000				100,000,000
Other Liabilities:						-
Accrued other expense	13,338,794					13,338,794
Accrued interest payable	373,316	283,927	186,294	9,624	244,636	1,097,797

Accounts payable	5,542,190					5,542,190
Total Financial Liabilities	1,004,747,986	328,273,771	109,238,403	1,160,437	11,791,148	1,455,211,744
Financial Assets						
Cash and other cash items	15,614,387					15,614,387
Due from BSP	46,300,179					46,300,179
Due from other banks	239,765,315			500,000		240,265,315
Loans and receivable*	111,136,498	2,643,205	5,374,291	44,757,095	912,836,504	1,076,747,594
Sales Contract Receivable	420,556	7,055		2,114,969	27,843,622	30,386,202
Accounts receivable	1,433,175					1,433,175
Accrued Interest Receivable	465,507					465,507
Debt Securities Measured at Amortized Cost	104,649,122			5,030,672	180,799,585	290,479,380
Total Financial Assets	519,784,739	2,650,260	5,374,291	52,402,736	1,121,479,712	1,701,691,739
Liquidity Position (Gap)	484,963,247	325,623,511	103,864,112	(51,242,300)	(1,109,688,564)	(246,479,995)

Operational Risks

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

Minimum Liquidity Ratio (MLR)

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

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

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

PART 1. MINIMUM LIQUIDITY RATIO (MLR)	
A. Stock of Liquid Assets	₱ 666,471,894
B. Qualifying Liabilities	1,438,636,516
Minimum Liquidity Ratio	46.33%
PART II. STOCK OF LIQUID ASSETS	
Cash on Hand	17,947,947
Bank Reserves in the BSP	48,915,872
Debt Securities representing claims on or guaranteed by the Philippine National Government and the BSP	390,734,674
Deposits in Other Banks	208,873,401
	₱ 666,471,894
PART III. QUALIFYING LIABILITIES	
A. Qualifying Liabilities	
1 Retail current and regular savings deposits with outstanding balance per account of ₱500,000 and below (623,507,014 *50%)	311,753,507
2. Obligations arising from operational expenses	
3. Total on Balance Sheet Liabilities	1,750,390,023
4. Deduct: ()Sum of A1 to A2	623,507,014
B. Other on-balance sheet liabilities (Item A.3 less A.4)	1,126,883,009
C. Irrevocable obligations under off-balance sheet items	
D. Total (Sum of Adjusted Amount of Item A(1), A(2), B and C)	₱ 1,438,636,516

6. CASH AND CASH EQUIVALENTS

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

	2019	2018
6.1. Cash and Other Cash items		
Cash on Hand and in Vault	₱ **17,947,947**	₱ 15,614,387
Cash and Other Cash Items	**-**	-
Total cash and other cash items	₱ **17,947,947**	₱ 15,614,387
6.2. Due from BSP and other Banks		
Due from Bangko Sentral ng Pilipinas	₱ **48,915,872**	₱ 46,300,179
Due from Other Banks	**208,873,401**	240,265,315
Total due from BSP and other banks	₱ **257,789,273**	₱ 286,565,494
Total Cash and Cash Equivalent	₱ **275,737,220**	₱ 302,179,881

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

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

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

Name of Banks	**2019**	**%**	2018	%
Asia United Bank	₱ **88,815,383**	**43%**	₱ 84,601,078	35%
Banco De Oro	**6,198,767**	**3%**	5,410,925	2%
Bank of Commerce	**15,663,873**	**7%**	19,054,157	8%
Bank of the Philippine Island	**6,658,857**	**3%**	12,071,093	5%
Chinabank	**11,891,800**	**6%**	7,094,900	3%
Development Bank of the Philippines	**1,685,531**	**1%**	3,412,844	1%
Eastwest Bank	**5,019,348**	**2%**	11,598,315	5%
Landbank of the Philippines	**6,376,877**	**3%**	29,949,216	12%
Maybank	**1,747,875**	**1%**	1,626,817	1%
Metrobank	**1,352,897**	**1%**	3,665,859	2%
Philippine National Bank	**2,699,714**	**1%**	2,643,844	1%
Planters Bank	**-**	**0%**	542,982	0%
PR Bank	**-**	**0%**	590,631	0%
Rural Bank of Angeles	**10,165,008**	**5%**	5,094,613	2%
Rizal Commercial Banking Corporation	**5,211,658**	**2%**	4,471,412	2%
Security Bank	**764,875**	**0%**	221,450	0%
United Coconut Planters Bank	**44,620,938**	**21%**	48,215,179	20%
Total	₱ **208,873,401**	**100%**	₱ 240,265,315	100%

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

As of December 31, 2019, the Bank's SBL was registered at ₱74,435,261 and as per BSP Manual of Regulations, banks are exempted on the ceiling of single borrower's limit (SBL) on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for clearing operation.

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

Cash in bank represents current account in local bank, savings account, and time deposits. They earn interests ranging from 0.125% to 1.00% for years 2019 and 2018.

Interest income from bank accounts and short-term cash deposits amounted ₱1,133,927 and ₱729,815 in 2019 and 2018, respectively.

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

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

7. DEBT SECURITIES MEASURED AT AMORTIZED COST

This account is consisting of:

	2019	2018
Book Value	**₱ 388,124,682**	₱287,800,646
Add: Unamortized Premium	**3,532,719**	3,684,790
Less: Unamortized Discount	**922,727**	1,006,056
Total	**₱ 390,734,674**	₱290,479,381

This account consists of Treasury Bills, Treasury Bonds, and Treasury Notes. Treasury bills have maturities of a year or less. Treasury notes are issued with maturities from two to ten years. Treasury bonds are long-term investments that have maturities of 10 to 30 years from their issue date.

Debt Securities Measured at Amortized Cost earn interest ranging from 2.125% to 6.125% for 2019 and 2018. The interest income on these accounts amounted to ₱7,428,799 and ₱6,262,794 for 2019 and 2018, respectively.

8. LOANS AND RECEIVABLES

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

	2019	%	2018	%
Current Loans	**1,153,591,765**	89.28%	966,791,162	89.42%
Past Due Loans	**124,015,091**	9.60%	114,407,135	10.58%
Items in Litigation	**14,486,109**	1.12%	0	0.00%
Total	**1,292,092,965**	100%	1,081,198,296	100%
Less: Unearned Income and Discounts	**6,144,810**		4,450,703	
Total, net of discount	**1,285,948,155**		1,076,747,594	
Less: Allowance for Credit Losses (Note 8.1)				
Specific	**40,894,157**		36,370,151	
General	**18,082,730**		12,674,886	
Total	**1,226,971,268**		1,027,702,557	
Add: Sales contract receivable, net (Note 8.2)	**35,748,373**		30,386,202	
Total Loans and Receivables, net	**1,262,719,641**		1,058,088,759	

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% to 20% in 2019 and 2018. Total earned interest amounts to ₱106,933,109 and ₱107,371,591 for 2019 and 2018, respectively.

