

Let's make it happen!



OUR BRANCHES

CORPORATE/HEAD OFFICE

Priser Building Cor. Flora Ave., Sto. Rosario St.,
Angeles City, Pampanga
(045) 322-9900 to 79

PORAC BRANCH

General Luna St., Cangatba, Porac, Pampanga
(045) 322-9900 local 215 to 218

ANGELES-NEPO BRANCH

Rizal Ext. Angeles City, Pampanga
(045) 322-9900 local 201 to 202

ANGELES-BALIBAGO BRANCH

Lot 2, Bayanihan Park, M.A. Roxas St., Malabanas,
Angeles City, Pampanga
(045) 322-9900 local 203 to 204

MAGALANG BRANCH

San Pedro I, Magalang, Pampanga
(045) 322-9900 local 208 to 209

MABALACAT BRANCH

Lot 1 Blk 2, Casmor Mabiga, Mabalact, Pampanga
(045) 322-9900 local 205

TARLAC-TARLAC BRANCH

RHC Bldg. Hilario Corner M.H. Del Pilar Street, Ligtasan,
Tarlac City
(045) 322-9900 local 220

FLORIDA BLANCA BRANCH

Sta. Maria, Cor. Rizal St., Poblacion, Florida Blanca,
Pampanga
(045) 322-9900 local 210 to 211

ARAYAT BRANCH

Plaza Luma, Arayat, Pampanga
(045) 322-9900 local 212 to 214

DOLORES BRANCH

Emerald Business Center, McArthur Hi-way, Dolores,
City of San Fernando, Pampanga
(045) 322-9900 local 207

MEXICO BRANCH

San Antonio, Mexico, Pampanga
(045) 322-9900 local 206

ANGELES-PLARIDEL BRANCH

Plaridel St., Sto. Rosario, Angeles City, Pampanga
(045) 322-9900 local 200

CONCEPCION-TARLAC BRANCH

Benj-Ari Bldg. N. Dela Patric, L. Cortez St.,
Concepcion, Tarlac
(045) 322-9900 local 219

2020 ANNUAL REPORT

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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 become the 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 eleven branches in Pampanga and two branches in Tarlac, 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 interests, 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 the 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 the 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 upholding strong business ethics.



MESSAGE FROM THE CHAIRPERSON

2020 ushered a year with one of the biggest crises we have faced in recent times. COVID-19 pandemic was a game-changer that resulted in unimaginable outcomes, not only to companies and businesses but to individuals across the globe. The deadly coronavirus outbreak ensued twin threats to peoples' lives and livelihoods.

We, at Porac Bank, were not exempt from the ill-effects of the global COVID-19 pandemic which pulled us back from our steady growth trajectory in the past many years. However, with our strong leadership pipeline, highly committed employees, and resilient team, we were able to pivot, harness our strength and capabilities, and thrived in the face of heightened turbulence. Our theme "Let's Make It Happen" became our beacon and anchor as we leveraged our best assets to move us forward. With the astute direction of the board and execution of good corporate governance, we quickly responded with our foresight-driven business continuity plan and adopted an innovative and enabling approach to manage the Bank in the face of immense change and successfully navigate thru the "new normal."

While there is positive sentiment across the world in terms of recovering from the pandemic, especially with the prospect of COVID vaccination, there still seems to be a long way to go. For the coming years, we have crafted goals and objectives that dictate the operational road we take that would drive higher productivity and growth for the Bank. With our sustainable talent pipeline and future-ready workforce, we shall capitalize on our strengths and continue to be proactive in adopting better strategy, practices, and execution to pull us ahead and emerge stronger in today's ever-changing landscape.

Anchored on our dictum "Let's make it happen", we at Porac Bank, shall continue to design and provide an impactful customer experience that aligns with our "Malasakit" value. Motivation is what kept us started in our banking business and it will keep us going. Our forefront mission to bring banking closer to the local community and provide financial solutions to our loyal and decades-long faithful clients spurs us to ensure that our operations continue and our business will thrive.

With a sustainable ray of hope for the future, we shall continue to bring value to all our stakeholders who have supported us for the past 52 years, and saying "Thank you" is an understatement for your steadfast patronage and loyalty.


ALMA D. LIMJOCO
Chairperson, Porac Bank



MESSAGE FROM THE PRESIDENT

Dear Stakeholders,

While the previous years led the Bank to a steady growth trajectory, the unprecedented challenges that 2020 has presented before us slightly pulled us back. It pulled us back only to allow us to fortify our strategies so we can achieve maximum resiliency. It pulled us back only to prepare us to embrace the changes necessary to reach greater heights in the coming years.

It's easy to become victims of pessimism as we witness the world come to a near standstill in the early part of 2020 when countries had to shut their borders; Malls, establishments and other places that were once brimming with commercial activities were, for a time, left desolate due to the COVID-19 pandemic; and the world that once thrived on high-touch interaction changed dramatically. This made me realize that resiliency or our ability to bounce back from trying situations depends a great deal on our ability to ride the waves of change.

Indeed, Change is the most malleable leverage that we can use to recover faster and emerge stronger. At Porac Bank, we began to change at the top as we welcomed two new Directors in 2020: Marites C. Limjoco and Raul B. De Mesa. The expertise, diversity, and new ideas that these new Directors brought to the table, coupled with the wisdom of the existing Board of Directors, allowed the Bank to benefit from an enhanced level of Board efficacy.

This transformation allowed us to become better equipped in managing risk, opportunities, and challenges as we navigate through the compounding crisis as well as the sweeping changes that confronted us in 2020.


Lourdes Connie C. Tayag
President/CEO, Porac Bank

PRESIDENT'S MESSAGE

"If we commit to our core value of Malasakit, there is no limit to what we can achieve. Together, let's make it happen!"

Amidst the triple shock of a compounding health crisis, natural disasters, and nationwide restrictions, we remained focus on managing and growing the business while keeping our clients and employees safe. As such, at the onset of the global health emergency, the Management quickly responded with a foresight-driven business continuity plan. This allowed us to adopt best practices and implement quick, effective responses to manage the business in the face of heightened turbulence, including but not limited to:

- Waiving fees on inter-branch transactions to allow our Clients to withdraw or deposit funds to their accounts through any Porac Bank branch;
- Leveraging on our partnership with UnionBank Philippines to allow our clients to perform different financial transactions at one place including bills payment, fund transfer via pesonet and instapay, and pera padala services to any LBC, Cebuna Lhuillier, and Perahub branches nationwide;
- Enabling the beneficiaries of the Pantawid Pamilyang Pilipino Program to access their Landbank cash cards at Porac Bank Arayat, Florida, Porac and Plaridel branch through our partnership with Landbank of the Philippines;
- Bridging the gap between the emerging need for digital banking solutions, expensive IT infrastructure, and lack of digital literacy by implementing the PASABAYAD service –an additional banking service that allows our clients to enjoy the benefit and convenience of mobile or online banking through our Marketing Assistants;
- Leveraging on our partnership with Landbank of the Philippines and Asia United Bank to provide digital solutions for loan payments;
- The rapid adoption of the guidelines of the Bayanihan to Heal as One Act;
- Adoption of guidelines that allowed the Bank to effectively implement remote compliance testing;
- Implementation of enhanced credit monitoring, intensified collection strategies, and proactive action to manage credit risk exposure.

The health and wellbeing of our employees are of paramount importance. Thus, we've taken the necessary measures to protect their health and well-being. In effect, our people were able to focus on serving the needs of our clients and further elevating the quality of our banking services. Our foresight-driven business continuity plan allowed the Bank to quickly implement health and safety measures to prevent the risk of transmission in the workplace.

To this end, we were able to quickly transition to remote work arrangements for critical business units including the Human Resource, Audit and Compliance, Credit, Marketing, and Executive at the beginning of the enhanced community quarantine.

The severity of the COVID-19 pandemic continues to reshape how we do banking as it accelerates digital transformation. To this end, we laid the groundwork for e-banking services in 2020. Aside from the augmented services we've mentioned earlier, the Bangko Sentral ng Pilipinas greenlighted our intent to offer basic electronic and financial services. Indeed, this signifies a good start for our digital banking roadmap.

Porac Bank ended the year with a gross income of P155.315Million. While it is lower than last year's figure of P171.560Million, it is worth noting that despite the temporary suspension of credit granting activities in 2020, the bank recorded a total interest income of P121.820Million which is higher than last year's record by 5.48%. The decrease in the overall gross income is attributable to the similar movement in fees and other charges, gain on sale and penalties. Fees and other charges decreased by 49.34% from P8.814Million in 2019 to P4.465Million in 2020. This is due to the discounts and waiver of fees extended by the Bank to its Clients as a way to alleviate the economic impact of the COVID-19 pandemic to our Borrowers, more particularly, those suffering from financial constraints. Similarly, gain on sale decreased by 37.90% within the comparative period, from P46.75Million to P29.03Million. Nonetheless, the Bank still surpassed the P25Million target thereof. While the Bank remains committed to achieving its target on the gain on sale, the restrictions implemented to contain further transmission of the COVID-19 has affected our ability to do so to a great extent.

Negligible of the current market condition and nationwide restrictions, the Bank's deposit liabilities increased from P1.424Billion in 2019 to P1.615Billion in 2020. Other liabilities decreased by 3.27%. In effect, capital accounts increased from P297.741Million in 2019 to P332.387Million in 2020, or an equivalent of 11.64%. This is higher than the approved target thereon of P327Million by 1.65%.

Heightened economic uncertainty meant heightened risk in lending activities. As such, the Board and the Management agreed to take the necessary actions to protect the Bank from such exposure including but not limited to tempered risk appetite, temporary suspension in credit granting activities between March to June 2020 followed by the implementation of a stricter credit underwriting process upon resumption thereof.

In addition, the Bank has maintained an ACL to NPL ratio of 49.13%. Total Operating Expenses (OPEX) decreased by 10.14% from P128.839Million in 2019 to P115.772Million in 2020. This is due to the decrease in manpower costs, travelling and fuel expenses among others due to pandemic. Despite the continued growth of our deposit liabilities, we are proud to state that the interest expense thereon decreased by 4.10% from P9.843Million in 2019 to P9.440Million, as a result of our consistent effort to review and amend the interest expenses as necessary.

Our collective efforts to implement strategic cost reduction have allowed the Bank to a ROA of 0.87% and an ROE of 5.57%. Despite all the challenges that we've encountered, the Bank ended the year with a net income before tax of P24.059 While it is slightly lower than the target net income of P32.471Million, this is nonetheless impressive considering the high degree of uncertainty present in today's market. This only means that notwithstanding the minor drawbacks we've encountered in 2020, the Bank remains to be in a solid financial position.

We believe that recovery from these trying times is a collective effort. As such, in our own, little ways we advocated for small businesses by raising awareness of how supporting them can impact our communities. To this end, we launched a webinar to help our small business owners harness the potential of social media in boosting their business.

As part of our advocacy to support small-scale farmers, we have expanded the coverage of our unsecured agriculture loan program so we can reach and help more farmers gain access to affordable credit. This is only the beginning as we set on a new mission to boost lending to the agriculture sector.

Moving forward, we are positive that our ability to adapt to change powered by our core value of Malasakit will allow us to make it through these trying times. The path to recovery may not be easy, but with the guidance of our Board of Directors and Management team, as well as the unwavering commitment of our people, we are optimistic that we can deliver better results and stronger financial positions in the coming years.

We remain steadfast in our vision of becoming the preferred community bank in Central Luzon driven by generational relationships and shared growth.

If we commit to our core value of Malasakit, there is no limit to what we can achieve. Together, let's make it happen!



FINANCIAL HIGHLIGHTS

	2020	2019
Profitability		
Total Net Interest Income	106,336,503.00	104,043,766.00
Total Non-Interest Income	33,494,289.00	56,064,579.00
Total Non-Interest Expenses	115,771,848.00	128,838,921.00
Pre-provisioning Profit	24,058,944.00	31,269,424.00
Allowance for Credit Losses	60,976,262.00	58,976,888.00
Net Income	17,541,126.00	24,509,498.00
Selected Balance Sheet Data		
Liquid Assets	562,318,496.00	666,471,894.00
Gross Loans	1,319,299,042.00	1,292,092,965.00
Total Assets	1,992,492,219.00	2,045,523,590.00
Deposits	1,615,971,841.00	1,424,338,090.00
Total Equity	332,387,122.00	297,741,044.00
Selected Ratios		
Return on Equity	5.57%	8.48%
Return on Assets	0.87%	1.29%
Capital Adequacy Ratio	18.59%	17.79%
Per Common Share		
Basic Net Income per share	6.96	10.85
Diluted Net Income per share	6.96	10.85
Book Value per share	131.94	131.77
Others:		
Cash Dividends Declared	7,908,156.00	7,908,155.50
Headcount	155	160
Officers	26	25
Staff	129	135

Note: Figures are based on Audited Financial Statements of the bank for year 2020 and 2019

5- YEAR COMPARATIVE STATISTICS LOAN PORTFOLIO (IN MN PHP)



5- YEAR COMPARATIVE STATISTICS DEPOSIT LIABILITIES (IN MN PHP)



Capital Structure and Capital Adequacy	2020	2019
Computation of Qualifying Capital		
A. Tier 1 Capital		
Core Tier 1 Capital		
Paid-Up Capital - Ordinary	251,930,500.00	225,947,300.00
Retained Earnings	80,456,622.00	71,793,744.00
Deductions from Core Tier 1 Capital		
Deferred Tax Asset, Net of Deferred Tax Liability	(2,024,161.00)	(2,697,223.00)
Total Tier 1 Capital	330,362,961.00	295,043,820.00
B. Tier 2 Capital		
General Loan Loss Provisions	14,670,829.00	18,082,730.00
Total Upper Tier 2 Capital	14,670,829.00	18,082,730.00
Deduction from Tier 2 (50%) Capital	-	-
Total Qualifying Capital	345,033,790.00	313,126,550.00
Capital Requirements for Credit Risks	1,689,445,526.00	1,591,631,169.00
Capital Requirements for Market Risks	-	-
Capital Requirements for Operational Risks	166,959,984.00	165,996,018.00
Total and Tier 1 Capital Adequacy Ratio on both Solo and Consolidated Basis	18.59%	17.79%

PHP 1.9 BILLION
TOTAL RESOURCES

13.08%
PAST DUE RATIO

0.87%
RETURN ON
AVERAGE ASSET

18.59%
CAPITAL ADEQUACY
RATIO

5.57%
RETURN ON
AVERAGE EQUITY

CASA & TD ACCOUNTS

24,443



LOAN ACCOUNTS

1,310



NUMBER OF EMPLOYEES

155



STATEMENT OF FINANCIAL POSITION

RURAL BANK OF PORAC (PAMPANGA), INC.

STATEMENTS OF FINANCIAL POSITION

	As at December 31	
	2020	2019
ASSETS		
Cash and Other Cash Items (Note 6.1)	₱ 20,610,836	₱ 17,947,947
Due from BSP and Other Banks (Note 6.2)	313,257,951	257,789,273
Debt Securities Measured at Amortized Cost (Note 7)	228,449,709	390,734,674
Loans & Receivable, Net (Note 8)	1,297,723,931	1,262,719,641
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 9)	45,679,908	46,824,229
Investment Property, Net (Note 10)	40,069,810	38,434,411
Right of Use Assets (Note 11)	26,607,607	-
Deferred Tax Asset (Note 25)	2,024,161	2,697,223
Other Assets, Net (Note 12)	5,083,734	12,682,490
Retirement Benefit Asset (Note 20)	12,984,572	15,693,702
TOTAL ASSETS	1,992,492,219	2,045,523,590
LIABILITIES & SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 13)	1,615,971,841	1,424,338,090
Bills Payable (Note 14)	-	270,000,000
Accrued Interest, Interest, Taxes and Other Expenses (Note 15)	8,942,706	17,107,704
Other Liabilities (Note 16)	31,541,900	32,609,045
Income Tax Payable (Note 25)	3,648,650	3,727,708
TOTAL LIABILITIES	1,660,105,097	1,747,782,546
SHAREHOLDERS' EQUITY		
Ordinary Share Capital (Note 17)	251,930,500	225,947,300
Retained Earnings - Free	82,985,834	70,405,991
Retained Earnings - Reserve for healthcare fund	7,022,194	7,022,194
Retained Earnings - Reserve for defined benefit cost- OCI (Note 20)	(9,551,406)	(5,634,441)
TOTAL SHAREHOLDERS' EQUITY	332,387,122	297,741,044
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	₱1,992,492,219	₱ 2,045,523,590
BOOK VALUE PER SHARE	₱ 131.94	₱ 131.77

See accompanying Notes to Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

RURAL BANK OF PORAC (PAMPANGA), INC.