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

The total Allowance for Credit Losses of ₱58,976,888 which composed of specific loan loss provisions and general loan loss provision as stated above is in compliance with the BSP Memorandum Circular 1011.

The Bank has in place a reliable credit classification system to promptly identify deteriorating credit exposures and determine appropriate allowance for credit losses. Classification can be done on the basis of internal credit risk rating system, including payment delinquency status. All credit classifications, not only those reflecting severe credit deterioration, are considered in determining the appropriate allowance for credit losses.

The provisioning requirements required by the guidelines are deemed the minimum requirements. Depending on how management evaluates or assesses the collectability prospect on each account, the Bank has the option to be more aggressive in their provisioning, particularly on the Bank's clan loans and those not covered by proven methodology. A stricter provisioning policy may be adopted considering the unsecured nature of these accounts and the higher risk of loss.

Loan accounts and other credit accommodations are classified in accordance with the guidelines in the classification of credits as prescribed under Appendix 18 of the MORB as the minimum criteria and in accordance with the Bank's own set of standards for loan classification using the BSP loan classification criteria as the minimum.

The bank implemented an independent and objective credit review process to determine that credits are granted in accordance with the bank's policies; assess the overall assets quality, including appropriateness of classification and adequacy of loan-loss provisioning; determine trends; and identify problems (e.g. risk concentration, process risk mitigation, deficiencies in credit administration and monitoring). The audit unit may at its discretion assign a different classification to a particular loan account, when certain important and reasonably specific factor(s)/ information not captured by the classification criteria, work to the advantage and strengthening of the asset, or vice versa. Provided, further, that, the bank may utilize an internal credit risk rating system for its loan account classification system as the basis for its regular setting up of appropriate level of allowance for probable losses.
In the course of the credit review, loan accounts are classified for the following purpose:

- Highlight problem credits for attention and action at appropriate levels. o Categorize problem credits according to severity of actual and/or potential risk of loss;
- Initiate monitoring reports on a periodic basis to assure development of appropriate and ensure adequacy of reserve provisioning.

The bank employed an appropriate sampling methodology to determine the scope of the credit review. At a minimum, credit review shall be conducted on all individual obligors with substantial exposures, and on a consolidated group basis to factor in the business connections among related entities in a borrowing group. Moreover, the audit team as part of its scheduled plan of activities will be task to perform this review vis-à-vis the recommendations for further upgrading/downgrading of loan accounts for loan-loss provisioning purposes. Meanwhile, the accounts that will be shortlisted more than once in the sample to be selected should be place/counted only in one of the review as may be deemed by the audit team.

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.

8.1 Movements in the allowance for credit losses are as follows:

	2019	2018
Balance at beginning of year:		
Loans and receivables	49,045,038	50,366,732
Sales contract receivables	3,826,934	7,864,503
Accounts receivables	902,741	902,741
Investment property	380,256	380,255
Total	54,154,969	58,231,235
Impairment loss charged to operations	14,300,676	8,937,302
Write-off/Adjustments to ROPA	(3,932,091)	(14,296,566)
Balance at end of the year:		
Loans and receivables	58,976,888	49,045,038
Sales contract receivables	4,263,670	3,826,934
Accounts receivables	902,741	902,741
Investment property	380,256	380,255
Total	64,523,555	52,871,972

Classification of loans: (Net of Unamortized Discounts)

As to Maturity:

	2019	%	2018	%
Due within one (1) year	₱ 66,983,074	5.21%	₱ 69,310,074	10.27%
Due beyond one (1) year	1,218,965,081	94.79%	1,007,437,520	89.73%
Total Loan Portfolio	₱ 1,285,948,155	100.00%	₱ 1,076,747,594	100.00%

As to Security:

	2019	%	2018	%
Unsecured	₱ 4,725,977	0.37%	₱ 5,403,312	0.50%
Secured by real estate mortgage	1,276,217,548	99.24%	1,061,737,558	98.61%
Secured by other type of securities	5,004,630	0.39%	9,606,724	0.89%
Total Loan Portfolio	₱ 1,285,948,155	100.00%	₱ 1,076,747,594	100.00%

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

	2019	%	2018	%
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycle	₱ 103,804,588	8.07%	₱ 129,012,172	11.98%
Construction	35,449,907	2.76%	28,062,120	2.61%
Real Estate Activities	843,501,482	65.59%	591,171,857	54.90%
Agriculture, Forestry, And Fishing	33,698,263	2.62%	39,624,749	3.68%
Household Consumption	40,049,343	3.11%	40,411,776	3.75%
Transportation and Storage	23,103,727	1.80%	3,465,755	0.32%
Electricity, Gas, Steam and Air Conditioning	4,816,393	0.37%	6,800,953	0.63%
Education	1,236,465	0.10%	1,472,014	0.14%
Manufacturing	76,345,938	5.94%	71,000,934	6.59%
Mining and Quarrying	17,717,196	1.38%	19,339,415	1.80%
Accomodation and food service activities	44,671,649	3.47%	54,101,686	5.02%
Financial and insurance activities	3,800,000	0.30%	12,739,534	1.18%
Administrative and support service activities	396,180	0.03%	634,024	0.06%
Human Health and Social work activities	44,432,120	3.46%	49,955,038	4.64%
Arts, entertainment and recreation	559,558	0.04%	1,129,524	0.10%
Water supply, sewerage, waste management, and remediation activities		0.00%	2,325,766	0.22%
Other service activities	12,365,346	0.96%	25,500,276	2.37%
Total Loan Portfolio	₱ 1,285,948,155	100.00%	₱ 1,076,747,594	100.00%

The BSP considers that loan concentration exists when total loan exposure to a particular economic sector exceeds 30% of the total loan portfolio except for the real estate loans. As at December 31, 2019, the Bank loan concentration exists on real estate activities which exceeded the limit by 35.59%.