STATEMENTS OF COMPREHENSIVE INCOME

	For the Year Ended December 31	
	2020	2019
INTEREST INCOME		
Loans & Receivables	₱ 113,754,317	₱ 106,933,109
Due from Other Banks	733,377	1,133,927
Debt Securities Measured at Amortized Cost	7,332,671	7,428,799
TOTAL INTEREST INCOME	121,820,365	115,495,835
INTEREST EXPENSE		
Deposit Liabilities	9,439,695	9,843,458
Bills Payable	6,044,167	1,608,611
TOTAL INTEREST EXPENSE	15,483,862	11,452,069
NET INTEREST INCOME	106,336,503	104,043,766
PROVISION FOR CREDIT LOSSES	-	-
NET INTEREST INCOME AFTER PROVISION	106,336,503	104,043,766
OTHER INCOME (Note 18)	33,494,289	56,064,579
TOTAL INCOME BEFORE OPERATING EXPENSES	139,830,792	160,108,345
OTHER OPERATING EXPENSE		
Compensation & Fringe Benefits (Note 19)	44,937,331	48,545,554
Other Operating Expenses (Note 21)	48,949,283	65,340,348
Depreciation & Amortization (Note 22)	16,061,666	8,665,732
Taxes & Licenses (Note 27)	5,823,568	6,287,287
TOTAL OTHER OPERATING EXPENSE	115,771,848	128,838,921
NET INCOME BEFORE INCOME TAX	24,058,944	31,269,424
INCOME TAX EXPENSE (BENEFIT) (Note 25)	6,517,818	6,759,926
NET INCOME AFTER INCOME TAX	₱17,541,126	₱24,509,498
EARNINGS PER SHARE	₱ 6.96	₱ 10.85

See accompanying Notes to Financial Statements.

STATEMENT OF CHANGES IN EQUITY

RURAL BANK OF PORAC (PAMPANGA), INC.
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2020 and 2019

	ORDINARY SHARE CAPITAL (Note 17)	RETAINED EARNINGS - FREE (Note 17)	RETAINED EARNINGS - RESERVE (Note 17)	Total
Balance at January 1, 2020	₱ 225,947,300	₱ 70,405,991	₱ 1,387,753	₱ 297,741,044
Issuance of shares	25,983,200	-	-	25,983,200
Total comprehensive income for the year	-	17,541,126	-	17,541,126
Provisions and Adjustments	-	2,946,873	(3,916,965)	(970,092)
Cash dividend declared	-	(7,908,156)	-	(7,908,156)
Balance at December 31, 2020	₱ 251,930,500	₱ 82,985,834	₱ (2,529,212)	₱ 332,387,122
Balance at January 1, 2019	₱ 225,947,300	₱ 52,606,992	₱ 1,722,075	₱ 280,276,367
Issuance of shares	-	-	-	-
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

See accompanying Notes to Financial Statements.

STATEMENT OF CASH FLOW

RURAL BANK OF PORAC (PAMPANGA), INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019










	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before Income Tax	₱24,058,944	₱31,269,424
Adjustments for:		
Depreciation & amortization (Note 9 and 22)	16,061,666	8,665,732
Net charges to surplus/Prior period adjustments	(970,092)	863,335
Gain on sale of investment properties	(29,027,365)	(46,749,100)
Impairment loss	33,001	1
Interest income	(121,820,598)	(115,495,835)
Interest expense	15,483,862	11,452,069
Changes in working capital:		
Loans and other receivables (Note 8)	(35,477,891)	(204,630,882)
Other assets (Note 12)	8,072,356	(5,140,848)
Retirement benefit asset (Note 20)	2,709,130	(2,356,811)
Deposits liabilities (Note 13)	191,633,751	89,105,127
Other liabilities (Note 16)	(29,820,079)	370,937
Accrued interest and other liabilities (Note 15)	(8,164,998)	2,671,113
Interest received	121,820,598	115,495,835
Interest paid	(15,483,862)	(11,452,069)
Income tax paid (Note 25)	(5,923,813)	(4,362,114)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	133,184,605	(130,294,086)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment properties (Note 10)	(3,628,581)	-
Additions to bank premises, FFE (Note 9)	(7,730,287)	(17,754,895)
Acquisition of debt securities measured at amortized cost (Note 7)	162,284,965	(100,255,294)
Proceeds from sale of bank premises, FFE (Note 9)	540	-
Proceeds from sale of investment properties	29,027,365	59,769,770
NET CASH FROM (USED IN) INVESTING ACTIVITIES	179,954,002	(58,240,419)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of cash dividends to stockholders (Note 17)	(7,908,156)	(7,908,156)
Proceeds from bills payable	-	170,000,000
Payments of bills payable	(270,000,000)	-
Payments of lease liabilities	(3,082,085)	-
Proceeds from issuance of shares (Note 17)	25,983,200	-
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(255,007,040)	162,091,844
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,131,567	(26,442,661)
CASH AND CASH EQUIVALENTS, BEGINNING	275,737,220	302,179,881
CASH AND CASH EQUIVALENTS, ENDING	₱333,868,787	₱275,737,220

(See accompanying Notes to Financial Statements)

OPERATIONAL HIGHLIGHTS

Our core value of Malasakit thrusts us to move forward with the confidence that we can overcome whatever challenges the future has in store for us. We remain committed to our promise of moving you, our stakeholders, towards achieving your goals as we adapt to whatever level of new normalcy there is in the future. Together, we will make it happen!

Despite the health, economic and natural shocks that emerged in 2020, our strong financial position, commitment to good corporate governance, and our continuously developing risk management principles allowed us to navigate through these trying times and record great strides, as follows:

-  Implementation and continuous development of the Business Continuity Plan which has allowed the Bank to:
 - Ensure non-disruption of banking services as we dealt with the abrupt changes in market preference, economic condition, banking landscape, and other effects of the COVID-19 as soon as they arise; as well as adhere with local laws, regulations, directive and measures implemented thereto;
 - Alleviate the risk and impact of the COVID-19 to the Bank, its employees and the customers;
-  Enhanced efficacy of the Back-up and Recovery system through the relocation of the back-up server to Tarlac City and the successful conduct of the enterprise-wide BCP test.
-  Successfully augmented the Bank's liquidity position through the:
 - Successful approval of the Fund Management Policy;
 - Approval of the Credit Line with the Development Bank of the Philippines;
-  The Bank successfully amended the Operational Risk Manual to incorporate various operational tools including but not limited to operational risk reporting of the branches and business units, job analysis, skills inventory, competency mapping and operational loss database;
-  The Bank has expanded the coverage of unsecured agriculture loan to include Cassava, Corn and Sugarcane on the list of crops eligible for financial assistance, marking the bank's commitment to support the agriculture sector;
-  Successfully applied for increased coverage with Home Guarantee Line to more than 330% to further boost lending activities to Filipino Home Buyers;
-  Credit assessment process was further enhanced through the development of an efficient credit analysis mechanism;
-  Refined pricing strategies through the adaptation of the Alternative Pricing Model;
-  Complemented loan relief packages for borrowers by devising a Policy for Rescheduling and amendments to the Restructuring Policy.



Successful opening of the Bank's 13th branch TARLAC CITY - TARLAC

As part of the long-term strategic direction towards growth and expansion coupled with its commitment to bring more than just banking to a wider community, Porac Bank has successfully opened its 13th Branch on January 06, 2020. Its new site is located at RHC Bldg, Hilario Corner M.H. Del Pilar Street, Ligtasan, Tarlac City.

The inauguration was a success as the bank paraded through the City and was warmly welcomed by the Tarlaquenos. The event was also graced by some of the bank's directors, suppliers, and valued clients. Porac Bank's growing presence in Tarlac aims to support the progressive commerce and trade of the city and contribute the bank's value proposition to its financial landscape.



SUSTAINABILITY IS MALASAKIT TO OUR PEOPLE

EMBRACING SUSTAINABLE BANKING

As Porac Bank envisions sustainable banking on all fronts of the business, we aim to integrate environmental, social, and governance criteria in our corporate strategies to support economic growth and lasting benefit for both clients and society while reducing pressure on the environment.

We commit to uphold social and environmental responsibility by cultivating a risk management system that will manage environmental and social risks appropriately.

For the past years, our sustainability footprints have enabled us to take the necessary actions towards sustainable growth. Through our various CSR activities such as Tree Planting Initiatives, Race for Hope Project, and other outreach programs, we were able to support environmental and social advocacies. We aimed at enhancing our corporate value by staying true to our "Malasakit" credo for our people and for the communities we serve.

In furtherance, the bank recalibrates its Sustainable Finance Framework to take into account environmental sustainability principles that will mitigate physical and transition risk such as promoting green finance, aligning our policies on Environmental Impact Assessment, and investing in renewable energy to increase energy efficiency among others. We will remain committed to our social sustainability principles by becoming channels of growth to our people and delivering financial services to the community that will contribute to nation-building and sustainable growth.

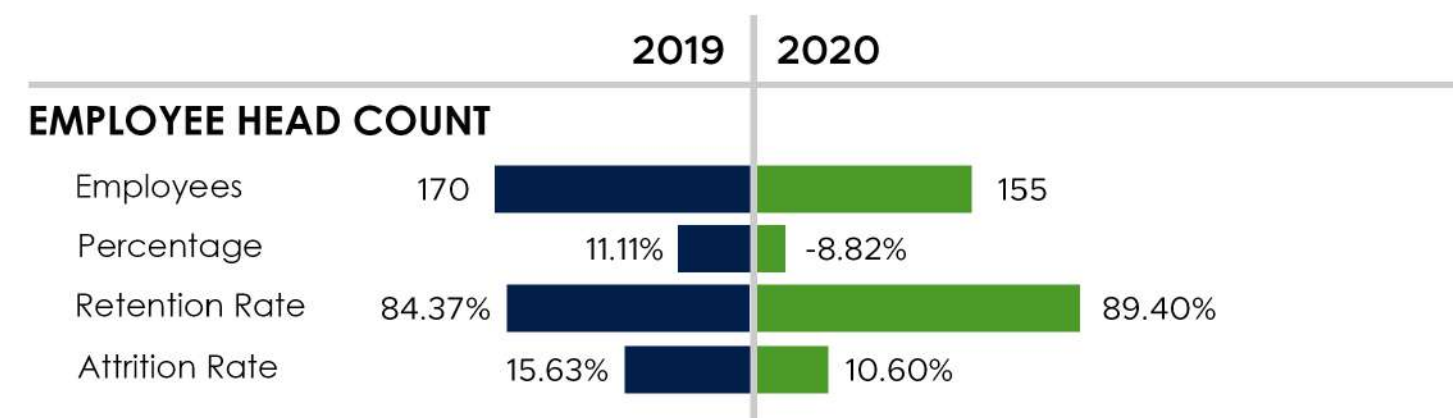
By adopting this framework, we seek to add value to the aspirations set out for the Filipinos under the Philippine Development Plan.

HR MISSION






We are the Porac Bank HR team. We endeavor to fulfill our mandate of recruiting and selecting the best-qualified fit for every position in the organization. We undertake to uphold and sustain a culture of positive and happy environment where employees flourish in a family-oriented workplace. We advocate worthy propositions for enhanced employee compensation and benefits. We are devoted to nurturing strategic partnerships and collaborative relationships among all employees across all business units. We commit to provide a well-defined career path for all employees by fostering equal opportunity for training and development towards improved individual and organizational effectiveness.

HR VISION

Our vision is to be distinguished as a formidable and vital partner of management in fostering and promoting a happy and desirable workplace for engaged, passionate, and dedicated employees that would propel them to excellence and greatness for the attainment of corporate goals and objectives.



Acting on the Bank's core value of Malasakit, the Bank implemented an enhanced set of employee benefits particularly during the height of the community quarantine period.

-  Seven (7) Departments constituting 14.19% of the Bank's workforce were provided with the capacity to work from home;
-  Flu vaccines and medicine allowance were provided to the employees;
-  Increased hospitalization coverage was approved in March 2020;
-  Enhanced service recognition program in March 2020;
-  Additional financial support was given to employees during the Enhanced Community Quarantine period in the form of cash subsidy, availability of fringe benefit loans and BARO adjustments in loan payments.




SUSTAINABILITY IS MALASAKIT TO OUR COMMUNITY

MILESTONES IN PRODUCT DEVELOPMENT

In 2020, the Bank joined the i2i ecosystem to gain a sustainable access to financial services and solutions that are otherwise difficult to build due to expensive IT investments. With this development, the Bank is empowered to offer the following services:

 <p>Fund transfer through PesoNet and Instapay</p>	 <p>Bills Payment and Fund transfer to more than 70 Rural Banks under the i2i Ecosystem Nationwide</p>	 <p>Money transfer to any LBC, Cebuana Lhuillier and Perahub branch nationwide</p>
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To bridge the gap between the emerging need for digital banking solutions, expensive IT infrastructure and lack of digital literacy, Porac Bank ventured to offer the following digital products and services:

	<p>Introduced the PASABAYAD service –an additional banking service that allows our clients to enjoy the benefit and convenience of bills payment, fund transfers and remittance through our Marketing Assistants.</p>
	<p>Additional POS Terminals were deployed in Arayat and Plaridel Branch to enable the beneficiaries of the Pantawid Pamilyang Pilipino Program to access their Landbank cash cards and withdraw their government subsidy through such terminals.</p>
	<p>Inked partnership with Landbank of the Philippines and Asia United Bank to provide digital solutions for loan payments of borrowers.</p>

FINANCIAL LITERACY

Free Webinar on Effective Social Media Marketing



PAULO CRISTOBAL
MARKETING CREATIVE SPECIALIST
DIGITAL CONTENT CREATOR
FREELANCE PHOTOGRAPHER



DAWN MARTILINO
MARKETING CREATIVE SPECIALIST
GRAPHIC DESIGNER | WEB DEVELOPER
MULTIMEDIA



SARAH LICUP
BANKING PROFESSIONAL
ENTREPRENEUR



BEATRICE PAOLA SIY
OWNER AND FOUNDER OF
VANITY CONNECTIONS BOUTIQUE,
ENTREPRENEUR

Even in the face of community quarantine and lockdowns, Porac Bank took advantage of the power of technology and social media to conduct a financial literacy webinar for small business owners and aspiring entrepreneurs.

Last November 06, 2020, the jam-packed virtual learning session with our professional team of Creative Artist and Banking Professional was a success. The webinar entitled "Grow Your Small Business with the Power of Social Media" educated our audience on how to grow their business through the cost-effective way of using social media. In the 1-hour webinar, the bank shared tips on social media marketing plus healthy financial habits for small-biz owners and aspiring entrepreneurs. The speakers also imparted ways to effectively connect to their target market, build trust and awareness towards their brand, and drive better brand performance.

Special thanks to our special guest, Ms. Beatrice Paola Siy of Vanity Connections Boutique, who happens to be one of the bank's loan clients, for sharing her business story and how the bank played a role in expanding her business. Her story truly inspired the small entrepreneurs and entrepreneurs-to-be in their business journey.




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 risks throughout the life of a transaction. This then provides the bank with 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 training 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, pursuant to its risk appetite, established an internal single borrower's limit that is lower than the 25% of bank's capital requirement of the BSP. A limit on large exposure for individual borrower, connected counterparties and its aggregate limit are also in place to effectively manage and monitor risk relative to such.

In addition, the bank set up an aggregate limit per loan classification and geographic location to minimize the risk of concentration for loans. Moreover, the materiality threshold and the aggregate limit for credit grants to and sale/ disposal to or purchase of real estate assets from related parties were set in the same level as DOSRI limits. While the aggregate ceiling for secured loans to DOSRI is 15% of the total loan portfolio, the aggregate limit for loans to related parties is pegged at a more conservative level which only accounts for about 10% thereof.

Also, a maximum aggregate exposure limit for DOSRI and RP is in place subject to periodic monitoring and review. Considering the nature of the transactions classified as "Other RPTs" which are mostly expenditures, the bank has set a conservative materiality threshold reckoned at an aggregate basis per related party per year.

Regulatory prudential limits such as the minimum liquidity ratio of 20% and 10% CAR are likewise being observed and monitored periodically.

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 non-observance or neglect 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 thereto 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 transactions.

FUNDING LIQUIDITY RISK

Funding liquidity risk pertains to the possibility that the Bank may fail to generate the necessary funds to meet its obligations when they become due as well as failure to fulfill 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 every month following the Maximum Cumulative Outflow model. To further assess the bank's liquidity position, stress testing is conducted regularly. The bank adheres to a board-approved Contingency Funding Plan to ensure that the bank is ready should a liquidity problem arise.

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 of employees to be further augmented by periodic performance evaluation

OPERATIONAL RISK REPORTING

It is the thrust of Porac Bank to promote the adoption of an effective risk management system that will enable the sustenance of safe and sound banking operations for the bank.

The Operational Risk Manual embodies a comprehensive guideline in identifying, evaluating, measuring, monitoring, and reporting operational risks associated with the activities conducted by 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 continuingly. The process takes into account both qualitative and quantitative assessments of exposure to all types of operational risk.

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

In effect, branches are required to identify, measure and report risk exposures arising from process/ policy infringement, operational lapses, and the like every month. 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 to 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, the functions of the same were assumed by the Board of Directors which encompasses monitoring and managing of credit, operational, liquidity, interest, legal and reputational risks, among others.