8.2 SALES CONTRACT RECEIVABLE

This account consists of:

	2019	2018
Performing	₱28,754,486	₱24,347,016
Non- performing	11,257,557	9,866,120
Total	40,012,043	34,213,137
Less: Allowance for Credit Losses (Note 8.1)	4,263,670	3,826,934
Sales Contract Receivable-net	₱35,748,373	₱30,386,203

The movements on SCR is as follows:

	2019	2018
Balance at beginning of year	₱ 30,386,202	₱ 35,222,910
Additions	17,452,000	16,500,000.00
Provision for credit losses	(436,736)	(14,249)
Other credits	-	4,051,819
Payments	(11,653,093)	(25,374,278)
Balance at end of year	₱ 35,748,373	₱ 30,386,202

9. Bank Premises, Furniture, Fixtures and Equipment

This account is consists of:

	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT equipment	Transportation Equipment	Leasehold Improvement	Total
December 31, 2019								
Cost	**₱14,429,929**	**₱25,208,778**	**₱ 6,687,885**	**₱36,997,481**	**₱8,267,043**	**₱7,824,579**	**₱23,229,957**	**₱122,645,652**
Accumulated Depreciation	**0**	**11,991,436**	**3,454,708**	**32,954,464**	**6,591,786**	**4,814,661**	**16,014,368**	**75,821,423**
Net carrying amount	**₱14,429,929**	**₱13,217,342**	**₱ 3,233,177**	**₱4,043,017**	**₱ 1,675,257**	**₱ 3,009,918**	**₱ 7,215,589**	**₱ 46,824,229**
December 31, 2018								
Cost	₱14,429,929	₱17,975,188	₱3,621,064	₱39,775,506	₱ 3,729,958	₱ 5,815,980	₱23,132,517	₱108,480,141
Accumulated Depreciation	0	11,619,610	3,002,277	36,422,396	2,584,718	4,795,767	13,699,524	72,124,291
Net carrying amount	₱14,429,929	₱ 6,355,578	₱ 618,787	₱ 3,353,110	₱ 1,145,240	₱ 1,020,213	₱ 9,432,993	₱ 36,355,849

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

2019

	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT equipment	Transportation Equipment	Leasehold Improvement	Total
Cost								
Balance at beginning of year	**14,429,929**	**17,975,188**	**3,621,064**	**39,775,506**	**3,729,958**	**5,815,980**	**23,132,517**	**108,480,141**
Additions	**0**	**7,233,590**	**3,066,822**	**3,226,638**	**2,265,361**	**2,852,400**	**97,441**	**18,742,252**
Disposals				**(2,090,931)**	**(269,361)**	**(843,800)**		**(3,204,092)**
Reclassification				**(3,325,835)**	**1,422,098**			**(1,903,737)**
Adjustment				**(587,897)**	**1,118,988**			**531,091**
Balance at end of year	**14,429,929**	**25,208,778**	**6,687,885**	**36,997,481**	**8,267,043**	**7,824,579**	**23,229,957**	**122,645,653**
Accumulated Depreciation								
Balance at beginning of year		**11,619,610**	**3,002,277**	**36,422,396**	**2,584,718**	**4,795,767**	**13,699,524**	**72,124,291**
Depreciation and amortization		**339,375**	**459,347**	**2,642,737**	**680,043**	**850,174**	**2,314,839**	**7,286,516**
Disposals				**(2,782,194)**		**(832,730)**		**(3,614,924)**
Adjustment		**32,451**	**(6,916)**	**(3,328,476)**	**3,327,026**	**1,450**	**5**	**25,540**
Balance at end of year	**-**	**11,991,436**	**3,454,708**	**32,954,464**	**6,591,786**	**4,814,661**	**16,014,368**	**75,821,424**
Net Book Value	**14,429,929**	**13,217,342**	**3,233,177**	**4,043,016**	**1,675,257**	**3,009,918**	**7,215,590**	**46,824,229**

2018

	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT equipment	Transportation Equipment	Leasehold Improvement	Total
Cost								
Balance at beginning of year	14,429,929	17,975,188	3,571,064	37,383,514	2,279,076	8,111,352	19,598,639	103,348,762
Additions			50,000	2,391,992	1,450,882		3,533,878	7,426,751
Disposals						(2,200,000)		(2,200,000)
Reclassification						(95,372)		(95,372)
Balance at end of year	14,429,929	17,975,188	3,621,064	39,775,506	3,729,958	5,815,980	23,132,517	108,480,141
Accumulated Depreciation								
Balance at beginning of year	-	11,249,382	2,722,112	34,107,658	1,487,370	5,914,022	12,709,260	68,189,804
Depreciation and amortization	-	370,228	251,000	2,532,928	509,741	673,325	2,080,162	6,417,384
Disposals	-					(2,033,332)		(2,033,332)
Reclassification	-		29,165.00	(218,189.46)	587,606.12	241,752.00	(1,089,899)	(449,565)
Balance at end of year	-	11,619,610	3,002,277	36,422,396	2,584,718	4,795,767	13,699,524	72,124,291
Net Book Value	14,429,929	6,355,578	618,787	3,353,110	1,145,240	1,020,213	9,432,993	36,355,849

Depreciation of these accounts amounting to ₱7,286,516 and ₱6,417,384 in 2019 and 2018, respectively, are shown as separate components of operating expenses in the Statements of Comprehensive Income.

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

The value of the Bank premises, furniture, fixtures and equipment of ₱46,824,229, net of accumulated depreciation, as of December 31, 2019 is 15.73% of the Bank's total net worth. This is lower than the 50% maximum ratio required under BSP regulation (MORB Section 109).

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

10. INVESTMENT PROPERTY

This account is consisting of real estate properties acquired by the Bank in settlement of loans which were recognized as ROPA and accounted for as investment properties to conform with PAS 40. Under Sec. 394.2, ROPA shall be booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on PAS 39 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PAS 39 provisioning requirements) plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property).

This account is consists of:

	2019	2018
Land	**₱29,086,065**	₱45,457,231
Building	**16,106,026**	14,099,537
Less: Accumulated Depreciation	**(6,377,424)**	(6,205,790)
Net Amount	**38,814,667**	53,350,977
Less: Allowance for Credit Losses (Note 8.1)	**(380,256)**	(516,680)
Net Carrying Amount	**₱38,434,411**	₱52,834,297

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

	2019	2018
Balance at beginning of year net of accumulated depreciation and Impairment loss	**₱52,834,297**	₱45,141,980
Additions	**9,598,634**	21,642,687
Disposal	**(22,608,794)**	(12,552,889)
Depreciation	**(1,389,725)**	(1,442,056)
Impairment Losses	**(1)**	(136,425)
Other Adjustments	**-**	181,000
Balance at end of year net of accumulated depreciation and Impairment loss	**₱38,434,411**	₱52,834,297

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

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

11. OTHER ASSETS

This account is consists of:

	2019	2018
Financial Assets		
Accounts Receivables	**₱ 5,133,874**	₱ 1,433,175
Accrued Interest Receivable	**704,475**	465,507
Non-Financial Assets		
Prepaid Expense	**1,056,071**	412,687
PLDT 350 Shares	**3,500**	3,500
Petty Cash Fund	**74,000**	66,000
Stationery and Supplies on Hand	**1,426,322**	1,329,500
Other Assets – Healthcare Fund	**5,186,989**	4,652,583
Miscellaneous Assets	**-**	81,432
Total	**13,585,231**	8,444,383
Less: Allowance for Credit Losses (Note 8.1)	**(902,741)**	(902,741)
Net Other Assets	**₱12,682,490**	₱7,541,642

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

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

12. DEPOSIT LIABILITIES

This account is consists of:

	2019	%	2018	%
Savings Deposit	**₱ 858,624,702**	**60%**	₱757,387,814	57%
Special Savings/Time Deposit	**363,491,655**	**26%**	378,750,147	28%
Demand Deposit	**202,221,733**	**14%**	199,095,002	15%
Total Deposit Liabilities	**₱1,424,338,090**	**100%**	₱1,335,232,962	100%

Savings Deposits are composed of regular savings accounts which are withdrawable upon demand and those with special terms and withdrawable at certain period of time. The total deposits for the year increased by ₱89,105,128 or 6.67% over the figures of 2018.

For the year 2019 and 2018, savings and demand deposit carries an interest rate of 0.25%. The bank's special savings deposit carries interest rate ranging from 0.50% to 3.00% for the years 2019 and 2018.

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

On November 21, 2019, the BSP issued Circular No. 1063 which took effect on December 6, 2019 Reduction in Reserve Requirements of 3% for savings deposits. The required reserve as of December 31, 2019 amounted to ₱ 42,730,143 or 3% of the total deposit liabilities. This amount is in the form of deposit with Bangko Sentral ng Pilipinas which has a balance of ₱48,915,872 as at December 31, 2019.

Interest expense on deposit liabilities charged to profit or loss in 2019 and 2018 amounted to ₱9,843,458 and ₱9,310,428, respectively.

13. BILLS PAYABLE

This account is consists of:

	2019	2018
Book Value	**₱270,000,000**	₱100,000,000
Total	**₱270,000,000**	₱100,000,000

These accounts are bills payable secured by promissory notes and their maturity will be on the following year. They incur interest expenses ranging from 5.00% to 6.00% for years 2019 and 2018.

Interest expense on bills payable charged to profit or loss in 2019 and 2018 amounted to ₱1,608,611 and ₱747,875, respectively.

14. ACCRUED INTEREST, TAXES AND OTHER EXPENSES PAYABLE

This account is consists of:

	2019	2018
Accrued Interest Payable	**₱2,505,308**	₱1,097,797
Accrued Other Expenses Payable	**14,602,396**	13,338,794
Total	**₱17,107,704**	₱14,436,591

Accrued interest payable represents the recognition of interest expense already due on financial liabilities such as deposit liabilities as of December 31,2019 but subsequently paid in the next accounting period. Accrued other expenses payable are year-end expenses payable on the following year.

15. OTHER LIABILITIES

This account is consists of:

	2019	2018
Accounts Payable	**₱ 5,947,850**	₱ 5,542,189
Dividends Payable	**25,983,946**	25,983,940
Premium Payable	**141,387**	157,279
Withholding Tax Payable	**324,531**	399,893
Special Guarantee Fund LOI 1242	**19,976**	19,976
Due to treasurer of the Philippines	**191,355**	134,831
Total	**₱ 32,609,045**	₱ 32,238,108

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

Accounts Payable represents various liabilities incurred by the Bank for its own account and the third parties arising from short term indebtedness/obligations still outstanding at the cut-off/ reporting date. Withholding tax payable represents tax withheld on interest expense on deposits, on compensation and other transactions on which the bank is obliged to withhold as a withholding agent of the government. SSS, Medicare and Pag-ibig Contribution are employees' contribution which are to be remitted by the Bank on January 2020.

16. EQUITY

Share Capital

Ordinary Shares

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

Authorized ordinary share capital as of December 31, 2019 amounted to ₱250,000,000 or 2,500,000 shares with a par value of ₱100 each. Total subscribed ordinary shares amounted to ₱225,947,300 and paid up ordinary shares amounted to ₱225,947,300 as of December 31, 2019.

Under Section 121: *Minimum Required Capital*, Rural Banks under 1st class municipality with 11 to 50 branches in all other areas outside NCR are required to comply with the minimum capital of ₱ 40 Million within five (5) years. The Bank is currently compliant with the minimum capital.

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

	2019		2018	
	Shares	**Amount**	Shares	Amount
Share Capital – ₱100 par value, 2,500,000 authorized shares				
Ordinary Shares at the beginning of the year	**2,259,473**	**₱225,947,300**	2,259,473	₱225,947,300
Issuance of shares of stocks from settlement of subscriptions receivable	**-**	**-**	-	-
Ordinary Shares at the end of the year	**2,259,473**	**₱225,947,300**	2,259,473	₱225,947,300
Subscribed	-	-	-	-
Subscription receivable	-	-	-	-
	2,259,473	**₱225,947,300**	2,259,473	₱225,947,300

The reconciliation of surplus during the period is as follows:

Retained Earnings - Free

	2019	2018
Balance, Beginning	**₱52,606,992**	₱76,286,435
Net Income (Loss)	**24,509,498**	20,693,893
Provision and Adjustments	**1,197,657**	(18,389,397)
Dividends Declared	**(7,908,156)**	(25,983,940)
Balance, Ending	**₱70,405,991**	₱52,606,992

Retained Earnings - Reserve

	2019	2018
Balance, Beginning	**₱1,722,075**	₱1,965,997
Provision and Adjustments	**(334,322)**	(243,922)
Transfer from/(to)	**-**	-
Balance, Ending	**₱1,387,753**	₱1,722,075

The composition of Retained Earnings – Reserve is as follows:

	2019	2018
Retained Earnings – Reserve for Healthcare Fund	**₱7,022,194**	₱7,022,194
Retained Earnings – Reserve for Defined Benefit Cost - OCI	**(5,634,441)**	(5,300,119)
Balance, Ending	**₱1,387,753**	₱1,722,075

Provision and Adjustments

The Bank provision and adjustments represents the last year auditor's net adjustments for reclassification of accounts amounting to ₱7,851,961 for the year ended December 31, 2019 that remained unbooked, current year's net debit adjustments of ₱6,654,304.