Hence, the Board integrated the following responsibilities in their respective functions:

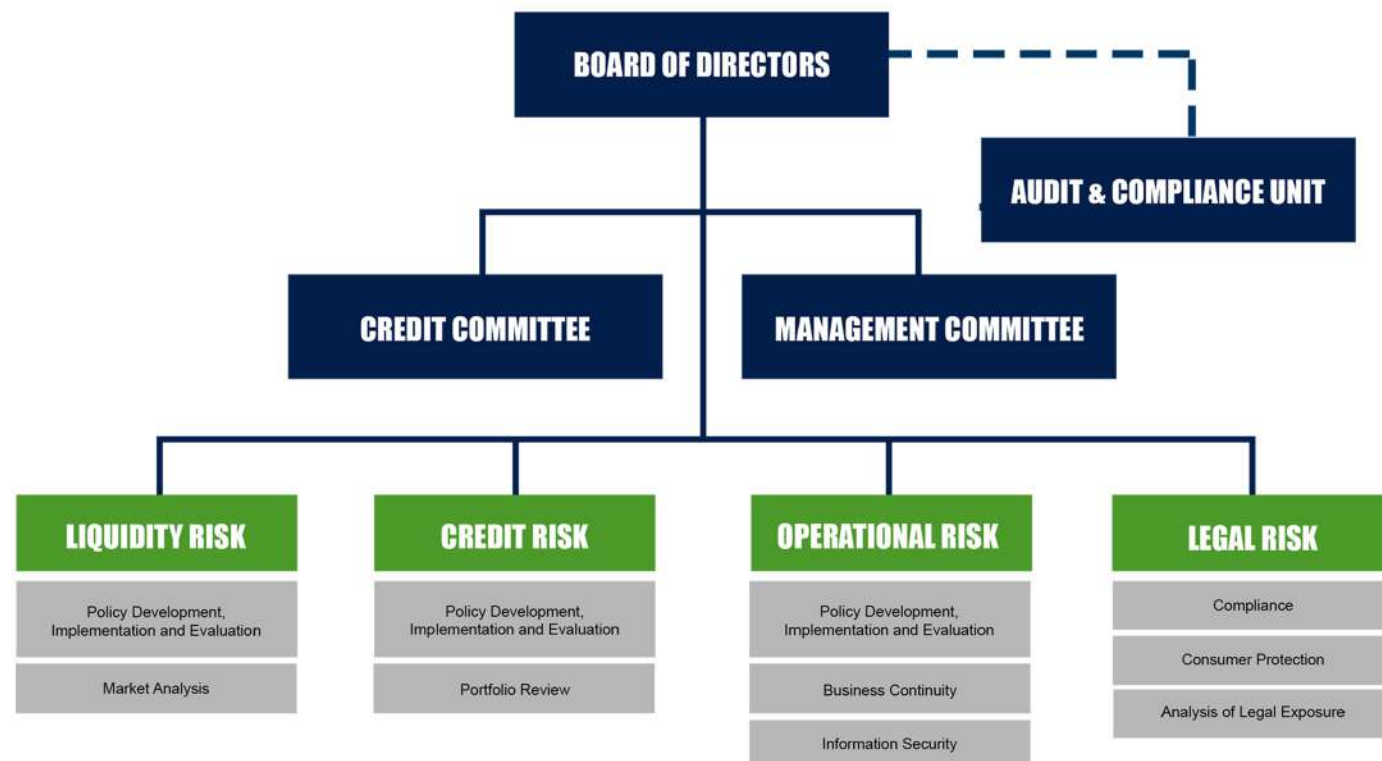
- Conduct the necessary analyses to allow the same bodies to monitor and manage the Bank's risk profile;
- Formulate strategies for managing and controlling risks;
- Develop policies consistent with the risk management practices of the Bank;
- Review the adequacy of the bank's risk management policies 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 risk is integrated into the day-to-day operations of these units. In addition, business units are responsible for ensuring the 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 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-to-day basis.

Porac Bank identifies its customer protection risks in each principle by analyzing its effects on the Bank and the customer. The following risk were specifically recognized or identified 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), and also 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 which will provide action based on the recommendations of the Head of CAOs and/or the SVP Operations.

Though 2020 was a busy year for queries and requests brought about by the COVID-19 condition, the bank was able to address 92% of client concerns, both simple and complex, within the bank's standard operating procedure (SOP) in handling such. This indicates how the bank is committed to the management and addressing of complaints within a standard timeframe and its follow-through system to ensure that we meet client expectations.

Below is the corporate structure of Porac Bank in



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 a money-laundering site or a conduit for the proceeds of 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.

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.

BASIC PRINCIPLES AND POLICIES TO COMBAT MONEY LAUNDERING 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.

AML INITIATIVES FOR 2020

- Employees and Directors of the Bank attended a webinar session on Combating Money Laundering During Pandemic instituted by the Bangko Sentral. The webinar aims to discuss valuable insights on how money laundering is being addressed to promote integrity and stability in financial markets from different perspectives. An online examination was facilitated to gauge employee understanding of the said session.
- Digitization of customer records and transactions was fast-tracked reaching a 70% completion rate in 2020.
- The said initiative allowed the Compliance Unit to quickly adopt an offsite AML compliance testing process during the pandemic.

NEWLY-ELECTED BOARD OF DIRECTORS



MARITES C. LIMJOCO, 52

Filipino
NON-EXECUTIVE DIRECTOR

Ms. Marites C. Limjoco graduated from St. Scholastica's College with a degree in Business Management. In 2010, she graduated from Dr. Gloria D. Lacson Foundation Colleges with a degree in BS Nursing. Before her appointment as Director, she is also a Stockholder of the bank since 1995. She is likewise a Director of Sta. Rita College and owner of the LimCor Trading and Constructions.



RAUL B. DE MESA, 77

Filipino
INDEPENDENT DIRECTOR

Director Raul B. De Mesa graduated with a degree in Bachelor of Arts in Business at De La Salle University in 1963. He earned his degree in Strategic Business Economics at the University of Asia and Pacific in 1986. Mr. De Mesa is a distinguished banker with substantial years of experience in the financial industry. Before Porac Bank, he had occupied several positions in Banking institutions such as Banco Nacional De Guinea, Security Bank, Manila Bank, Boston Bank of the Philippines, and Far East Bank and Trust Company. He was the President of Bank of Commerce from 1997 - 2010 and Director of Home Development Mutual Fund Trustee from 2010 - 2017. Besides, Mr. De Mesa currently holds a position on the Board of the following Corporations:

CHAIRMAN OF THE BOARD

- PRIDE INVESTMENT CORPORATIONS
- ABACORE CAPITAL HOLDINGS
- CENERTEC PHILIPPINES
- CENERTEC ENERGY
- CENERTEC PRO
- MAGNETIC RESONANCE IMAGING CORP
- COMMERCE AND TRADE INSURANCE CTIB INSURANCE BROKER INC
- RBM HOLDINGS INCORPORATED
- BIC MANAGEMENT SERVICES INC.
- THREE EIGHT CORPORATION
- PAMPANGA AUTO SALES

DIRECTOR

- MONTE MARIA ASIA PILGRIMS INC.
- ABAGT ABACUS GLOBAL AND TECHNOLOGIES INC.
- PHIL STAR DEVELOPMENT BANK
- CENERTEC FMG
- PHILIPPINE FIRST CONDOMINIUM CORP
- CAPLIFE INSURANCE CORP
- SYSTEMS TECHNOLOGY INSTITUTE
- MEGACLINIC, INC.
- PRIDE RESOURCES INFRASTRUCTURE DEVELOPMENT CORP
- PHILAB HOLDINGS CORPORATION

PORAC BANK BOARD OF DIRECTORS



ALMA D. LIMJOCO, 70
Filipino
CHAIRMAN

Board Chairperson Alma D. Limjoco was first seated as a 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 Corporation, Gold Fleuret Realty and Development, Florida Agri-Business Corporation, and the President/Director of Priser Trading Corporation.



LOURDES CONNIE C. TAYAG, 48
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. Before she was appointed President, she was the Corporate Secretary of the bank from 2001-2009 and has been elected as a member of the board since 2010. She is likewise a Director /Treasurer of Sta. Rita College.



BENJAMIN C. DIZON, 44
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.



ANNA CLAUDINE T. DAVID, 47
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 Commerce major in International Business and earned her master's degree in Business Administration from the University of Western Australia. She currently acts as the Managing Director of Factset Philippines, Inc.



WILFRED JOSEPH T. DAVID, 47
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 of Law at Harvardian Colleges in 2004. He is currently one of the SVP for Operations and has been a Director of the bank since 2014.



NAPOLEON TEDD D. LIMJOCO, 42
Filipino
CORPORATE SECRETARY

Mr. Napoleon Tedd D. Limjoco graduated from the University of Asia and the Pacific in 1999 with a degree of 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 Corporation, President of Gold Fleuret Realty and Development Corporation and the Vice President of Florida Agri Business.



MARY VALERIE JOY V. DAVID, 47
Filipino
NON-EXECUTIVE DIRECTOR

Director Mary Valerie Joy V. David graduated from St. Scholastica's 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, 45
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.



ELOISA D. SARMIENTO, 81
Filipino
NON-EXECUTIVE DIRECTOR

Director Eloisa Sarmiento graduated from the 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.



MARK PRIMO T. DAVID, 42
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 was the Admin Supervisor at the Office of City Administrator —Angeles City. He currently holds the position of Admin Supervisor at the Office of City Administrator, San Juan City.

	No. of Meetings Attended	Total No. of Meetings	% Rating	%Shareholdings	Shares Held
Alma D. Limjoco	35	35	100%	8.88%	Direct
Lourdes Connie C. Tayag	35	35	100%	0.50%	Direct
Wilfred Joseph T. David	35	35	100%	1.55%	Direct
Mark Primo T. David	34	35	97%	1.55%	Direct
Eloisa D. Sarmiento	35	35	100%	5.70%	Direct
Anna Claudine T. David	32	35	91%	2.55%	Direct
Benjamin D. Dizon	35	35	100%	0.00%	Direct
Marites C. Limjoco	34	35	97%	0.01%	Direct
Mary Valerie Joy V. David	35	35	100%	3.35%	Direct
Ralph Primo A. David	33	35	94%	1.60%	Direct
Raul B. De Mesa	35	35	100%	0.00%	Direct

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

THE EXECUTIVE OFFICERS



LOURDES CONNIE C. TAYAG, 48
PRESIDENT

She is the President/CEO of Porac Bank 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. Before she was elected 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 2015, a Master's Degree in Business Administration at Ateneo Graduate School of Business.



NAPOLEON TEDD D. LIMJOCO, 42
SVP FOR OPERATIONS

He currently holds office at Porac Bank 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. Before he was appointed SVP for Operations, he held various positions 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, 47
SVP FOR OPERATIONS

He currently holds office at Porac Bank 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. Before he was appointed SVP for Operations, he held various positions 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, 44
SVP FOR IT

He 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, 40
VP FOR PROPERTY MANAGEMENT

She 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 and earned her degree Master of Arts in Reading Education at Philippine Normal University.



EMILY L. GUANZON, 50
CHIEF COMPLIANCE OFFICER

She 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, Bookkeeper, Internal Auditor.



CYNTHIA C. GUTIERREZ, 53
AVP FOR HR & ADMIN

She was first hired as the HRD head in 1997 until 2014 from which she was appointed the AVP for HR/Admin. She graduated Magna Cum Laude 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, 56
INTERNAL AUDITOR

She 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.



EILEEN D. MANALOTO, 27
CHIEF ACCOUNTANT

She 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 appointed as Chief Accountant.



REY ANN M. PATIO, 27
EXECUTIVE ASSISTANT

She was 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.



PAUL JOHN P. JARANILLA, 28
ORGANIZATIONAL DEVELOPMENT MANAGER

He was appointed the bank's Organizational Development Manager on November 2018. He was initially hired as Admin Staff/ Reliever on September 2013 and not long after, was 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.



KIMBERLY S. PABUSTAN, 27
LOAN OFFICER

She 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 on the same year. She was initially hired by the bank in 2016 as Credit Reviewer until she was promoted from the ranks as Loan Officer on January 16, 2018.



MILCA M. PEREZ, 27
CREDIT OPERATIONS AND COLLECTION MANAGER

She graduated with a degree in BS in Accounting Technology at the Holy Angel University in 2014. She was initially hired by the bank as Credit Analyst in 2017 until she was promoted as Credit Operations and Collection Manager on March 03, 2020.

AUDIT AND COMPLIANCE COMMITTEE

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.



Raul B. De Mesa
Chairperson



Mark Primo T. David
Member



Benjamin C. Dizon
Member



Anna Claudine T. David
Alternate

Accomplishments:

- Approved audit and compliance schedule was accomplished during fiscal year 2020.
- Actively pursued and carried out the resolution of internal audit and compliance issues cited by BSP examiners.
- Help auditees to be compliant with BSP regulations.
- Provided support for risk and control assessment activities.
- Monitored implementation of approved Audit and Compliance Committee recommendations.
- Conducted periodic review of the status of audit and compliance findings and the progress made in closing issues.
- Provided assistance to top management on special audits.
- Adherence to training programs for the members of audit and compliance group to help foster continued professional growth.
- The audit and compliance committee thru its internal audit and compliance functions participated in the organization's annual strategic planning to ensure that available audit resources are being utilized efficiently and effectively in achieving the bank's goals and objectives.
- Designed the internal audit and compliance audit plan based on strategic risk assessment.

	No. of Meetings Attended	Total No. of Meetings	% Ratings
Raul B. De Mesa	8	8	100%
Mark Primo T. David	8	8	100%
Benjamin C. Dizon	8	8	100%

EXECUTIVE COMMITTEE

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.



Lourdes Connie C. Tayag
Chairperson



Napoleon Tedd D. Limjoco
Member



Wilfred Joseph T. David
Member

Accomplishments:

- Facilitated the implementation of the strategic plans for the year 2020.
- Facilitated the implementation of the Bank's Business Continuity Plan covering certain measures to protect its employees, officers, and clients against the threat of the COVID-19.
- Successfully obtained partnership with Union Bank and i2i for the offering of additional banking services i.e., payments and remittance, real-time fund transfers, and bill payments, and facilitated the pilot and full implementation of the same.
- Approved and endorsed to the board amendments of various policies relative to the Bank's Social Media Risk Management, Contingency Funding Plan, and Code of Discipline, among others.
- Reviewed and approved a succession plan for the branch and business units.
- Reviewed and approved several programs for the employees including the enhancement of the healthcare benefit, retirement program, and the adaptation of workplace wellness programs.
- Reviewed and approved the enhancements to the Loan and ROPA Referral Program for the employees aimed towards strengthening employee engagement.

	No. of Meetings Attended	Total No. of Meetings	% Ratings
Lourdes Connie C. Tayag	16	16	100%
Wilfred Joseph T. David	16	16	100%
Napoleon Tedd D. Limjoco	16	16	100%

CREDIT COMMITTEE

The Credit Committee reviews, approves and endorses applications, policies and reports relating to the Bank's credit granting function. The Committee ensures that credit transactions with DOSRI as well as Related Party Transactions are conducted at arm's length.

PROPERTY MANAGEMENT COMMITTEE

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.



Lourdes Connie C. Tayag
Chairperson



Napoleon Tedd D. Limjoco
Member



Wilfred Joseph T. David
Member



Francel Pia D. Peña
Member

Accomplishments:

- Reviewed and approved loans within the authority of the Credit Committee;
- Reviewed and monitored compliance within credit limits;
- Reviewed and approved process enhancements to increase efficiency of the credit department;
- Facilitated the enforcement of the Bayanihan to Recover as One Act (BARO) and its implementing rules along with the adaption of Policy for Rescheduling and Amendments to the Restructuring Policy;
- Reviewed and endorsed the Alternative Pricing Model.

	No. of Meetings Attended	Total No. of Meetings	% Ratings
Lourdes Connie C. Tayag	41	41	100%
Wilfred Joseph T. David	41	41	100%
Napoleon Tedd D. Limjoco	41	41	100%
Francel Pia D. Peña	40	41	97%

Accomplishments:

- Surpassed the target of ROPA sold for the year;
- 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.

	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%

CORPORATE GOVERNANCE

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 as well as in accordance with the laws of the land, for the best interests of its stakeholders.

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

SELECTION. For its board selection process, the Board will take into consideration candidates with at least one area of significance (e.g. banking, business, marketing, technology, public service, human resources, finance, accounting, law, the management or management consulting); ability to contribute to deliberations of the Board; ability to exercise sound business judgment; ability to think strategically; with demonstrated leadership experience, with 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.

The Board is also responsible for approving the selection and appointment of a senior management including the President/CEO and other heads of units as required by the BSP. In selecting Key Officers, the Board through the recommendation of the HR Department selects key officers based on the succession planning program for senior management and the result of the fit and proper standards which takes into account the qualification criteria as well as integrity, technical expertise, and experience of a candidate.

ROLE AND CONTRIBUTION OF THE EXECUTIVE, NON-EXECUTIVE, AND INDEPENDENT DIRECTOR.

Non-executive directors, who shall include independent directors, shall comprise at least a majority of the board of directors whose role is to promote the independent oversight of management by the board of directors. Whilst, the executive director manages the daily activities and ensures that the board's vision is met.

The duties and responsibilities of the Board as stipulated by pertinent laws as well as from certain provisions of the Bank's Articles of Incorporation, By-Laws and resolution 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 and pertinent provisions of the Bank's Articles of Incorporation and By-Laws, adherence to resolutions adopted during board and shareholder's meetings as well as espouse ethical standards in good faith with care.
- (c) developing structures and procedures to ensure the 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 Board-approved policies and budgets.
- (f) establishing the 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 the different name;
- (g) ensuring that there is timely and accurate preparation and bookkeeping on accounting records 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 Circular 969 issued by the Bangko Sentral ng Pilipinas, the Chairman of the board of Porac Bank shall provide leadership among the members of the directors. He shall ensure effective functioning of the board, including:

- (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.