Cash and Stock Dividends

The Bank declared Cash and Stock Dividends amounting to ₱7,908,156 and ₱25,983,940, respectively. The relative dates of dividend declaration are summarized below:

Type of Dividend	Date of Declaration	Date of Record	Date of Distribution	Amount of Dividend
Cash	February 9, 2019	December 31, 2018	February 21, 2019	₱ 7,908,155.50
Stock	February 8, 2018	February 8, 2018	Upon BSP & SEC approval	₱ 25,983,939.50

Upon the approval of the BSP to increase the Bank's authorized capital stock, the stock dividends payable will be distributed and common shares will be issued to the stockholders. As of December 31, 2019, the stock dividends payable are reported under other liabilities section of the note.

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.

On October 9, 2014, BSP issued the Circular No. 854, which states that rural banks under 1st class municipality with head offices in areas outside the National Capital Region and with 11 to 50 branches

are required to comply with the minimum capital requirement of ₱40.00 million. As at December 31, 2019 and 2018, the Bank is in compliant with the minimum capitalization requirement set by the BSP.

The CAR of the Bank as at December 31, 2019 and 2018, as reported to the BSP, is shown in the table below:

	2019	2018
Tier 1 capital	₱ 295,043,820	₱ 277,511,272
Tier 2 capital	15,962,419	12,674,886
Total qualifying capital	₱ 311,006,239	₱ 290,186,158
Risk weighted assets	₱ 1,760,117,583	₱1,553,133,696
Tier 1 capital ratio	16.76%	17.87%
Tier 2 capital ratio	0.91%	0.82%
Total CAR	17.67%	18.68%

The Bank's Total Qualifying Capital as at December 31, 2019 and 2018 was computed as follows:

	2019	2018
A. Calculation of Qualifying Capital		
A.1 Tier 1 Capital		
Core Tier 1 Capital		
Paid-Up Capital - Ordinary	₱225,947,300	₱225,947,300
Retained Earnings	71,793,744	54,329,066
Deductions from Core Tier 1 Capital		
Deferred Tax Asset, Net of Deferred Tax Liability	(2,697,223)	(2,765,095)
Total Tier 1 Capital	₱ 295,043,820	₱ 277,511,272
A.2 Tier 2 Capital		
General Loan Loss Provisions	₱ 15,962,419	₱ 12,674,886
Total Upper Tier 2 Capital	₱ 15,962,419	₱ 12,674,886
TOTAL QUALIFYING CAPITAL	₱ 311,006,239	₱ 290,186,158

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

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

Financial Performance

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

	2019	2018
A. Return on average equity (ROE)	8.48%	7.08%
B. Return on average assets (ROA)	1.29%	1.25%
C. Net interest margin	5.87%	6.94%
D. Debt to Equity Ratio	5.88:1	5.30:1

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

Return on average equity (ROE)

Formula: ROE = Net Income after Tax / Average Capital

		2019	2018
Net Income		**24,509,498**	20,693,893
Average Equity			
	2019	**297,741,044**	
	2018	**280,276,367**	
	2018		280,276,367
	2017		304,199,732
Total		**578,017,411**	584,476,099
Average Equity		**289,008,705**	292,238,049
Return on Average Equity		**8.48%**	7.08%

Return on average assets (ROA)

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

		2019	2018
Net Income		**24,509,498**	20,693,893
Average Assets			
	2019	**2,048,131,067**	
	2018	**1,766,189,271**	
	2018		1,766,189,271
	2017		1,545,437,312
Total		**3,814,320,338**	3,311,626,583
Average Assets		**1,907,160,169**	1,655,813,292
Return on Average Assets		**1.29%**	1.25%

Net Interest Margin Ratio

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

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

		2019	2018
Net Interest Income		**104,043,766**	104,305,897
Average Interest Earnings Assets			
	2019	**1,911,243,588**	
	2018	**1,635,133,633**	
	2018		1,635,133,633
	2017		1,372,693,269
Total		**3,546,377,220**	3,007,826,902
Average Interest Earnings Assets		**1,773,188,610**	1,503,913,451
Net Interest Margin		**5.87%**	6.94%

Debt to Equity Ratio

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

	2019	2018
Total Liabilities	**1,750,390,023**	1,485,912,905
Total Equity	**297,741,044**	280,276,366
Debt to Equity Ratio	**5.88:1**	5.30:1

17. OTHER INCOME

This account is consists of:

	2019	2018
Fees and Commission Income	**₱ 3,784,435**	₱ 3,964,296
Gains on sale of ROPA	**46,749,100**	27,227,659
Gains on sale of Transportation & Equipment	**420,224**	599,999
Recovery on charged off assets	**81,602**	193,463
Miscellaneous income	**5,029,218**	2,117,167
Rental income	**-**	50,000
Total	**₱ 56,064,579**	₱34,152,584

18. COMPENSATION AND BENEFITS

This account is consists of:

	2019	2018
Salaries and Wages	**₱29,356,139**	₱28,680,854
Fringe Benefits-Officers and Employees	**10,535,578**	8,062,793
Director's Fee	**2,891,000**	2,640,000
SSS, Philhealth and Employees Compensation Premium and PAGIBIG Fund Contribution	**2,702,665**	2,007,881
Contribution to Retirement Fund (Note 18)	**3,060,172**	3,182,794
Total	**₱48,545,554**	₱44,574,321

19. RETIREMENT BENEFITS

This account is consists of:

A defined benefit plan should be provided for the retirement of its employees and is 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 reconciliation of the present value of the defined benefit obligation and the fair value of the plan assets to the recognized liability under the "Retirement benefit asset" account in the statement of financial position is as follows:

	2019	2018
Present value of defined benefit obligation	**19,463,643**	15,524,084
Fair value of plan assets	**(25,404,360)**	(35,507,687)
Asset ceiling	**578,611**	6,646,713
Net defined benefit liability (asset)	**(5,362,106)**	(13,336,890)

The movement in the defined benefit obligation is shown below:

	2019	2018
Present value of defined benefit obligation, beginning	**15,524,084**	11,640,274
Interest expense	**1,168,964**	663,496
Current service cost	**1,481,662**	1,066,248
Benefit paid from Plan assets	**(182,204)**	
Acturial (gains) losses- changes in financial assumptions	**2,416,560**	1,657,485
Acturial (gains) losses- changes in demographic assumptions	**108,188**	462680
Actuarial (gains) losses- experience	**(1,053,611)**	33,901
Present value of defined benefit obligation, ending	**19,463,643**	15,524,084

The movement in the plan assets is shown below:

	2019	2018
Fair value of plan assets, beginning	**35,507,687**	27,276,479
Interest income	**2,782,084**	1,638,825
Contributions	**3,060,172**	2,949,674
Benefit paid from plan assets	**(182,204)**	
Remeasurement gain (loss) - return on plan assets	**(15,763,379)**	3,642,709
	25,404,360	35,507,687

The defined benefit cost recognized in the profit or loss statement consists of:

	2019	2018
Current service cost	**2,782,084**	1,638,825
Interest cost	**(15,763,379)**	3,642,709
	(12,981,295)	355,920

The defined benefit cost recognized in the other comprehensive income:

	2019	2018
Accumulated comprehensive income, beginning	**5,300,119**	5,056,197
Actuarial (gains) losses- DBO	**1,471,137**	2,154,066
Remeasurement (gain) loss- plan assets	**15,763,379**	(3,642,709)
Remeasurement (gain) loss- changes in the effect of the asset ceiling	**(6,568,599)**	1,732,565
Defined benefit cost in OCI- Expense (Income)	**10,665,917**	243,922
Accumulated comprehensive income, ending	15,966,036	5,300,119

The principal assumption used to determine retirement benefit obligation of the company are as follows:

	2019	2018
Discount rate	**5.22%**	7.53%
Salary increase rate	**7.00%**	8.00%

The summary of movements in the net defined benefit liability (asset) is as follows:

	2019	2018
Beginning Net defined liability (Asset)	**(13,336,890)**	(10,987,058)
Defined benefit cost recognized in P&L	**369,039**	355,920
Defined benefit cost recognized in OCI	**10,665,917**	243,922
Contributions	**(3,060,172)**	(2,949,674)
Closing Net defined liability (asset)	**(5,362,106)**	(13,336,890)

Sensitivity Analysis, Year-end defined benefit obligation (DBO)

	2019	2018
a. 1. Decrease in DBO due to 100 bps increase in discount rate	**(1,882,992) ; (9.7%)**	(1,411,876); (9.1%)
2. Increase in DBO due to 100bps decrease in discount rate	**2,213,897 ; 11.4%**	1,642,327; 10.6%
b. 1. Increase in DBO due to 100bps increase in salary increase rate	**2,152,161 ; 11.1%**	1,618,444; 10.4%
2. Decrease in DBO due to 100bps decrease in salary increase rate	**(1,870,198) ; (9.6%)**	(1,418,358); (9.1%)
c. Increase in DBO, no attrition rates	**12,789,172 ; 65.7%**	8,627,299; 55.6%

Allocation of plan assets	2019	2018
Cash and cash equivalents	**91.15%**	91.55%
Loans	**8.85%**	8.45%

20. OTHER OPERATING EXPENSE

This account is consists of:

	2019	2018
Management and Other Professional Fees	**₱ 816,256**	₱ 1,087,797
Supervision Fees	**341,130**	307,044
Litigation and Asset Acquired	**122,477**	3,184,628
Stationery and Supplies	**983,154**	987,179
Travelling	**1,557,912**	1,716,895
Documentary Stamps	**718,155**	134,477
Rental	**8,543,143**	7,345,551
Membership Fees and Dues	**54,230**	49,130
Representation and Entertainment	**1,505,019**	1,962,245
Publicity and Advertisement	**1,830,365**	3,556,136
Donation	**207,035**	141,198
Fines and Penalties	**8,550**	252,384
Security and Messengerial Services	**2,630,858**	2,479,201
Power, Light, and Water	**2,183,222**	2,210,420
Postage, Telephone, and Telegram	**2,526,949**	2,524,901
Fuel and Lubrication	**1,044,084**	1,178,350
Repair and Maintenance	**3,252,702**	5,152,432
Periodicals and Magazines	**44,108**	41,583
Insurance expense - PDIC	**2,834,056**	1,322,188
Insurance expense - Others	**1,111,068**	3,180,278
Miscellaneous	**32,498,009**	21,994,060
Medical, Dental, and Hospitalization	**527,866**	486,195
Total	**₱ 65,340,348**	₱ 61,294,274

The miscellaneous expenses include staff/employee benefits amounting to ₱16,069,899 for the year ended December 31, 2019.

21. DEPRECIATION AND AMORTIZATION EXPENSE

This account is consists of:

	2019	2018
Depreciation Expense – Buildings	**₱ 798,722**	₱ 621,227
Depreciation Expense - Furniture and Fixtures	**2,642,737**	2,532,927
Depreciation Expense - Transportation Equipment	**850,175**	673,325
Depreciation Expense – Information Technology	**680,043**	509,741
Depreciation Expense – Leasehold Improvements	**2,314,839**	2,080,162
Depreciation Expense – ROPA Building	**1,379,215**	1,442,056
Impairment Losses - ROPA	**1**	136,425
Total	**₱8,665,732**	₱7,995,864

22. LEASE COMMITMENT AND CONTINGENCIES

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

Lease

Bank as a lessee

The Bank has long term lease agreements with Priser Trading Corporation for the rentals of the following branches:

BRANCH (LOCATION)	Lease Term	Consummation date - Expiration Date	Rental Fees, 2019	Rental Fees, 2018
Angeles-Plaridel Branch (Angeles)	25 years	10/01/2018 – 09/30/2035	**506,667**	460,606
Head Office (Angeles)	12 years	4/1/2018 – 03/31/2030	**3,971,024**	1,189,656
Corporate Office (Angeles)	15 years	02/01/2015 – 01/31/2030	**1,492,917**	3,504,836
Porac Branch	3 years	1/1/2019 – 12/31/2021	**966,306**	878,460
San Fernando Branch	5 years	9/1/2019 – 8/31/2024	**453,152**	430,416
Balibago Branch	5 years	12/1/2018 – 11/30/2023	**645,277**	642,600
Mabalacat Branch	1 year	9/1/2018 – 8/31/2019	**213,800**	345,650
Concepcion Branch	3 years	8/1/2018 – 7/31/2021	**294,000**	122,500
TOTAL			**8,543,143**	7,574,724

All rentals fees shall be increased by 10% every year beginning from the date of consummation.

Other commitments and contingencies

a.) The bank is a plaintiff to various cases arising from the collection suits pending in courts for claims against delinquent borrowers of the bank. The final decision of which cannot be determined at present. The amount of loans and receivables under litigation amounted to ₱14,486,109 as at December 31, 2019.

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

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

d.) The Bank has no contingent accounts for the year ended December 31, 2019 and 2018.

23. INCOME TAXES

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

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

Republic Act No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 30.00%, and deductible interest expense shall be reduced by 33.00% of interest income subjected to final tax. Current tax regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Further, current tax regulations set a limit for entertainment, amusement and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services. The Bank recorded EAR expenses amounted to ₱1,505,019 and ₱1,962,245 in 2019 and 2018, respectively.