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. In 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 2020, 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 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 thorough assessment of his qualification as board member in accordance with BSP Circular No. 969 to ensure fitness and propriety of the candidate prior to 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 Bank are entitled to monthly basic pay, 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.

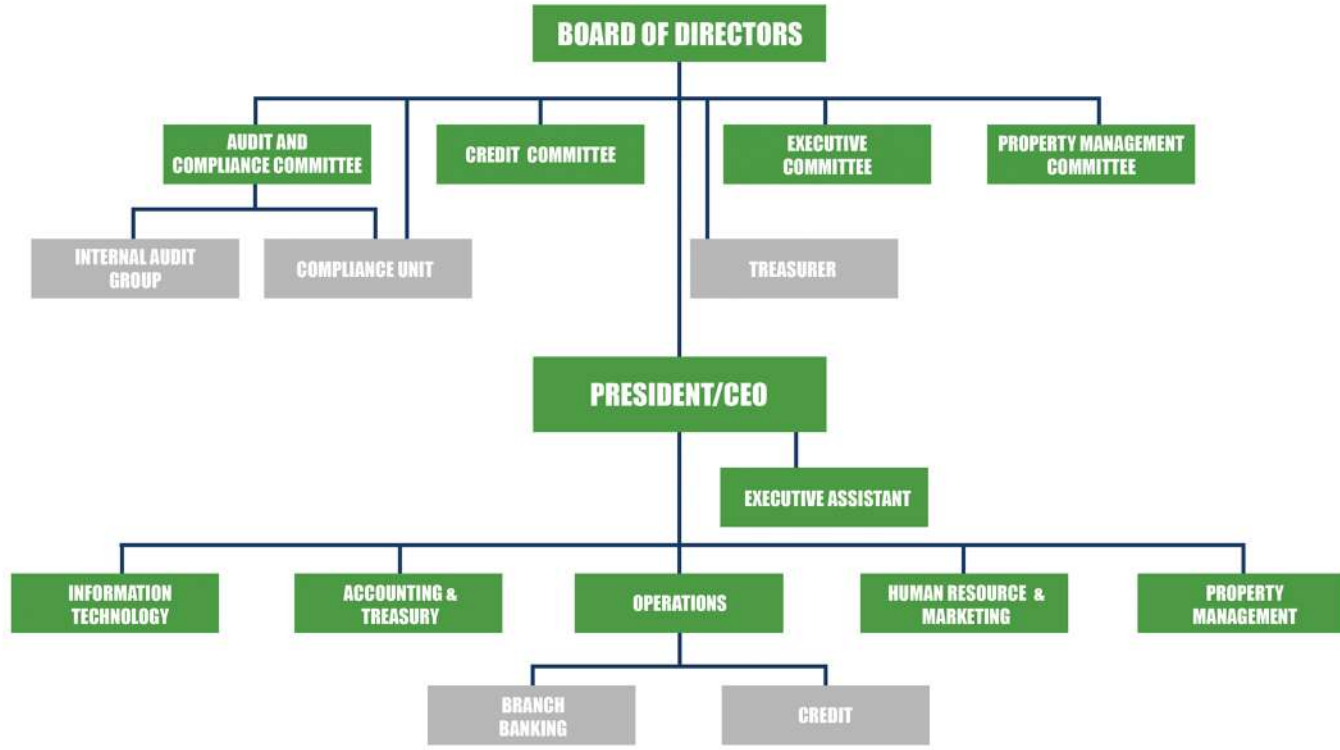
WHISTLE-BLOWING POLICY. Porac Bank is geared towards the attainment and adherence of ethical, moral, and legal conduct in the operation of its business. To assure that these standards are met and maintained, the bank complies with BSP Circular No. 499 or the establishment of effective whistle-blowing 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 Whistleblowing Policy applies to all ranks, from Porac Bank directors, senior management, Officers/Managers, permanent and probationary 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 the declaration of dividends and with the 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 2020, the bank declared a cash dividend equivalent to 3.50% of its subscribed capital amounting to 7,908,155.50. The date of record was on December 31, 2019, and the date of distribution was on January 31, 2020.



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 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 2020 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	P7,127,570	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 P460,483.58, P80, 525.50 and P42,871.79, respectively. The lease contracts shall be for a period of 15 years, 3 years and 20 years which matures on 31-January 2030, 31-December 2021 and 28-February 2031, respectively. All of which are subject to a 10% annual escalation.
View Mont Homes Subdivision Company	Related Party	0	P1,158,080.91	Others- Payment of Bank Guarantee in favor of client Montemayor, Larry Lugtu and Montemayor, Norie Brimbuela for the payment of purchase of house and lot.
Total Exposure		0	P8,285,650.91	

*No material credit transactions crossed the materiality threshold.

KWENTONG MALASAKIT

"Sinubok man tayo ng maraming sakuna, pademya, at problema ngayon 2020, mananatili pa ring mas matatag ang ating malasakit na tumulong sa iba. Ano mang maliit na halaga kapag pinagsama-sama, hatid ay ginhawa sa kapwa"

DONATION DRIVE FOR THE VICTIMS OF TYPHOON ULYSSES

In partnership with the Metro Angeles Chamber of Commerce Industry, a donation drive was held on November 22, 2020, for the victims of typhoon Ulysses where all of the bank's 13 branches served as drop-off points for donations. Through this initiative, cash and in-kind donations including noodles, bottled water, canned goods, blankets, face shields, and face masks were given to the families who were affected by the calamity. This would not be possible without the help of all the generous donors who gladly shared their blessings even during difficult times.

LIMANG PISONG AYUDA MO HATID AY LIGAYA NGAYONG PASKO PROJECT

No amount is too small or too big, so long as the heart is genuine to help, we can always find joy in giving and receiving. The CSR project of Porac Bank resonated with its core value of "malasakit" as the employees come together for a cause to bring hope and gladness during the season of giving.

With the Five Peso daily savings from each Porac Bank employees together with the financial aid of the management and the donation from its generous clients, the bank was able to raise funds to give Christmas gifts of grocery package to the chosen beneficiaries of each branch. Said beneficiaries are indigent front-liners with inspiring stories of sacrifices and challenges yet remained to be resilient and persistent amid the pandemic. It was indeed a heartwarming CSR activity that made the bank's Christmas spirit more meaningful.



Scan the QR code to watch the #KwentongMalasakit video.

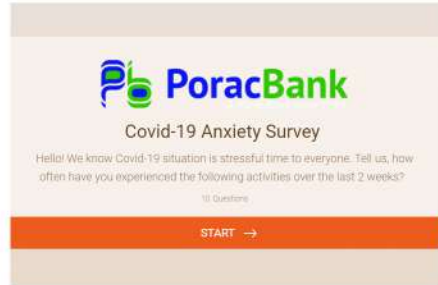
HR ACTIVITIES GO VIRTUAL

"We believe that the well-being of our employees is critical to maintain sustainable levels of employee engagement and resilience in the face of organizational change."



Job Satisfaction Survey

We, at Porac Bank, believe that customer satisfaction depends on employee's satisfaction. With that being given, we take great lengths on acting upon the concerns of our employees, who are our internal customers. In 2020, the bank carried its Job Satisfaction Survey to learn more about our employees' needs and motivations to figure how the bank can help them grow to build a greater sense of engagement and commitment.



Covid-19 Anxiety Pulse Survey

As part of the bank's commitment to integrating mental health in the workplace, the bank conducted a COVID-19 Survey on all individuals in the workplace. This is to assess the potential contributing factors to mental health issues and strategies to maintain a positive pathway to mental health. This is also to encourage early reporting of symptoms during these unsettled times. This form mainly measures employee reactions to changes in the workplace.



Administration of Flu Vaccines to our Employees

Staying true to our belief that our people are our greatest asset, workplace safety has become one of the main priorities of the bank for the year 2020. Not only to protect lives, but also to ensure business continuity. Therefore, the bank has provided Flu Vaccines to its employees to reduce the risk of COVID-19 infection and to keep the remote, frontline, and in-office employees safe and healthy. The said vaccine was administered by our very own Director, Dr. Benjamin Dizon.



HR Facebook Postings

To combat the feelings of isolation as we adapt to a remote workforce, the Human Resource Department used the Bank's family page as a platform to make a social connection amidst the pandemic. Making it a place for employees to get the updates, information, and motivation they need. As we believe that motivation can be contagious, we came up with a digital interaction of sharing motivational posters to shape and promote a positive, encouraging company culture such as Thankful Monday, Wisdom Wednesday, and Throwback Thursday.



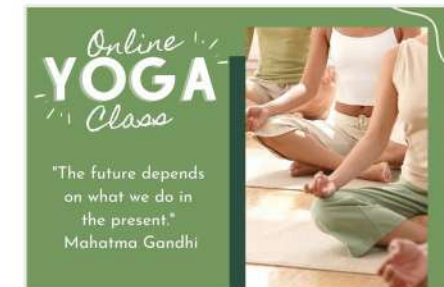
Gratitude Wall

In line with our mission to foster an Attitude of Gratitude in the workplace, the Human Resource Department launched a Gratitude Wall as a venue for expressing shoutouts of recognition, appreciation, and kind words to a colleague, boss, or subordinate. This is to form a positive loop in the workplace. It was an inspiring event as the Porac Bank family page was flooded with notes of short yet meaningful shoutouts of compliment and appreciation that cheered and lifted the spirit of the Porac Bank Community.



Happy Hour Activities: Online Bingo & Kahoot

To leverage team empowerment and employee engagement, the Human Resource Department hosts interactive and fun gaming sessions like Online BINGO and KAHOOT. This aims to help our employees connect with one another while adjusting to the current remote work lifestyle as we believe that a happy team contributes to higher employee retention.



Health & Wellness Activities: Online Yoga and Zumba

Due to work-related stress and healthcare costs on the rise, the need for corporate wellness cannot be overstated. Hence, the bank has implemented a Wellness Program for its employees in order to promote a happier and healthier workforce. An Online Yoga and Zumba were carried out by the Human Resource Department as we believe that well-being of employees is critical to maintain sustainable levels of employee engagement and resilience in the face of organizational change. It was fun filled as we gather to learn Basic Yoga poses and Zumba moves.



Year-End Party

As an alternative way to continue our annual tradition of corporate gathering and to celebrate successes for the year, the bank hosted its annual year-end party where employees were given a chance to connect with each other virtually to nurture stronger working relationships for the year ahead. To make the celebration more fun and engaging, we asked our talented colleagues to show off their dancing and video-making skills through our Tiktok and Vlog Making Contest. Indeed, it was a night filled with recognitions, laughter, and heartwarming memories as we celebrated the year-end by getting "lit" online.

OUTSTANDING EMPLOYEES

Our Human Resource Department's ultimate goal is to create a rewarding place for people to do great work. Hence, empowering passionate employees has always been one of our top priorities. For the year 2020, we continued the Bank's Performance Management Program by awarding the following employees:



MALASAKIT AWARD

BEST BRANCH MANAGER

MARY CLARE D. CABRERA
BRANCH MANAGER
PORAC BRANCH



BEST MARKETING ASSISTANT

BEST IN CUSTOMER SERVICE

ANTHONY JOHN M. LOPEZ
MARKETING ASSISTANT
CONCEPCION BRANCH



BEST IN LOAN PRODUCTION

LUCY BETH D. PABALATE
BRANCH MANAGER
ANGELES-BALIBAGO BRANCH



ROOKIE OF THE YEAR

FRANCESKA A. VILLAROSA
TELLER
HEAD OFFICE



STAND OUT PERFORMER

DIANNA S. SANTOS
BRANCH SERVICE ASSOCIATE
PORAC BRANCH



STAND OUT PERFORMER

MILCA M. PEREZ
CREDIT OPERATIONS & COLLECTION MANAGER
CORPORATE OFFICE



MOST IMPROVED EMPLOYEE

ANTHONY S. PANGILINAN
HR ASSISTANT
CORPORATE OFFICE



HYPER HELPER AWARD

CRISANTO D. FIGUEROA
MESSENGER
CORPORATE OFFICE

TRAINING AND DEVELOPMENT



The role of training and development continues to broaden even amid the Pandemic. Despite the challenges in 2020, the bank has continued to advocate for and improve its employees' skills and knowledge. As we believe that Porac Bank is the sum of its employees' achievements, we ensure that every one of them performs at their best.



In 2020, the bank began to shift to Online training by letting its employees acquire knowledge through Webinars. The bank carried out 16 online workshops and seminars starting May 2020 with RBAP Webinars and ending it by November through a Customer Service Webinar. The various employee trainings were interactive, fun and benefited both their personal and professional development, avoided stagnation, and reached their full potential even in these trying times.

Let's Talk Wellness Webinar



DR. BENJAMIN DIZON
Speaker



CYNTHIA GUTIERREZ
Speaker

Perhaps, 2020 has tested us beyond measure. Everyone has been affected differently by the COVID-19 pandemic. Whether that be adjusting to a new work-life situation, the isolation, social distancing, and heavyweight of these unprecedented times that significantly made an impact on our mental health.

In line with our mission of fostering a holistic atmosphere amidst these challenging times, the bank carried out a Wellness Webinar led by our very own Company Physician, Benjamin Dizon, in coordination with our Human Resource Department. The webinar highlights the basic understanding of mental health to reduce stigma and promote resiliency, wellness, and healthy work-life balance in these trying times. It was a lively webinar as the Porac Bank employees genuinely connected in the face of adversity.

PRODUCTS & SERVICES

OTHER 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

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



TIME DEPOSIT

Enjoy higher interest rates and zero risk on your capital when you place a Time Deposit with us! Whether you prefer a short or long term investment, we have varied term options for you ranging from 30 days to 5 years.



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.

**Deposits are insured by PDIC up to P500,000 per depositor.*



LOANS AGAINST TIME DEPOSITS

An all-purpose loan to meet your short term funding needs, secured by a hold out on client's Special Savings deposit with Porac Bank.



SSS PENSIONER LOAN

Unsecured loan offering that allows Porac Bank enrolled SSS pensioners to draw cash advances against their pension up to P50,000.00.



EASY CASH LOAN

Unsecured borrowings of as much as P100, 000.00 for eligible regular depositor of Porac Bank.



BILLS PAYMENT

Pay your utilities, credit card bills, government dues or even top-up your e-wallet.



DEPOSIT PICK-UP FACILITY

With our personal deposit - collection program, we will bring banking services to your doorstep.



ATM/POS MACHINES

Withdraw money from your Bancnet ATM cards at our branches in Arayat, Floridablanca, Porac and Angeles-Plaridel.



FUND TRANSFER

Enjoy fast and secure fund transfer to other commercial and local Banks via InstaPay and PesoNet.



REMITTANCE

Send money to your loved ones anywhere in the country which they can receive on the same day via LBC, Cebuana Lhuillier, SmartPadala, and Perahub outlet nationwide.



PASABAYAD

An additional banking service that allows our clients to enjoy the benefit and convenience of bills payment, fund transfer and pera-padala services through our Marketing Assistants.



INTER-BRANCH FACILITY

Easily deposit and withdraw funds from your Porac Bank account through any of our branches.

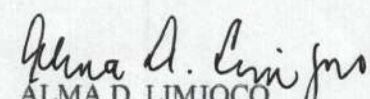
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR
FINANCIAL STATEMENTS


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, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors 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 14th day of APRIL 2021.

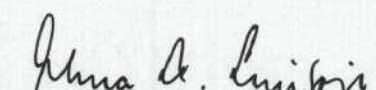
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR
ANNUAL INCOME TAX RETURN


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, 2020 and 2019. Management is likewise responsible for all information and representation contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representation contained in all the other tax returns filed for the reporting period, including but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, and any all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2020 and 2019 and the accompanying Annual Income Tax Return are in accordance with the books and records of **RURAL BANK OF 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 14th day of APRIL 2021.

Romeo G. Torno & Co.

Certified Public Accountants

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Our audit was conducted for the purpose of forming an opinion on the basic (separate) financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 27 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.

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

We have audited the financial statements of **RURAL BANK OF PORAC (PAMPANGA), INC.** as at and for the period ended December 31, 2020, on which we have rendered the attached report dated April 14, 2021. The supplementary information shown in Note 31 the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2020, as required by Part I, Section 4 of Rule 68 of the Securities Regulation Code is presented for the purpose of filing with the Securities and Exchange Commission and is not a required part of the basic statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Part I, Section 4 of Rule 68 of the Securities Regulation Code.

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

Romeo G. Torno & Co.

Certified Public Accountants

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

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

BY:

ROMEO G. TORNO & CO., CPA's

BOA Accreditation No. 4618

July 22, 2020 – June 15, 2023

BIR Accreditation No. 04-002375-000-2021

March 15, 2021, valid until March 15, 2024


IAN ROSELIER G. TORNO, CPA

Partner

CPA Certificate No. 0091819

Tax Identification No. 191-521-034

BIR Accreditation No. 04-002375-002-2021

March 15, 2021, valid until March 15, 2024

SEC No. 91819 -Group C

April 14, 2021

PTR No. SF3743361

January 6, 2021

City of San Fernando Pampanga

April 14, 2021

City of San Fernando, Pampanga



SUPPLEMENTAL STATEMENT**The Board of Directors****RURAL BANK OF PORAC (PAMPANGA), INC.**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.** for the year ended December 31, 2020 on which we have rendered the attached report dated April 14, 2021.

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

In compliance with SRC Rule 68, we are stating that said Bank has a total number of fifty-five (55) stockholders owning one hundred (100) or more shares each.