Provision for income tax consists of:

	2019	2018
Current	**₱ 6,692,055**	₱ 4,027,591
Deferred	**67,871**	(5,372,571)
Tax Expense reported in Statement of Comprehensive Income	**₱ 6,759,926**	₱ (1,344,980)

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

Current Tax

	2019	2018
Statutory income tax	**₱ 9,380,827**	₱ 5,804,674
Income tax effects of:		
Interest income subject to final tax	**(2,568,818)**	(2,097,783)
Interest Income from HGC	**(1,210,316)**	(544,635)
Accounts written-off	**(67,871)**	-
Interest expense reduced by 33% income subject to final tax	**1,059,637**	865,335
Non Deductible Representation and Entertainment	**98,596**	-
Provision for income tax	**₱ 6,692,055**	₱ 4,027,591

Computation of Income Tax:

	2019	2018
Net Income per books	**₱31,269,424**	₱ 19,348,914
Add: Non-deductible Expenses/Taxable Other Income		
Provision for Credit Losses on Loans and Receivables	**-**	-
Non-deductible Retirement and Entertainment	**328,654**	-
Interest expense reduced by 33% income subject to final tax	**3,532,125**	2,884,451
Total	**3,860,779**	2,884,451
Less: Non-taxable Income and Income Subjected to Final Tax		
Interest Income Subject to Final Tax	**(8,562,726)**	6,992,609
Interest Income under HGC	**(4,034,389)**	1,815,450
Accounts written off	**(226,237)**	-
Total	**(12,823,352)**	8,808,059
Net Taxable Income (Loss)	**22,306,851**	13,425,306
Tax Rate	**30%**	30%
Normal Corporate Income Tax	**6,692,055**	4,027,591
Minimum Corporate Income Tax**	**1,986,452**	1,762,935
Income Tax Due	**6,692,055**	4,027,591
Less: Tax payments for the previous quarters	**2,508,267**	2,629,824
Creditable Tax Withheld per BIR Form 2307	**456,080**	
Income Tax Still Due/(Overpayment)	**₱ 3,727,708**	₱ 1,397,766

Non Deductible Representation and Entertainment

Total Gross Interest Income	2019
Loans and Receivable	₱ 106,933,109
Due from Other Banks	1,417,409
Debt Securities Measured at Amortized Cost	9,285,999
Total	117,636,517
Limit – 1%	1.00%
Limit on Representation and Entertainment	1,176,365
Actual Representation and Entertainment	1,505,019

Non Deductible Representation and Entertainment	₱ 328,654

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

	2019	2018
Revenue	₱115,495,835	₱114,364,200
Cost of Revenue (Note 24)	59,640,685	53,377,406
Gross Income	55,855,150	60,986,794
Add: Other Income(Note 16)	56,064,579	34,152,584
Less: Interest Income Subjected to Final Tax	(8,562,726)	(6,992,609)
Interest Income under HGC	(4,034,389)	(1,815,450)
Total Gross Income	99,322,615	86,331,319
MCIT Rate	2%	2%
Minimum Corporate Income Tax**	₱ 1,986,452	₱1,726,626

Deferred Tax Asset

	2019	2018
Deferred Tax Asset – Beginning	₱ 5,372,571	₱ 17,908,569
Used DTA from accounts written-off	(67,871)	(12,535,998)
Deferred Tax Asset – Ending	₱ 5,304,700	₱ 5,372,571

24. RELATED PARTY TRANSACTIONS

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

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

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

Remunerations of Key Management Personnel

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

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

	2019	2018
Short-term employee benefits	₱ 12,034,715	₱ 11,342,922
Total	₱ 12,034,715	₱ 11,342,922

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

Other Related Party Transactions

The summary of transactions to related parties for the year ended December 31, 2019 that exceeds the limit of ₱500,000 is as follows:

Name of Related Party	Amount of Transaction	Amount Paid	Outstanding Balance
B and H Fuel Bar	581,769	532,857	48,912
Priser Trading Corporation	6,856,387	6,272,506	583,881
TOTAL	7,438,156	6,805,363	632,793

Regulatory Reporting

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

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

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

2019	DOSRI Loans	Related Party Loans Inclusive of DOSRI
A.1. Outstanding Balance	17,267,501	29,485,347
A.2. Total Loan Portfolio	1,292,092,965	1,292,092,965
B. Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1./A.2.)	**1.34%**	**2.28%**
C. Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans		
Unsecured	-	-
Total DOSRI/RP Loan	17,267,501	29,485,347
	0.00%	**0.00%**
D. Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans		
Past Due	-	-
Total DOSRI/RP Loan	17,267,501	29,485,347
	0.00%	**0.00%**
E. Percentage of Non Performing DOSRI/RP to Total DOSRI/RP Loans		
Non Performing	-	2,000,000
Total DOSRI/RP Loan	17,267,501	29,485,347
	0.00%	**6.78%**

2018	DOSRI Loans	Related Party Loans Inclusive of DOSRI
A.1. Outstanding Balance	13,274,597	25,988,492
A.2. Total Loan Portfolio	1,080,198,296	1,080,198,296
B. Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1./A.2.)	**1.23%**	**2.41%**
C. Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans		
Unsecured	-	-
Total DOSRI/RP Loan	13,274,597	25,988,492
	0.00%	**0.00%**
D. Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans		
Past Due	-	30,236

	2019	2018
Total DOSRI/RP Loan	13,274,597	25,988,492
	0.00%	**0.12%**
E. Percentage of Non Performing DOSRI/RP to Total DOSRI/RP Loans		
Non Performing	-	-
Total DOSRI/RP Loan	13,274,597	25,988,492
	0.00%	**0.00%**

The term of the related party loans ranges from one (1) to ten (10) years. Payment of the principal amount and interest is made on a monthly basis. The related parties are siblings of the directors, officers, and/or stockholders.

The Bank monitors its RPTs using the Bank's materiality threshold and limits. The sublimit per related parties and per family group of each director, officer, and stockholder is ₱100M and ₱12.5M per family group of each DOS, respectively. As of December 31, 2019 and 2018, The Bank is in compliant with the maximum aggregate amount and sublimit that was set by the Bank.

Below is the computation of aggregate ceiling on DOSRI and ceiling on unsecured DOSRI loans:

		2019		2018
A. Aggregate Ceiling on DOSRI				
1. Total Loan Portfolio	₱	**1,292,092,965**	₱	1,081,198,296
2. 15% of #1		**193,813,945**		162,179,744
3. Adjusted Capital per FRP		**297,741,044**		280,276,366
4. Item A.2 or A.3 whichever is lower	₱	**193,813,945**	₱	162,179,744
B. Ceiling on Unsecured DOSRI Loans				
1. Secured DOSRI loans	₱	**17,267,501**	₱	13,274,597
2. Unsecured DOSRI loans		**-**		-
3. Total		**17,267,501**		13,274,597
4. 30% of Item A.4		**58,144,183**		48,653,923
5. 30% of B.3		**5,180,250**		3,982,379
6. Item B.4 or B.5 whichever is lower	₱	**5,180,250**	₱	3,982,379
C. Compliance with Aggregate Ceiling (Item A.4 -B.3)	₱	**148,905,148**	₱	148,905,148
D. Compliance with Ceiling on Outstanding Unsecured Loans (Item B.6-B.2)	₱	**5,180,250**	₱	3,982,379

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

Revenue Regulation (RR) No 15-2010

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

Percentage Taxes (Gross Receipt Tax)

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

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

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

b) On dividends...0%

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

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

GRT in 2019 consists of taxes on:

Interest income on loans and other related income from lending operations	**1,178,578**
Other income	**4,312,031**
	5,490,609

Documentary Stamp

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

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

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

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

Taxes and Licenses

a. Local		
Business Permit	**₱ 790,678**	**₱ 790,678**
b. National		
Percentage Tax	**₱5,490,609**	
Annual Registration-BIR	**6,000**	**5,496,609**
Total-Taxes and Licenses		**₱6,287,287**

Withholding taxes in 2019 are categorized into:

Paid:	
Final withholding tax on interest expense	**₱1,991,595**
Withholding taxes on compensation and benefits	**247,843**
Expanded withholding tax	**1,322,232**
	₱3,561,670

Tax Assessments and Cases
As at December 31, 2019, 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 2019:

Sale of Services

The Bank's taxable sale of services amounted to ₱83,252,716 and income subject to final income tax and are exempt from tax amounted to ₱8,562,726 for the year ended December 31, 2019. Interest income under HGC which are exempted in the computation of tax due amounted to ₱4,034,389.

Cost of Services

	2019
Details of the Bank's tax deductible cost of services accounts are as follows:	
Direct Charges - Salaries and wages	**₱ 48,545,554**
Direct Charges - Insurance (PDIC)	**2,834,056**
Direct Charges – Supervision Fee	**341,130**
Direct Charges - others (interest expense net of 33% limit)	
Interest expense	**11,452,069**
Less: Limit (33% of interest income subj. to final tax)	**(3,532,124)**
Total	**₱ 59,640,685**

Itemized Deductions

Details of the Bank's itemized deductions are as follows:	2019
Management and Other Professional Fees	**₱ 816,256**
Litigation and Asset Acquired	**122,477**
Stationery and Supplies	**983,154**
Travelling	**1,557,912**
Documentary Stamps	**718,155**
Rental	**8,543,143**
Membership Fees and Dues	**54,230**
Representation and Entertainment	**1,176,365**
Publicity and Advertisement	**1,830,365**
Donation	**207,035**
Fines and Penalties	**8,550**
Security and Messengerial Services	**2,630,858**
Power, Light, and Water	**2,183,222**
Postage, Telephone, and Telegram	**2,526,949**
Fuel and Lubrication	**1,044,084**
Repair and Maintenance	**3,252,702**
Periodicals and Magazines	**44,108**
Insurance expense - Others	**1,111,068**
Taxes and Licenses	**6,287,287**
Depreciation	**8,665,732**
Miscellaneous	**32,498,009**
Accounts Written-Off/Bad Debts	**226,237**
Medical, Dental, and Hospitalization	**527,866**
Total	**₱ 77,015,764**

Total Deductible Expense	**₱ 136,656,449**
Expense Reported in Audited Financial Statements	**140,290,990**
Difference*	**₱ (3,634,541)**
*Reconciliation of Difference:	
Interest Limit	**₱ 328,654**
Non Deductible Representation and Entertainment	**3,532,124**
Less: Accounts written-off	**(226,237)**
	₱ 3,634,541

26. OTHER MATTERS

1. Anti-Money Laundering Act (AMLA)

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

2. As of December 31, 2019, all of the bank's directors had undergone the requirements for corporate governance as confirmed by the Monetary Board as mandated by MORB Subsection 901.

27. AGGREGATE AMOUNT OF SECURED LIABILITIES AND ASSETS PLEDGED

As of December 31, 2019, the Bank has no secured liabilities and assets pledged.

28. LIST OF EFFECTIVE STANDARDS AND INTERPRETATION

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✔		
PFRSs Practice Statement Management Commentary				✔
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✔		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✔		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✔		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✔		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✔
	Amendments to PFRS 1: Government Loans			✔
PFRS 2	Share-based Payment	✔		
	Amendments to PFRS 2: Vesting Conditions and	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Adopted	Not Adopted	Not Applicable
	Cancellations			
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✔		
PFRS 3 (Revised)	Business Combinations			✔
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✔
	Amendments to PFRS 3: Scope Exceptions for Joint Ventures			✔
PFRS 4	Insurance Contracts			✔
	Amendments to PFRS 9 and PFRS 4: Financial Guarantee Contracts			✔
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✔
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✔
	Amendments to PFRS 5: Changes in methods of 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	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 9: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✔
	Amendments to PFRS 9: The Fair Value Option	✔		
	Amendments to PFRS 9 and PFRS 4: Financial Guarantee Contracts	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✔		
	Amendments to Philippine Interpretation IFRIC–9 and PFRS 9: Embedded Derivatives	✔		
	Amendment to PFRS 9: Eligible Hedged Items	✔		
PFRS 10*	Consolidated Financial Statements			✔
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✔
	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	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 7: Disclosures Initiative	✔		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✔		
PAS 10	Events after the Balance Sheet Date	✔		
PAS 11	Construction Contracts			✔
PAS 12	Income Taxes	✔		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✔		
PAS 16	Property, Plant and Equipment	✔		
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation			✔
	Clarification of Acceptable Methods of Depreciation and Amortization	✔		
PAS 18	Revenue	✔		
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			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation exception			✔
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			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Adopted	Not Adopted	Not Applicable
IFRIC 13	Customer Loyalty Programmes			✔
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✔
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✔
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✔
IFRIC 17	Distributions of Non-cash Assets to Owners	✔		
IFRIC 18	Transfers of Assets from Customers			✔
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✔
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✔
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. 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.

-END OF REPORT-