BY:

ROMEO G. TORNO & CO., CPA's

BOA Accreditation No. 4618

July 22, 2020 – June 15, 2023

BIR Accreditation No. 04-002375-000-2021

March 15, 2021, valid until March 15, 2024


IAN ROSELIEV G. TORNO, CPA

Partner

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March 15, 2021, valid until March 15, 2024

SEC No. 91819 -Group C

April 14, 2021

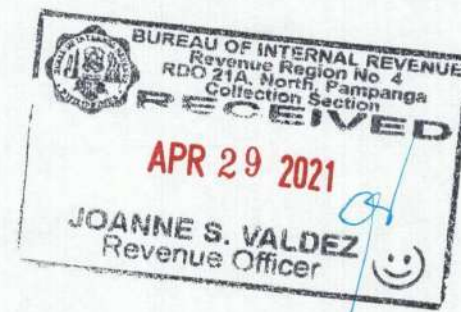
PTR No. SF3743361

January 6, 2021

City of San Fernando Pampanga

April 14, 2021

City of San Fernando, Pampanga

**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 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;
2. 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)
3. That no termination or resignation of the external auditor in the course of the audit that may warrant explanation
4. That we have performed external audit of the financial statements of **RURAL BANK OF PORAC (PAMPANGA), INC.** 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, 2020;
5. Our audit commenced on January 18, 2021 until April 14, 2021;
6. That we have submitted the Audited Financial Statements of **RURAL BANK OF PORAC (PAMPANGA), INC.** with my audit report dated April 14, 2021;
7. 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; And disclosures requirements under the above mentioned Section and other information that may be required;
8. 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;
9. That there is no significant doubt as to the ability of the **RURAL BANK OF PORAC (PAMPANGA), INC.** to continue as a going concern;
10. 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;
11. 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.**
12. That, there are no matters to report on corporate governance that may require urgent action by the Bangko Sentral ng Pilipinas (BSP); and

13. 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; there are no significant deficiency in allowance for credit losses and material weakness in fair value measurement methodology; and there are no significant vulnerabilities to money laundering and combating to financing of terrorism.
14. That there are no matters to report regarding fraud, dishonesty, breach of laws, etc.
15. 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
16. 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 April 14, 2021.
17. That the submitted LOC discloses our findings, comments and recommendations
18. 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.

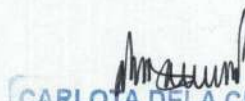
In truth whereof, I hereunto set my hand this APR 27 2021 day of 2021 at City of San Fernando, Pampanga


IAN ROSELIER G. TORNO

Affiant

Subscribed and sworn to before me this APR 27 2021 day of 2021 by affiant who exhibited to me his Community Tax Certificate No. _____ issued in _____ on _____.

Doc. No. POD
Page No. 19
Book No. XXXV
Series of 2021


CARLOTA DELA CRUZ-MANALO
Notary Public
Until December 31, 2021
Notarial Commission 23-20
IBP No. 137083 / 12-29-20 Pasig City
PTR No. PAM-0415307/1-5-21CSFP
Roll No. 37808
MCLE VI-0030722/1-08-21
2nd Floor Jomafer Building Dolores,
City of San Fernando, Pampanga

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.** 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

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

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

BY:

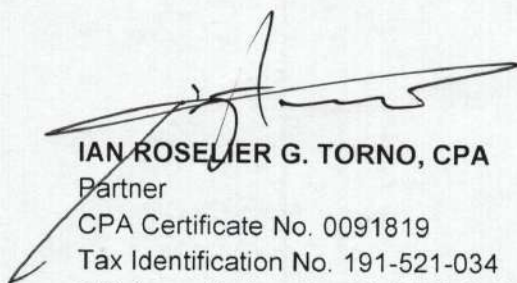
ROMEO G. TORNO & CO., CPA's

BOA Accreditation No. 4618

July 22, 2020 – June 15, 2023

BIR Accreditation No. 04-002375-000-2021

March 15, 2021, valid until March 15, 2024



IAN ROSELIER G. TORNO, CPA
Partner
CPA Certificate No. 0091819
Tax Identification No. 191-521-034
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March 15, 2021, valid until March 15, 2024

SEC No. 91819 -Group C

April 14, 2021

PTR No. SF3743361

January 6, 2021

City of San Fernando Pampanga

April 14, 2021

City of San Fernando, Pampanga



RURAL BANK OF PORAC (PAMPANGA), INC.
RECONCILIATION OF AUDITED FINANCIAL STATEMENTS & SUBMITTED CONSOLIDATED STATEMENT OF CONDITION AND STATEMENT OF INCOME AND EXPENSES
As of December 31, 2020

	Submitted Report	Audited Report	Discrepancy	Reason for Discrepancy
Cash and Other Cash Items	P 20,610,836	P20,610,836	P-	
Due from Bangko Sentral ng Pilipinas	36,535,211	36,535,211	-	
Due from Other Banks	276,417,534	276,722,740	(305,206)	see AJE#4, 5 and 6
Debt Securities Measured at Amortized Cost	227,589,186	227,589,186	(860,523)	FS presentation related to accrued interest receivable see AJE#14 and FS presentation related to accrued interest receivable
Loans and Receivables, Net	1,290,848,359	1,297,723,931	(6,875,572)	
Investment Properties	40,069,810	40,069,810	-	
Bank Premises, Furniture, Fixtures, and Equipment, Net	46,041,588	45,679,908	361,680	see AJE#12
Right of Use Assets	-	26,607,607	(26,607,607)	see AJE#7 and 9 see AJE#13, 12, 15, 17 and FS presentation related to accrued interest receivable
Other Assets, Net	28,290,491	18,068,306	10,222,185	accrued interest receivable see AJE#3, 10, 11 and 18
Deferred Tax Asset	-	2,024,161	(2,024,161)	
Total Assets	1,966,403,015	1,992,492,219	(26,089,204)	Net effect of adjustments
Deposit Liabilities	1,615,971,841	1,615,971,841	-	
Accrued Interest, Taxes & Other Expenses	11,932,978	8,942,706	2,990,272	see AJE#2 and 12
Income Tax Payable	-	3,648,650	(3,648,650)	see AJE#1 and 2
Other Liabilities	2,529,109	31,541,900	(29,012,791)	see AJE#6, 7, 8 and 15
Deferred tax liability	2,607,476	-	2,607,476	
Total Liabilities	1,633,041,404	1,660,105,098	(27,063,693)	Net effect of adjustments
Total Shareholders' Equity	333,361,611	332,387,122	974,489	Net effect of adjustments
Total Liabilities & Shareholders' Equity	P 1,966,403,015	P1,992,492,219	P(26,089,204)	Net effect of adjustments
Total Gross Income	154,648,992	155,314,654	(665,662)	see AJE#4, 5, 13, 14, 15 and 17
Total Expenses	128,533,661	131,255,710	(2,722,049)	see AJE# 8, 9 and 12
Net Income Before Tax	26,115,331	24,058,944	2,056,387	Net effect of adjustments
Income Tax Expense (Benefit)	5,004,146	6,517,818	(1,513,672)	see AJE#1, 10, 11 and 18
Net Income After Tax	P 21,111,185	P17,541,126	P3,569,059	Net effect of adjustments

RURAL BANK OF PORAC (PAMPANGA), INC.
FINANCIAL HIGHLIGHTS

As of December 31, 2020 and 2019

	2020	2019	Increase (Decrease)
FOR THE YEAR			
TOTAL INCOME	₱155,314,654	₱171,560,414	₱(16,245,760)
TOTAL EXPENSES	137,773,528	147,050,916	(9,277,388)
NET INCOME	17,541,126	24,509,498	(6,968,372)
EARNINGS PER SHARE			
Ordinary Shares	6.96	10.85	(3.89)
RETURN ON AVERAGE EQUITY	5.57%	8.48%	(2.91%)
RETURN ON AVERAGE ASSETS	0.87%	1.29%	(0.42%)
NET INTEREST MARGIN	5.67%	5.87%	(0.20%)
AT YEAR END			
TOTAL ASSETS	1,992,492,219	2,045,523,590	(53,031,371)
LOANS AND RECEIVABLES (NET)	1,297,723,931	1,262,719,641	35,004,290
LIQUID ASSETS	562,318,496	666,471,894	(104,153,398)
FIXED ASSETS	45,679,908	46,824,229	(1,144,321)
DEPOSIT LIABILITIES & DUE TO BSP	1,615,971,841	1,424,338,090	191,633,751
OTHER LIABILITIES	31,541,900	32,609,045	(1,067,145)
EQUITY ACCOUNTS	332,387,122	297,741,044	34,646,078
BOOK VALUE PER SHARE			
Ordinary Shares	131.94	131.77	0.17
CAPITAL ADEQUACY RATIO	18.59%	17.79%	0.80%
PAST DUE RATIO	13.08%	10.72%	2.36%
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES & DUE TO BSP	34.80%	46.79%	(11.99%)
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES OTHER LIABILITIES	34.13%	45.74%	(11.61%)
DEBT TO EQUITY RATIO	5.99:1	5.88:1	0.11:1
RATIO OF TOTAL FIXED ASSETS OVER EQUITY ACCOUNTS	13.74%	15.73%	(1.98%)

(See accompanying Notes to Financial Statements)

RURAL BANK OF PORAC (PAMPANGA), INC.
LIST OF ADJUSTING ENTRIES

DECEMBER 31, 2020

No.	Particulars	Debit	Credit
Proposed Adjusting Journal Entry (PAJE)			
1.	Income Tax Expense Income Tax Payable Prepaid Income Tax <i>To adjust Income Tax Expense, Prepaid Income Tax and Liability for the year.</i>	840,609.39	258,484.40 582,124.99
2.	Accrued Expense Payable Income Tax Payable <i>To properly classify accounts.</i>	3,390,165.73	3,390,165.73
3.	Deferred Tax Assets Retained Earnings <i>To record unbooked DTA previous years.</i>	5,304,699.84	5,304,699.84
4.	Due from other banks - PNB Clark 202-61-004112-1 Interest Income from other banks - savings <i>To take up additional interest income.</i>	100.00	100.00
5.	Due from other banks - BOC Nepo 123-20-000115-4 Interest Income from other banks - Time <i>To record interest income for the month of December 2020.</i>	46,250.00	46,250.00
6.	Due from other Banks - BDO 523-021-3036 Accounts Payable - others <i>To record unknown deposits during the year.</i>	258,855.84	258,855.84
7.	Right of Use Asset Lease Liability <i>To record the rental payments for the remaining years</i>	31,835,019	31,835,019
8.	Interest Expense Lease Liability Rent Expense <i>To record the rental payments for year 2020</i>	2,228,451 3,082,085	5,310,536
9.	Depreciation Expense Accumulated Depreciation <i>To record depreciation for the year</i>	5,227,411.86	5,227,411.86
10.	Deferred Tax Assets Income Tax Expense <i>To record DTA on lease liability.</i>	924,625.41	924,625.41
11.	Income Tax Expense Deferred Tax Liability <i>To record DTL on RUA</i>	1,568,223.56	1,568,223.56

12.	Depreciation Expense - Building	361,679.52	
	Medical, Dental and Hospitalization Expense	5,934.00	
	Membership Fees and Dues	750.14	
	Miscellaneous Expense	47,479.87	
	Postage, Telephone, Cable and Telegram	3,714.00	
	Power, Light and Water Expense	15,260.54	
	Professional Fees	159,890.00	
	Publicity and Advertising	4,000.00	
	Rent Expense	59,039.00	
	Repairs and Maintenance	68,168.43	
	Representation Expense	7,340.62	
	Salaries and wages	8,667.21	
	Security and Messengerial Expense	1,744.94	
	Staff Benefit	34,317.00	
	Taxes and Licenses	1,500.00	
	Travelling Expense	3,334.43	
	Accounts Receivables - ROPA	184,852.22	
	Fuel and Lubricants		4,522.16
	Insurance - Others		6,865.03
	Interest Expense - Bills Payable		2,777.78
	Interest Expense - Time Deposit		7,081.56
	Litigation Expense		184,852.22
	Accrued Expense Payable (Payable to employees and others)		399,893.65
	Accumulated Depreciation - Building		361,679.52
	<i>To take up adjustment for the year.</i>		
13.	Accrued Interest Receivable from Banks	124,606.04	
	Interest Income from Due From Other Banks	6,946.26	
	Interest Income from Investments		131,552.30
	<i>To record interest income for the year.</i>		
14.	Interest Income from Loans	87,950.26	
	Accrued Interest Receivable - LOANS		87,950.26
	<i>To reverse income from loans.</i>		
15.	Accounts Receivable	1,530.00	
	Service Fees	1,000.00	
	Account Payable		1,000.00
	Miscellaneous Income		1,530.00
	<i>To take up adjustment for the year.</i>		
16.	Surplus Free (Retirement Benefit Expense)	1,003,397.00	
	Defined Benefit Cost	3,916,965.00	
	Retirement Benefit Asset		2,709,130.00
	Surplus Free (Contribution to Retirement Fund)		2,211,232.00
	<i>To take up retirement during the year.</i>		
17.	Prepaid Income Tax	582,124.99	
	Gain on sale of ROPA		576,000.00
	Interest Income - Loans		6,124.99
	<i>To record prepaid income for the year.</i>		
18.	Income Tax Expense	29,464.88	
	Deferred Tax Assets		29,464.88
	<i>To adjust DTA on written-off accounts.</i>		

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

	As at December 31	
	2020	2019
ASSETS		
Cash and Other Cash Items (Note 6.1)	₱ 20,610,836	₱ 17,947,947
Due from BSP and Other Banks (Note 6.2)	313,257,951	257,789,273
Debt Securities Measured at Amortized Cost (Note 7)	228,449,709	390,734,674
Loans & Receivable, Net (Note 8)	1,297,723,931	1,262,719,641
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 9)	45,679,908	46,824,229
Investment Property, Net (Note 10)	40,069,810	38,434,411
Right of Use Assets (Note 11)	26,607,607	-
Deferred Tax Asset (Note 25)	2,024,161	2,697,223
Other Assets, Net (Note 12)	5,083,734	12,682,490
Retirement Benefit Asset (Note 20)	12,984,572	15,693,702
TOTAL ASSETS	1,992,492,219	2,045,523,590
LIABILITIES & SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 13)	1,615,971,841	1,424,338,090
Bills Payable (Note 14)	-	270,000,000
Accrued Interest, Interest, Taxes and Other Expenses (Note 15)	8,942,706	17,107,704
Other Liabilities (Note 16)	31,541,900	32,609,045
Income Tax Payable (Note 25)	3,648,650	3,727,708
TOTAL LIABILITIES	1,660,105,097	1,747,782,546
SHAREHOLDERS' EQUITY		
Ordinary Share Capital (Note 17)	251,930,500	225,947,300
Retained Earnings - Free	82,985,834	70,405,991
Retained Earnings - Reserve for healthcare fund	7,022,194	7,022,194
Retained Earnings - Reserve for defined benefit cost- OCI (Note 20)	(9,551,406)	(5,634,441)
TOTAL SHAREHOLDERS' EQUITY	332,387,122	297,741,044
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	₱1,992,492,219	₱ 2,045,523,590
BOOK VALUE PER SHARE	₱ 131.94	₱ 131.77

See accompanying Notes to Financial Statements.

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

	For the Year Ended December 31	
	2020	2019
INTEREST INCOME		
Loans & Receivables	₱ 113,754,317	₱ 106,933,109
Due from Other Banks	733,377	1,133,927
Debt Securities Measured at Amortized Cost	7,332,671	7,428,799
TOTAL INTEREST INCOME	121,820,365	115,495,835
INTEREST EXPENSE		
Deposit Liabilities	9,439,695	9,843,458
Bills Payable	6,044,167	1,608,611
TOTAL INTEREST EXPENSE	15,483,862	11,452,069
NET INTEREST INCOME	106,336,503	104,043,766
PROVISION FOR CREDIT LOSSES	-	-
NET INTEREST INCOME AFTER PROVISION	106,336,503	104,043,766
OTHER INCOME (Note 18)	33,494,289	56,064,579
TOTAL INCOME BEFORE OPERATING EXPENSES	139,830,792	160,108,345
OTHER OPERATING EXPENSE		
Compensation & Fringe Benefits (Note 19)	44,937,331	48,545,554
Other Operating Expenses (Note 21)	48,949,283	65,340,348
Depreciation & Amortization (Note 22)	16,061,666	8,665,732
Taxes & Licenses (Note 27)	5,823,568	6,287,287
TOTAL OTHER OPERATING EXPENSE	115,771,848	128,838,921
NET INCOME BEFORE INCOME TAX	24,058,944	31,269,424
INCOME TAX EXPENSE (BENEFIT) (Note 25)	6,517,818	6,759,926
NET INCOME AFTER INCOME TAX	₱17,541,126	₱24,509,498
EARNINGS PER SHARE	₱ 6.96	₱ 10.85

See accompanying Notes to Financial Statements.

RURAL BANK OF PORAC (PAMPANGA), INC.
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2020 and 2019

	ORDINARY SHARE CAPITAL (Note 17)	RETAINED EARNINGS - FREE (Note 17)	RETAINED EARNINGS - RESERVE (Note 17)	Total
Balance at January 1, 2020	₱ 225,947,300	₱ 70,405,991	₱ 1,387,753	₱ 297,741,044
Issuance of shares	25,983,200	-	-	25,983,200
Total comprehensive income for the year	-	17,541,126	-	17,541,126
Provisions and Adjustments	-	2,946,873	(3,916,965)	(970,092)
Cash dividend declared	-	(7,908,156)	-	(7,908,156)
Balance at December 31, 2020	₱ 251,930,500	₱ 82,985,834	₱ (2,529,212)	₱ 332,387,122
Balance at January 1, 2019	₱ 225,947,300	₱ 52,606,992	₱ 1,722,075	₱ 280,276,367
Issuance of shares	-	-	-	-
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

See accompanying Notes to Financial Statements.

RURAL BANK OF PORAC (PAMPANGA), INC.**STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before Income Tax	P24,058,944	P31,269,424
Adjustments for:		
Depreciation & amortization (Note 9 and 22)	16,061,666	8,665,732
Net charges to surplus/Prior period adjustments	(970,092)	863,335
Gain on sale of investment properties	(29,027,365)	(46,749,100)
Impairment loss	33,001	1
Interest income	(121,820,598)	(115,495,835)
Interest expense	15,483,862	11,452,069
Changes in working capital:		
Loans and other receivables (Note 8)	(35,477,891)	(204,630,882)
Other assets (Note 12)	8,072,356	(5,140,848)
Retirement benefit asset (Note 20)	2,709,130	(2,356,811)
Deposits liabilities (Note 13)	191,633,751	89,105,127
Other liabilities (Note 16)	(29,820,079)	370,937
Accrued interest and other liabilities (Note 15)	(8,164,998)	2,671,113
Interest received	121,820,598	115,495,835
Interest paid	(15,483,862)	(11,452,069)
Income tax paid (Note 25)	(5,923,813)	(4,362,114)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	133,184,605	(130,294,086)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment properties (Note 10)	(3,628,581)	-
Additions to bank premises, FFE (Note 9)	(7,730,287)	(17,754,895)
Acquisition of debt securities measured at amortized cost (Note 7)	162,284,965	(100,255,294)
Proceeds from sale of bank premises, FFE (Note 9)	540	-
Proceeds from sale of investment properties	29,027,365	59,769,770
NET CASH FROM (USED IN) INVESTING ACTIVITIES	179,954,002	(58,240,419)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of cash dividends to stockholders (Note 17)	(7,908,156)	(7,908,156)
Proceeds from bills payable	-	170,000,000
Payments of bills payable	(270,000,000)	-
Payments of lease liabilities	(3,082,085)	-
Proceeds from issuance of shares (Note 17)	25,983,200	-
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(255,007,040)	162,091,844
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,131,567	(26,442,661)
CASH AND CASH EQUIVALENTS, BEGINNING	275,737,220	302,179,881
CASH AND CASH EQUIVALENTS, ENDING	P333,868,787	P275,737,220

(See accompanying Notes to Financial Statements)

RURAL BANK OF PORAC (PAMPANGA), INC.**NOTES TO FINANCIAL STATEMENTS**

For the years ended December 31, 2020 and 2019

1. CORPORATE INFORMATION

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 thirteen (13) 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., Malabanas, 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
13. RHC Building, Hilario Cor. M.H. Del Pilar St. Ligtasan, Tarlac City

The Bank's 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, 2020 were authorized for issue by its Board of Directors on April 14, 2021.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivative financial instruments, if any, that have been measured at fair value. The financial statements are presented in Philippine peso ("P") 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.

Statement of Compliance

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

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

Going Concern Assumption

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Amendments

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

Pronouncement issued but not yet effective

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

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform Phase 2*

Effective beginning on or after January 1, 2022

- *Annual Improvements to PFRS Standards 2018-2020 Cycle issued in August 2020*
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract*

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds before Intended Use*
- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition financial liabilities*
- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to PFRS 17, *Insurance Contracts*

Financial Instruments

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

Initial Recognition and Subsequent Measurement

Financial assets and financial liabilities are recognized 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, difference is recognized as a gain or loss.
- b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial Assets

Classification and Subsequent Measurement

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

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

Financial assets at amortized cost (debt instruments)

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

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

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

The Bank's 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 shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. 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.

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, 2020 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
Building and Leasehold Improvement	10 years
Furniture and fixtures	3 - 5 years
Transportation equipment	3 - 5 years
Information Technology Equipment	3 - 5 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 been 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.

Right-of-use Assets

The Bank recognizes right-of-use assets using prospective application for the remaining lease term (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at remaining cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The remaining cost of right-of-use assets includes the amount of lease liabilities recognized. Right-of-use assets are depreciated on a straight-line basis over the lease term, as follows:

	Years
Buildings and improvements	2 to 12

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 five (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 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 inflow of economic benefit is probable.

Revenue Recognition

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

A contract liability is the obligation to transfer goods or services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Bank 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 Bank performs its obligations under the contract.

Contract liabilities also include payments received by the Bank 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.

Lease Recognition – Effective January 1, 2019

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease liabilities

The Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Bank uses its incremental borrowing rate because the interest rate implicit in the lease is not readily determinable. After the initial recognition, the amount of lease liabilities is increased to reflect the accretion of interest (included in 'Interest expense on lease liabilities) and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Lease Recognition – Effective 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 Bank 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 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, 2020 and 2019, 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.

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

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

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

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

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

The current and deferred taxes continued to be computed and measured using the applicable income tax rates as of December 31, 2020 since the CREATE bill was not considered as substantively enacted as of December 31, 2020 even though some of the provisions have retrospective effect to July 1, 2020 (there will be difference between the provision for current income tax per 2020 FS and the amount of income tax due per 2020 income tax return).

With the above provisions of the CREATE Act, the Income Tax Rate (ITR) and Minimum Corporate Income Tax (MCIT) of the Bank are reduced to 25% and 1% respectively from July 1, 2020 to December 31, 2020. As of reporting date, however, the Bank still computed its Corporate Income Tax at 30% for the full year of 2020. Adjustments for the reduced Corporate Income Tax rate provided by the CREATE Act for the period of July 1, 2020 to December 31, 2020 shall be made accordingly subject to the implementing rules and regulations of the CREATE Act.

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

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 Bank'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. Leases

Effective on or after January 1, 2019

Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the stand-alone credit rating, or to reflect the terms and conditions of the lease).

Effective before January 1, 2019

Operating lease

Bank as lessor

The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased and so accounts for the contracts as operating leases.

Bank as lessee

The Bank has entered into leases on premises it uses for its operations. The Bank has determined, based on the evaluation of the terms and conditions of the lease agreements (i.e. the lease does not transfer ownership of the asset to the lessee by the end of the lease term and the lease term is not for the major part of the asset's economic life), that the lessor retains all significant risks and rewards of the ownership of these properties and so accounts for these contracts as operating leases.

b. Classification of financial instruments

The Bank 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.

c. Determination of Functional currency

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

- c.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);
- c.2. The currency in which funds from financing activities are generated; and
- c.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.

d. 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.

e. 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 Bank'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:

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 under performing (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/1 st restructuring	Substandard	25%	2 or 3
61-90 days	Doubtful	50%	3
91 days and over/ 2 nd restructuring	Loss	100%	3

For secured loans and other credit accommodations:

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

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

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

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

Other Risk Assets

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

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

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

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

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

d. Useful life of Depreciable Investment Property

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

e. Determination of Impairment of Non-financial Assets

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

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

f. Recognition of Retirement Costs.

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

g. Recognition of Deferred Tax Assets

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit Risk

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

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

2020				
	Loans and Receivables*	Due from BSP and Other Banks	Debt Securities Measured at Amortized Cost**	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal	P86,627,341	P-	P-	P86,627,341
Agriculture, forestry and fishing	32,484,632	-	-	32,484,632
Financial institutions	-	246,199,325	-	246,199,325
Government	-	67,058,626	228,449,709	295,508,335
Education	1,010,988	-	-	1,010,988
Construction	29,236,344	-	-	29,236,344
Manufacturing	72,364,502	-	-	72,364,502
Financial and insurance activities	-	-	-	-
Household Consumption	32,276,082	-	-	32,276,082
Transportation and storage	25,457,771	-	-	25,457,771
Real estate activities	926,251,090	-	-	926,251,090
Accommodation and Food Services	30,449,383	-	-	30,449,383
Administrative and support service activities	124,373	-	-	124,373
Arts, entertainment and recreation	-	-	-	-
Electricity, gas, stream and air-conditioning supply	3,959,122	-	-	3,959,122
Human health and social work activities	45,044,126	-	-	45,044,126
Mining and quarrying	16,649,691	-	-	16,649,691
Professional, Scientific and Technical Activities	893,111	-	-	893,111
Other service activities	9,845,155	-	-	9,845,155
Total	P1,312,673,711	P313,257,951	P228,449,709	P1,854,381,371

* Amount is gross of ACL and net of unamortized discounts

** Amount is net of unamortized premium and discounts

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	P103,804,588	P-	P-	P103,804,588
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	P1,285,948,155	P257,789,273	P390,734,674	P1,934,472,102

* Amount is gross of ACL and net of unamortized discounts

** Amount is net of unamortized premium and discounts

Credit quality per class of financial assets

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

2020					
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	P36,535,211	P-	P-	P-	P36,535,211
Due from other banks	276,722,740	-	-	-	276,722,740
Loans Receivable*	1,140,697,449	48,154,312	115,030,641	8,791,309	1,312,673,711
Sales Contract Receivable**	2,446,229	-	42,079,757	-	44,525,986
Other receivables:					
Accounts receivable	2,897,855	-	-	-	2,897,855
Accrued Interest Receivable***	-	178,623	-	-	178,623
Debt Securities Measured at Amortized Cost****	228,449,709	-	-	-	228,449,709
Total	P1,687,749,193	P48,332,935	P157,110,398	P8,791,309	P1,901,983,835

* Amount is gross of ACL and net of unamortized discounts

** Amount is gross of ACL

*** Consists of accrued interest from time deposit from other bank

**** Amount is net of unamortized premium and discounts

2019					
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	P48,915,872	P-	P-	P-	P48,915,872
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	P1,830,239,932	P30,051,339	P105,545,114	P14,486,109	P1,980,322,494

* Amount is gross of ACL and net of unamortized discounts

** Amount is gross of ACL

*** Consists of accrued interest from time deposit from other bank

**** Amount is net of unamortized premium and discounts

Aging analysis of past due but not impaired loans and receivables

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

2020					
at Amortized Cost	31 to 60 days	61 to 90 days	91 to 180 days	181 days and up	Total
Past Due Performing	P47,516,630	P637,682	P-	P-	P48,154,312
Past Due Non Performing	62,059,334	4,183,497	8,184,713	40,603,096	115,030,640
Items In Litigation	7,625,483	-	-	1,165,826	8,791,309
	P117,201,447	P4,821,179	P8,184,713	P41,768,922	P171,976,261

2019					
at Amortized Cost	31 to 60 days	61 to 90 days	91 to 180 days	181 days and up	Total
Past Due Performing	P25,156,384	P4,190,480	P-	P-	P29,346,864
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
	P45,186,586	P9,633,252	P12,587,293	P67,091,872	P134,499,003

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 5.80% to 22.00% for 2020 and 6.00% to 20.00% for 2019, respectively. The Bank's interest rate on its deposit liabilities is 0.25% on its savings and demand accounts, and ranges from 0.25% to 3.00% on its time deposits. The interest rate on its bills payable ranges from 5.00% to 6.00% for 2020 and 2019.

However, the Bank earns 0.975% 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:

2020						
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities						
Deposit liabilities	P1,218,231,591	P100,873,257	P115,222,409	P176,837,495	P4,807,089	P1,615,971,841
Bills Payable	-	-	-	-	-	-
Other Liabilities:						
Accrued expenses	6,780,251	-	-	-	-	6,780,251
Accrued interest payable	2,162,455	-	-	-	-	2,162,455
Accounts payable	-	1,960,813	-	3,082,085	25,670,849	30,713,747
Total Financial Liabilities	1,227,174,297	102,834,070	115,222,409	179,919,580	30,477,938	1,655,628,294
Financial Assets						
Cash and other cash items	20,610,836	-	-	-	-	20,610,836
Due from BSP	36,535,211	-	-	-	-	36,535,211
Due from other banks	276,722,740	-	-	-	-	276,722,740
Loans and receivable*	10,793,310	6,480,149	14,759,726	27,473,094	1,253,167,432	1,312,673,711
Sales Contract Receivable**	2,446,229	-	2,237,439	664,427	39,177,891	44,525,986
Accounts receivable	-	2,897,855	-	-	-	2,897,855
Accrued Interest Receivable***	8,218,651	-	-	-	-	8,218,651
Debt Securities Measured at Amortized Cost****	19,973,611	26,953,235	16,000,000	-	164,662,340	227,589,186
Total Financial Assets	375,300,588	36,331,239	32,997,165	28,137,521	1,457,007,663	1,929,774,176
Liquidity Position (Gap)	P901,873,709	P66,502,831	P82,225,244	P151,782,059	P(1,426,529,725)	P(274,145,882)

* Amount is gross of ACL and net of unamortized discounts

** Amount is gross of ACL

*** Consists of accrued interest from debts securities measured at amortized cost and time deposit from other bank

**** Amount is net of unamortized premium and discounts

2019						
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities						
Deposit liabilities	P 1,082,207,409	P 204,329,319	P125,083,141	P7,123,043	P 5,595,179	P1,424,338,091
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	36,658,013	40,012,043
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	1,403,065,967	1,998,270,441
Liquidity Position (Gap)	P 812,305,786	P 183,194,410	P 91,185,034	P29,712,426	P (1,397,274,453)	P(280,876,797)

* Amount is gross of ACL and net of unamortized discounts

** Amount is gross of ACL

*** Consists of accrued interest from debts securities measured at amortized cost and time deposit from other bank

**** Amount is net of unamortized premium and discounts

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.

As of December 31, 2020, in Memorandum No. M2020-020 - reduction in the minimum liquidity ratio in response to Covid-19 is hereby reduced from 20 percent (20%) down to 16 percent (16%).

Minimum Liquidity Ratio (MLR) as of December 31, 2020

PART 1. MINIMUM LIQUIDITY RATIO (MLR)

A. Stock of Liquid Assets	₱562,318,496
B. Qualifying Liabilities	₱1,291,842,932
Minimum Liquidity Ratio	43.52%

PART II. STOCK OF LIQUID ASSETS

Cash on Hand	₱20,610,836
Bank Reserves in the BSP	36,535,211
Debt Securities representing claims on or guaranteed by the Philippine National Government and the BSP	228,449,709
Deposits in Other Banks	276,722,740
	562,318,496

PART III. QUALIFYING LIABILITIES

A. Qualifying Liabilities		
1 Retail current and regular savings deposits with outstanding balance per account of ₱500,000 and below (50%)	662,855,900	331,427,950
2. Obligations arising from operational expenses	9,770,523	
3. Total on Balance Sheet Liabilities	1,633,041,405	
4. Deduct: Sum of A1 to A2	672,626,424	
B. Other on-balance sheet liabilities (Item A.3 less A.4)		960,414,982
C. Irrevocable obligations under off-balance sheet items		-
D. Total (Sum of Adjusted Amount of Item A(1), A(2), B and C)		₱1,291,842,932

6. CASH AND CASH EQUIVALENTS

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

	2020	2019
6.1. Cash and Other Cash items		
Cash on Hand and in Vault	₱ 20,610,836	₱ 17,947,947
Cash and Other Cash Items	-	-
Total cash and other cash items	20,610,836	17,947,947
6.2. Due from BSP and other Banks		
Due from Bangko Sentral ng Pilipinas	36,535,211	48,915,872
Due from Other Banks	276,722,740	208,873,401
Total due from BSP and other banks	313,257,951	257,789,273
Total Cash and Cash Equivalent	₱ 333,868,787	₱ 275,737,220

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers. Checks and other cash items include cash items (other

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

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

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

Name of Banks	2020	%	2019	%
Asia United Bank	₱94,130,465	34.02%	₱88,815,383	42.52%
Banco De Oro	5,613,652	2.03%	6,198,767	2.97%
Bank of Commerce	31,057,221	11.22%	15,663,873	7.50%
Bank of the Philippine Island	7,196,092	2.60%	6,658,857	3.19%
Chinabank	11,756,749	4.25%	11,891,800	5.69%
Development Bank of the Philippines	2,263,677	0.82%	1,685,531	0.81%
Eastwest Bank	19,614,036	7.09%	5,019,348	2.40%
Landbank of the Philippines	28,259,738	10.21%	6,376,877	3.05%
Maybank	847,992	0.31%	1,747,875	0.84%
Metrobank	1,379,100	0.50%	1,352,897	0.65%
Philippine National Bank	6,678,467	2.41%	2,699,714	1.29%
Rural Bank of Angeles	10,356,377	3.74%	10,165,008	4.87%
Rizal Commercial Banking Corporation	7,541,282	2.73%	5,211,657	2.50%
Security Bank	286,800	0.10%	764,875	0.37%
Union Bank	675,811	0.24%	-	-%
United Coconut Planters Bank	49,065,281	17.73%	44,620,938	21.36%
Total	₱276,722,740	100.00%	₱208,873,401	100.00%

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

As of December 31, 2020, in Memorandum No. M2020-011 an additional regulatory for BSP-Supervised Financial Institutions (BSFI's) affected by measures to manage the corona virus disease 2019 (Covid-19) situation and its health and safety risks, increasing the single borrower's limit (SBL) from 25% to 30% for a period of six (6) months from March 19, 2020. At the end of the year ended December 31, 2020, the Bank's SBL was registered at ₱83,096,780 and as per BSP Manual of Regulations, bank are exempted on the ceiling of single borrower's limit (SBL) on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for clearing operation.

As of December 31, 2020 and 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 0.10% to 1.00% for years 2020 and 2019.

Interest income from bank accounts and short-term cash deposits amounted ₱733,377 and ₱1,133,927 in 2020 and 2019, 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 2020 and 2019 which are not available for use by Bank.

7. DEBT SECURITIES MEASURED AT AMORTIZED COST

This account is consisting of:

	2020	2019
Book Value	₱225,043,897	₱ 388,124,682
Add: Unamortized Premium	3,385,077	3,532,719
Accrued Interest Receivable	860,523	-
Total	229,289,497	391,657,401
Less: Unamortized Discount	839,788	922,727
Total	₱228,449,709	₱ 390,734,674

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 0.975% to 6.125% for 2020 and 2.125% to 6.125% for 2019. The interest income on these accounts amounted to ₱7,332,671 and ₱7,428,799 for 2020 and 2019, 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:

	2020	%	2019	%
Current Loans	₱1,146,752,031	86.92%	₱1,153,591,765	89.28%
Past Due Loans - Performing	48,426,603	3.67%	29,509,199	2.28%
Past Due Loans - Non-Performing	115,322,622	8.74%	94,505,892	7.31%
Items in Litigation	8,797,786	0.67%	14,486,109	1.12%
Total	1,319,299,042	100.00%	1,292,092,965	100.00%
Less: Unearned Income and Discounts	6,625,331		6,144,810	
Total, net of discount	1,312,673,711		1,285,948,155	
Less: Allowance for Credit Losses (Note 8.1)				
Specific	46,305,433		40,894,157	
General	14,670,829		18,082,730	
Total	1,251,697,449		1,226,971,268	
Add: Sales contract receivable, net (Note 8.2)	39,320,578		35,748,373	
Accrued Interest Receivable	6,705,904		-	
Total Loans and Receivables, net	₱1,297,723,931		₱1,262,719,641	

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 5.80% to 22% in 2020 and 6% to 20% in 2019. Total earned interest amounts to ₱113,754,550 and ₱106,933,109 for 2020 and 2019, respectively.

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

The total allowance for credit losses of ₱60,976,262 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.

On March 25, 2020, Republic Act No. 11469 - Bayanihan to Heal as One Act ('Bayanihan 1 Act') was enacted. Bayanihan 1 Act direct to all covered institutions, public and private to implement a minimum of thirty (30) days grace period for the payment of all loans , including but not limited to

salary, personal, housing and motor vehicle loans, as well as credit card payments, falling due with in the period of Enhanced Community Quarantine without incurring interest, penalties, fees and other charges, persons with multiple loans shall likewise be given the minimum thirty (30) day grace period for every loan. Subsequently, on September 11, 2020, Republic Act No. 11494 - Bayanihan to Recover as One Act ('Bayanihan 2 Act') was enacted. Bayanihan 2 Act, provide a one (1) time sixty (60) days grace period for the payment of all existing, current and outstanding loans falling due with in the period of community quarantine on or before December 31, 2020 without incurring interest, penalties, fees and other charges, persons with multiple loans shall likewise be given the minimum thirty (30) day grace period for every loan.

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

	2020	2019
Balance at beginning of 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	380,256
Total	64,523,555	54,154,969
Impairment loss charged to operations	8,229,325	14,300,676
Write-off/Adjustments to ROPA	(4,826,844)	(3,932,091)
	67,926,036	64,523,555
Balance at end of the year:		
Loans and receivables	60,976,262	58,976,888
Sales contract receivables	5,375,078	4,263,670
Accounts receivables	810,006	902,741
Accrued Interest Receivable	473,601	
Investment property	291,089	380,256
	₱67,926,036	₱ 64,523,555

Classification of loans: (Amount is gross of ACL and net of unamortized discounts)

As to Maturity:

	2020	%	2019	%
Due within one (1) year	₱ 42,258,321	3.22%	₱ 66,983,074	5.21%
Due beyond one (1) year	1,270,415,390	96.78%	1,218,965,081	94.79%
Total Loan Portfolio	₱ 1,312,673,711	100.00%	₱ 1,285,948,155	100.00%

As to Security:

	2020	%	2019	%
Unsecured	₱ 9,160,463	0.70%	₱ 4,725,977	0.37%
Secured by real estate mortgage	1,297,444,024	98.84%	1,276,217,548	99.24%
Secured by other type of securities	6,069,223	0.46%	5,004,630	0.39%
Total Loan Portfolio	₱ 1,312,673,711	100.00%	₱ 1,285,948,155	100.00%

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

	2020	%	2019	%
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycle	87,227,341	6.65%	₱103,804,588	8.07%
Construction	29,236,344	2.23%	35,449,907	2.76%
Real Estate Activities	926,251,090	70.56%	843,501,482	65.59%
Agriculture, Forestry, And Fishing	32,513,217	2.48%	33,698,262	2.62%
Household Consumption	22,574,045	1.72%	40,049,343	3.11%
Transportation and Storage	26,134,297	1.99%	23,103,727	1.80%
Electricity, Gas, Steam and Air Conditioning	3,959,123	0.30%	4,816,393	0.37%
Education	1,120,077	0.09%	1,236,464	0.10%
(forward)				

Manufacturing	72,364,505	5.51%	76,345,938	5.94%
Mining and Quarrying	16,827,281	1.28%	17,717,196	1.38%
Accommodation and food service activities	31,239,982	2.38%	44,671,649	3.47%
Financial and insurance activities	-	-%	3,800,000	0.30%
Administrative and support service activities	124,373	0.01%	396,180	0.03%
Human Health and Social work activities	45,044,126	3.43%	44,432,120	3.46%
Arts, entertainment and recreation	-	-%	559,558	0.04%
Professional, Scientific and Technical Activities	893,111	0.07%	-	-%
Other service activities	17,164,799	1.31%	12,365,346	0.96%
Total	₱1,312,673,711	100.00%	₱1,285,948,155	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%.

As of December 31, 2020, the breakdown of loans as to Performing and Non-Performing per product line as required by Circular 1074 of appendix 55 to Section 174 as follows: (Amount is net of unamortized discount)

Loan Portfolio per Product Line	Current	Performing	Non-Performing	Items in Litigation	Total
Agrarian Reform and Other Agricultural Reform Loans					
Agrarian Reform Loans	₱845,836	₱-	₱6	₱-	₱845,842
Other Agricultural Credit Loans	23,633,100	285,981	3,914,098	5,981,000	33,649,179
Microfinance Loans	8,849,619	287,437	878,660	-	10,015,716
Small and Medium Enterprises Loans					
Small Enterprises	67,610,258	7,799,129	12,644,143	-	88,053,530
Medium Enterprises	301,563,530	9,848,098	39,157,607	-	350,569,235
Loans to Individuals for Housing Purposes	112,024,454	6,087,658	7,996,166	325,229	126,433,507
Loans to Private Corporation for Non-Financial Purposes	470,909,402	3,987,693	39,026,456	-	513,923,551
Loans to Individuals for Personal Purposes	24,314,582	1,455,732	6,165,170	340,597	32,276,081
Loans to Individuals for Other Purposes	131,111,667	18,402,584	5,248,336	2,144,483	156,907,070
Total	₱1,140,697,448	₱48,154,312	₱115,030,642	₱8,791,309	₱1,312,673,711

8.2 SALES CONTRACT RECEIVABLE

This account consists of:

	2020	2019
Performing	31,794,632	₱28,754,486
Non-performing	12,731,354	11,257,557
Total	44,525,986	40,012,043
Add: Accrued Interest Receivable	169,670	-
Total	44,695,656	40,012,043
Less: Allowance for Credit Losses (Note 8.1)	5,375,078	4,263,670
Sales Contract Receivable-net	39,320,578	₱35,748,373

The movements on SCR is as follows:

	2020	2019
Balance at beginning of year	₱35,748,373	₱ 30,386,202
Additions	4,513,943	17,452,000
Provision for credit losses	(1,111,408)	(436,736)
Other credits	169,670	-
Payments	-	(11,653,093)
Balance at end of year	39,320,578	₱ 35,748,373

9. Bank Premises, Furniture, Fixtures and Equipment

This account consists of:

	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT Equipment	Transportation Equipment	Leasehold Improvement	Total
December 31, 2020								
Cost	P14,429,929	P25,208,778	P6,687,886	P38,389,658	P8,828,447	P9,874,029	P26,957,216	P130,375,943
Accumulated Depreciation and Amortization	-	12,721,743	3,887,192	36,104,039	7,893,795	5,998,086	18,091,180	84,696,035
Net carrying amount	P14,429,929	P12,487,035	P2,800,694	P2,285,619	P934,652	P3,875,943	P8,866,036	P45,679,908
December 31, 2019								
Cost	P14,429,929	P25,208,778	P6,687,886	P36,997,481	P8,267,044	P7,824,580	P23,229,958	P122,645,656
Accumulated Depreciation and Amortization	-	11,991,436	3,454,708	32,954,463	6,591,787	4,814,661	16,014,368	75,821,423
Net carrying amount	P14,429,929	P13,217,342	P3,233,178	P4,043,018	P1,675,257	P3,009,919	P7,215,590	P46,824,233

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

	2020							
	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT equipment	Transportation Equipment	Leasehold Improvement	Total
Cost								
Balance at beginning of year	P14,429,929	P25,208,778	P6,687,886	P36,997,481	P8,267,044	P7,824,580	P23,229,958	P122,645,655
Additions	-	-	-	1,392,177	561,403	2,049,449	3,727,258	7,730,288
Balance at end of year	14,429,929	25,208,778	6,687,886	38,389,658	8,828,447	9,874,029	26,957,216	130,375,943
Accumulated Depreciation and Amortization								
Balance at beginning of year	-	11,991,436	3,454,708	32,954,463	6,591,787	4,814,661	16,014,368	75,821,423
Additions	-	731,907	432,484	3,150,236	1,299,208	1,183,425	2,076,812	8,874,072
Adjustments	-	(1,600)	-	(660)	2,800	-	-	540
Balance at end of year	-	12,721,743	3,887,192	36,104,039	7,893,795	5,998,086	18,091,180	84,696,035
Net Book Value	P14,429,929	P12,487,035	P2,800,694	P2,285,620	P934,652	P3,875,943	P8,866,036	P45,679,908

2019

	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT equipment	Transportation Equipment	Leasehold Improvement	Total
Cost								
Balance at beginning of year	P14,429,929	P17,975,188	P3,621,064	P39,775,506	P3,729,958	P5,815,980	P23,132,517	P108,480,142
Additions	-	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	P14,429,929	P25,208,778	6,687,886	P36,997,481	P8,267,044	7,824,580	23,229,958	P122,645,656
Accumulated Depreciation and Amortization								
Balance at beginning of year	-	11,619,610	3,002,277	36,422,396	2,584,718	4,795,767	13,699,524	72,124,292.00
Depreciation and amortization	-	339,375	459,347	2,642,737	680,043	850,174	2,314,839	7,286,515.00
Disposals	-	-	-	(2,782,194)	-	(832,730)	-	(3,614,924)
Reclassification	-	-	-	-	-	-	-	-
Adjustment	-	32,451	(6,916)	(3,328,476)	3,327,026	1,450	5	25,540
Balance at end of year	P-	11,991,436	3,454,708	32,954,463	6,591,787	4,814,661	16,014,368	75,821,423
Net Book Value	P14,429,929	P13,217,342	P3,233,178	P4,043,018	P1,675,257	P3,009,919	P7,215,590	P46,824,233

Depreciation of these accounts amounting to P8,874,072 and P7,286,516 in 2020 and 2019, respectively, are shown as separate components of operating expenses in the Statements of Comprehensive Income.

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

The value of the Bank premises, furniture, fixtures and equipment of P45,679,908, net of accumulated depreciation, as of December 31, 2020 is 13.74% of the Bank's total net worth. This is lower than the 50% maximum ratio required under BSP regulation (MORB Section 109).

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

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:

	2020	2019
Land	₱28,817,242	₱29,086,065
Building	17,895,461	16,106,026
Total	46,712,703	45,192,091
Less: Accumulated Depreciation	6,351,804	6,377,424
Net Amount	40,360,899	38,814,667
Less: Allowance for Credit Losses (Note 8.1)	291,089	380,256
Net Carrying Amount	₱40,069,810	₱38,434,411

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

	2020	2019
Balance at beginning of year net of accumulated depreciation and Impairment loss	₱38,434,411	₱52,834,297
Additions	16,249,274	9,598,634
Disposal	(13,006,335)	(22,608,794)
Depreciation	(1,927,180)	(1,389,725)
Impairment Losses	(33,001)	(1)
Other Adjustments	352,641	-
Balance at end of year net of accumulated depreciation and Impairment loss	₱40,069,810	₱38,434,411

As of December 31, 2020 and 2019, 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. RIGHT OF USE ASSETS

The Bank is currently leasing its building premises. With the exception of short term leases and leases of low-value underlying assets, the lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The bank classifies its right-of-use assets in a consistent manner as Bank Premises, Furniture, Fixtures and Equipment.

This account consists of:

	Building	Total
Cost		
Balance at beginning of year	₱ -	₱ -
Additions	31,835,019	31,835,019
Balance at end of year	₱31,835,019	₱31,835,019

Depreciation

Balance at beginning of year	₱ -	₱ -
Depreciation	5,227,412	5,277,412
Balance at end of year	₱5,227,412	₱5,277,412
Net Book Value	₱26,607,607	₱26,607,607

12. OTHER ASSETS

This account is consists of:

	2020	2019
Financial Assets		
Accounts Receivables	₱ 2,897,856	₱ 5,133,874
Accrued Interest Receivable	178,623	704,475
Non-Financial Assets		
Prepaid Expense	1,465,872	1,056,071
PLDT 350 Shares	3,500	3,500
Petty Cash Fund	79,000	74,000
Stationery and Supplies on Hand	1,268,889	1,426,322
Other Assets – Healthcare Fund	-	5,186,989
Total	5,893,740	13,585,231
Less: Allowance for Credit Losses (Note 8.1)	810,006	902,741
Net Other Assets	₱5,083,734	₱12,682,490

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.

13. DEPOSIT LIABILITIES

This account is consists of:

	2020	%	2019	%
Savings Deposit	₱475,147,773	29%	₱ 858,624,702	60%
Special Savings/Time Deposit	918,625,950	57%	363,491,655	26%
Demand Deposit	222,198,118	14%	202,221,733	14%
Total Deposit Liabilities	₱1,615,971,841	100%	₱1,424,338,090	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 2019.

For the year 2020 and 2019, savings and demand deposit carries an interest rate of 1.25%. The bank's special savings deposit carries interest rate ranging from 0.25% to 3.00% for the years 2020 and 2019.

On July 27, 2020, the BSP issued Circular No. 1092 which took effect on July 31, 2020 as amended by Circular No. 1082 dated March 31, 2020 Reduction in Reserve Requirements of 3% for savings and time deposits. The required reserve as of December 31, 2020 amounting to ₱32,319,437 or 2% of the total deposit liabilities. This amount is in the form of deposit with Bangko Sentral ng Pilipinas which has a balance of ₱ 36,535,211 as at December 31, 2020.

Interest expense on deposit liabilities charged to profit or loss in 2020 and 2019 amounted to ₱9,439,695 and ₱9,843,458, respectively.

14. BILLS PAYABLE

This account is consists of:

	2020	2019
Book Value	₱ -	₱270,000,000
Total	₱ -	₱270,000,000

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 2020 and 2019.

As of December 31, 2020, the bills payable has been fully paid during the year.

Interest expense on bills payable charged to profit or loss in 2020 and 2019 amounted to ₱6,044,167 and ₱1,608,611, respectively.

15. ACCRUED INTEREST, TAXES AND OTHER EXPENSES PAYABLE

This account is consists of:

	2020	2019
Accrued Interest Payable	₱2,162,455	₱2,505,308
Accrued Other Expenses Payable	6,780,251	14,602,396
Total	₱8,942,706	₱17,107,704

Accrued interest payable represents the recognition of interest expense already due on financial liabilities such as deposit liabilities as of December 31, 2020 but subsequently paid in the next accounting period. Accrued other expenses payable are year-end expenses payable on the following year.

16. OTHER LIABILITIES

This account is consists of:

	2020	2019
Accounts Payable	₱1,960,813	₱ 5,947,850
Dividends Payable	-	25,983,946
Premium Payable	391,672	141,387
Withholding Tax Payable	225,150	324,531
Special Guarantee Fund LOI 1242	19,976	19,976
Due to Treasurer of the Philippines	191,355	191,355
Lease Liability (Note 23)	28,752,934	-
Total	₱31,541,900	₱32,609,045

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

Accounts Payable represents various liabilities incurred by the Bank for its own account and the third parties arising from short term indebtedness/obligations still outstanding at the 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 2021.

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

17. 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, 2020 amounted to ₱350,000,000 or 3,500,000 shares with a par value of ₱100 each. Total subscribed ordinary shares amounted to ₱251,930,500 and paid up ordinary shares amounted to ₱251,930,500 as of December 31, 2020.

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:

	2020		2019	
	Shares	Amount	Shares	Amount
Share Capital – ₱100 par value, 3,500,000 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	259,832	25,983,200	-	-
Ordinary Shares at the end of the year	2,519,305	₱251,930,500	2,259,473	₱225,947,300
Subscribed	-	-	-	-
Subscription receivable	-	-	-	-
	2,519,305	₱251,930,500	2,259,473	₱225,947,300

The reconciliation of surplus during the period is as follows:

Retained Earnings - Free

	2020	2019
Balance, Beginning	₱70,405,991	₱52,606,992
Net Income (Loss)	17,541,126	24,509,498
Provision and Adjustments	2,946,872	1,197,657
Dividends Declared	(7,908,156)	(7,908,156)
Balance, Ending	₱82,985,834	₱70,405,991

Retained Earnings - Reserve

	2020	2019
Balance, Beginning	₱1,387,753	₱1,722,075
Provision and Adjustments	(3,916,965)	(334,322)
Transfer from/(to)	-	-
Balance, Ending	₱(2,529,212)	₱1,387,753

The composition of Retained Earnings – Reserve is as follows:

	2020	2019
Retained Earnings – Reserve for Healthcare Fund	₱7,022,194	₱7,022,194
Retained Earnings – Reserve for Defined Benefit Cost - OCI	(9,551,406)	(5,634,441)
Balance, Ending	₱(2,529,212)	₱1,387,753

Cash and Stock Dividends

The Bank declared Cash and Stock Dividends amounting to ₱7,908,156 for the years 2020 and 2019, 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	January 16, 2020	December 31, 2019	February 7, 2020	₱7,908,156
Stock	February 8, 2018	February 8, 2018	February 17, 2020	25,983,200
Cash	February 9, 2019	December 31, 2018	February 21, 2019	7,908,156
Stock	February 8, 2018	February 8, 2018	Upon BSP & SEC approval	₱25,983,940

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, 2020, 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.

Under Section 121: *Minimum Required Capital of 2018 Manual of Regulations for Banks*, 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, 2020 and 2019, the Bank is in compliance with the minimum capitalization requirement set by the BSP.

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

	2020	2019
Tier 1 capital	₱330,362,961	₱ 295,043,820
Tier 2 capital	14,670,829	18,082,730
Total qualifying capital	₱345,033,790	₱ 313,126,550
Risk weighted assets	₱1,856,405,510	₱ 1,760,117,583
Tier 1 capital ratio	17.80%	16.76%
Tier 2 capital ratio	0.79%	1.03%
Total CAR	18.59%	17.79%

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

	2020	2019
A. Calculation of Qualifying Capital		
A.1 Tier 1 Capital		
Core Tier 1 Capital		
Paid-Up Capital - Ordinary	₱251,930,500	₱225,947,300
Retained Earnings	80,456,622	71,793,744
Deductions from Core Tier 1 Capital		
Deferred Tax Asset, Net of Deferred Tax Liability	(2,024,161)	(2,697,223)
Total Tier 1 Capital	330,362,961	295,043,820
A.2 Tier 2 Capital		
General Loan Loss Provisions	14,670,829	18,082,730
Total Upper Tier 2 Capital	14,670,829	18,082,730
TOTAL QUALIFYING CAPITAL	₱345,033,790	₱ 313,126,550

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

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

Financial Performance

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

	2020	2019
A. Return on average equity (ROE)	5.57%	8.48%
B. Return on average assets (ROA)	0.87%	1.29%
C. Net interest margin	5.67%	5.87%
D. Debt to Equity Ratio	4.99:1	5.88:1

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

Return on average equity (ROE)

Formula: ROE = Net Income after Tax / Average Capital

	2020	2019
Net Income	₱17,541,126	₱24,509,498
Average Equity		
2020	332,387,122	
2019	297,741,044	
2019		297,741,044
2018		280,276,367
Total	630,128,166	578,017,411
Average Equity	₱315,064,083	₱289,008,705
Return on Average Equity	5.57%	8.48%

Return on average assets (ROA)

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

	2020	2019
Net Income	₱17,541,126	₱24,509,498
Average Assets		
2020	1,992,492,219	
2019	2,045,523,590	
2019		2,045,523,590
2018		1,766,189,271
Total	4,038,015,808	3,811,712,861
Average Assets	₱2,019,007,904	₱1,905,856,430
Return on Average Assets	0.87%	1.29%

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

	2020	2019
Net Interest Income	₱106,336,503	₱104,043,766
Average Interest Earnings Assets		
2020	1,839,431,591	
2019	1,911,243,588	
2019		1,911,243,588
2018		1,635,133,633
Total	3,750,675,179	3,546,377,220
Average Interest Earnings Assets	₱1,875,337,589	₱1,773,188,610
Net Interest Margin	5.67%	5.87%

Debt to Equity Ratio

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

	2020	2019
Total Liabilities	₱1,660,105,097	₱1,747,782,546
Total Equity	₱332,387,122	₱297,741,044
Debt to Equity Ratio	4.99:1	5.88:1

Capital Instruments

As of December 31, 2020 and 2019, the Bank share capital consist of:

	Shares*	Amount
Share Capital - ₱100 par value		
Authorized	350,000,000	₱3,500,000
Issued and outstanding		
Balance at the beginning and end of the year	251,930,500	₱2,519,305

*Absolute number of shares

There are no capital instruments issued by the Bank in 2020 and 2019.

18. OTHER INCOME

This account is consists of:

	2020	2019
Fees and Commission Income	₱625,404	₱3,784,435
Gains on sale of ROPA	29,027,365	46,749,100
Gains on sale of Transportation & Equipment	-	420,224
Recovery on charged off assets	1,500	81,602
Miscellaneous income	3,840,020	5,029,218
Total	₱33,494,289	₱56,064,579

19. COMPENSATION AND BENEFITS

This account is consists of:

	2020	2019
Salaries and Wages	₱26,368,976	₱29,356,139
Compensation Benefits-Officers and Employees	8,605,245	10,535,578
Director's Fee	2,740,000	2,891,000
SSS, Philhealth and Employees Compensation Premium and PAGIBIG Fund Contribution	3,183,004	2,702,665
Medical, Dental, and Hospitalization	658,582	-
Contribution to Retirement Fund (Note 19)	3,381,524	3,060,172
Total	₱44,937,331	₱48,545,554

20. RETIREMENT BENEFITS

This account is consists of:

The Bank provides contributory defined benefit pension plans for all employees that is qualified for retirement. Provisions for pension obligations are established for benefits payable in the form of retirement pensions and the employees do contributes in the Bank's retirement fund but will be fully withdrawn once resigned or separated. Benefits are dependent on years of service and the respective employee's final compensation. The most recent actuarial valuation was carried out as of December 31, 2020. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the projected unit credit actuarial method.

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:

	2020	2019
Present value of defined benefit obligation	₱29,378,560	₱19,463,643
Fair value of plan assets	(44,019,383)	(39,591,711)
Asset ceiling	1,656,252	4,434,367
Net defined benefit liability (asset)	₱ (12,984,571)	₱ (15,693,701)

The movement in the defined benefit obligation is shown below:

	2020	2019
Present value of defined benefit obligation, beginning	₱19,463,643	₱15,524,084
Interest expense	1,016,002	1,168,964
Current service cost	1,875,645	1,481,662
Benefit paid from Plan assets	(179,156)	(182,204)
Actuarial (gains) losses- changes in financial assumptions	3,638,688	2,416,560
Actuarial (gains) losses- changes in demographic assumptions	108,091	108,188
Actuarial (gains) losses- experience	3,455,647	(1,053,611)
Present value of defined benefit obligation, ending	₱29,378,560	₱19,463,643

The movement in the plan assets is shown below:

	2020	2019
Fair value of plan assets, beginning	₱39,591,711	₱35,507,687
Interest income	2,119,724	2,782,084
Contributions	2,211,232	3,060,172
Benefit paid from plan assets	(179,156)	(182,204)
Remeasurement gain (loss) - return on plan assets	275,872	(1,576,028)
Total	₱44,019,383	₱39,591,711

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

	2020	2019
Current service cost	₱1,875,645	₱1,481,662
Interest cost	1,016,002	1,168,964
Total	₱859,643	₱312,698

The defined benefit cost recognized in the other comprehensive income:

	2020	2019
Accumulated comprehensive income, beginning	₱5,634,441	₱5,300,119
Actuarial (gains) losses- DBO	7,202,426	1,471,137
Remeasurement (gain) loss- plan assets	(275,872)	1,576,028
Remeasurement (gain) loss- changes in the effect of the asset ceiling	(3,009,589)	(2,712,843)
Defined benefit cost in OCI- Expense (Income)	3,916,965	334,322
Accumulated comprehensive income, ending	₱9,551,406	₱5,634,441

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

	2020	2019
Discount rate	3.95%	5.22%
Salary increase rate	7.00%	7.00%

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

	2020	2019
Beginning Net defined liability (Asset)	₱(15,693,701)	₱(13,336,890)
Defined benefit cost recognized in P&L	1,003,397	369,039
Defined benefit cost recognized in OCI	3,916,965	334,322
Contributions	(2,211,232)	(3,060,172)
Closing Net defined liability (asset)	₱(12,984,571)	₱(15,693,701)

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

	2020	2019
a. 1. Decrease in DBO due to 100 bps increase in discount rate	(2,925,560) ;	(1,882,992) ;
	(10.0%)	(9.7%)
2. Increase in DBO due to 100bps decrease in discount rate	3,450,211 ;	2,213,897 ;
	11.7%	11.4%
b. 1. Increase in DBO due to 100bps increase in salary increase rate	3,309,983 ;	2,152,161 ;
	11.3%	11.1%
2. Decrease in DBO due to 100bps decrease in salary increase rate	(2,873,304) ;	(1,870,198) ;
	(9.8%)	(9.6%)
Total	22,024,754 ;	12,789,172 ;
c. Increase in DBO, no attrition rates	75.0%	65.7%

	2020	2019
Allocation of plan assets		
Cash and cash equivalents	92.00%	91.15%
Loans	8.00%	8.85%

21. OTHER OPERATING EXPENSE

This account is consists of:

	2020	2019
Miscellaneous*	₱23,775,564	₱32,498,009
Rental	4,208,901	8,543,143
Insurance expense - PDIC	3,071,623	2,834,056
Security and Messengerial Services	2,663,244	2,630,858
Postage, Telephone, and Telegram	2,637,362	2,526,949
Interest Expense	2,228,451	-
(forward)		

Power, Light, and Water	1,912,636	2,183,222
Documentary Stamps	1,541,148	718,155
Insurance expense - Others	1,457,934	1,111,068
Repair and Maintenance	1,402,998	3,252,702
Stationery and Supplies	1,181,354	983,154
Fuel and Lubrication	706,427	1,044,084
Management and Other Professional Fees	693,990	816,256
Supervision Fees	380,661	341,130
Litigation and Asset Acquired	337,890	122,477
Representation and Entertainment	319,922	1,505,019
Traveling	184,715	1,557,912
Donation	74,247	207,035
Membership Fees and Dues	56,824	54,230
Fines and Penalties	43,250	8,550
Publicity and Advertisement	43,169	1,830,365
Periodicals and Magazines	26,973	44,108
Medical, Dental, and Hospitalization	-	527,866
Total	₱48,949,283	₱ 65,340,348

*Miscellaneous expenses include staff/employee benefits amounting to ₱14,311,882 for the year ended December 31, 2020.

22. DEPRECIATION AND AMORTIZATION EXPENSE

This account is consists of:

	2020	2019
Depreciation Expense – Buildings	₱1,164,392	₱ 798,722
Depreciation Expense - Furniture and Fixtures	3,150,236	2,642,737
Depreciation Expense - Transportation Equipment	1,183,425	850,175
Depreciation Expense – Information Technology	1,299,208	680,043
Depreciation Expense – Leasehold Improvements	2,076,812	2,314,839
Depreciation Expense – ROPA Building	1,927,180	1,379,215
Depreciation Expense - Right of Use Asset	5,227,412	-
Impairment Losses - ROPA	33,001	1
Total	₱16,061,666	₱8,665,732

23. LONG-TERM LEASE

Bank as a lessee

	MINIMUM LEASE PAYMENTS						
	WITHIN 1 YEAR	2-3 YEARS	4-5 YEARS	6-7 YEARS	8-9 YEARS	10 YEARS AND BEYOND	TOTAL
December 31, 2020							
Lease Payments	₱3,580,265	₱5,732,321	₱4,336,093	₱5,408,986	₱7,863,933	₱1,831,336	₱28,752,934
Finance Charges	2,012,705	3,321,519	2,557,181	1,943,523	1,103,342	144,198	11,082,468
Net Present Value	₱5,592,970	₱9,053,840	₱6,893,274	₱7,352,509	₱8,967,275	₱1,975,534	₱39,835,402

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

24. COMMITMENT AND CONTINGENCIES

This account consists of:

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 ₱8,797,786 and ₱14,486,109 as at December 31, 2020 and 2019, respectively.

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 years ended December 31, 2020 and 2019.

25. 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 ₱319,922 and ₱1,505,019 in 2020 and 2019, respectively.

Provision for income tax consists of:

	2020	2019
Current	₱5,844,755	₱ 6,692,055
Deferred	673,063	67,871
Tax Expense reported in Statement of Comprehensive Income	₱6,517,818	₱ 6,759,926

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

Current Tax

	2020	2019
Statutory income tax	₱7,217,683	₱ 9,380,827
Income tax effects of:		
Interest income subject to final tax	(1,049,098)	(2,568,818)
Interest Income from HGC	(1,370,717)	(1,210,316)
Accounts written-off	(29,465)	(67,871)
Interest expense reduced by 33% income subject to final tax	432,753	1,059,637
Non-Deductible Interest Expense and Depreciation	2,236,759	-
Non-Deductible Representation and Entertainment	-	98,596
Lease Payments	(1,593,161)	-
Current tax expense	₱5,844,755	₱ 6,692,055

Computation of Income Tax:

	2020	2019
Net Income before tax per books	₱24,058,944	₱31,269,424
Add: Non-deductible Expenses/Taxable Other Income		
Non-deductible Interest Expense and Depreciation	7,455,863	-
Non-deductible Retirement and Entertainment	-	328,654
Interest expense reduced by 33% income subject to final tax	1,442,509	3,532,125
Total	32,957,316	3,860,779
Less: Non-taxable Income and Income Subjected to Final Tax		
Interest Income Subject to Final Tax	3,496,992	8,562,726
Interest Income under HGC	4,569,055	4,034,389
Accounts written off	98,216	226,237
Lease payments	5,310,535	-
Net Taxable Income	19,482,518	22,306,851
Tax Rate	30%	30%
Normal Corporate Income Tax	5,844,755	6,692,055
Minimum Corporate Income Tax**	1,696,357	1,986,452
Income Tax Due	5,844,755	6,692,055
Less: Tax payments for the previous quarters	1,613,980	2,508,267
Creditable Tax Withheld per BIR Form 2307	582,125	456,080
Income Tax Still Due/(Overpayment)	₱ 3,648,650	₱ 3,727,708

**Below is the computation of Minimum Corporate Income Tax (MCIT) for the years ended December 31, 2020 and 2019.

	2020	2019
Revenue	₱121,820,365	₱115,495,835
Cost of Revenue	62,430,967	59,640,685
Gross Income	59,389,398	55,855,150
Add: Other Income(Note 16)	33,494,289	56,064,579
Less: Interest Income Subjected to Final Tax	3,496,992	8,562,726
Interest Income under HGC	4,569,055	4,034,389
Total Gross Income	84,817,640	99,322,615
MCIT Rate	2%	2%
Minimum Corporate Income Tax	₱1,696,353	₱ 1,986,452

Deferred Tax Asset

As at December 31, 2020 and 2019, net deferred tax assets are as follows:

	2020	2019
Deferred Tax Asset - Beginning	₱5,304,700	₱ 5,372,571
Lease Liability	924,626	-
Used DTA from accounts written-off	(29,465)	(67,871)
	6,199,861	5,304,700
Deferred Tax Liability - Beginning	2,607,477	2,607,477
Right of Use Asset	1,568,223	-
	4,175,700	2,607,477
Net Deferred Tax Assets	₱2,024,161	₱2,697,223

26. RELATED PARTY TRANSACTIONS

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

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

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

Remunerations of Key Management Personnel

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

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

	2020	2019
Short-term employee benefits	₱14,240,271	₱ 12,034,715
Total	₱14,240,271	₱ 12,034,715

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 years ended December 31, 2020 and 2019 that exceeds the limit of ₱500,000 is as follows:

2020			
Name of Related Party	Amount of Transaction	Amount Paid	Outstanding Balance
Priser Trading Corporation	₱7,127,570	₱7,127,570	₱-
Total	₱7,127,570	₱7,127,570	₱-

2019			
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 Bank 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, 2020 and 2019, the Bank is in compliance with the regulatory requirements.

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

2020	DOSRI Loans	Related Party Loans Inclusive of DOSRI
A.1. Outstanding Balance	₱13,196,924	₱23,223,351
A.2. Total Loan Portfolio	₱1,319,299,042	₱1,319,299,042
B. Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1./A.2.)	1.00%	1.76%
C. Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans		
Unsecured	₱-	₱-
Total DOSRI/RP Loan	₱13,196,924	₱23,223,351
	0.00%	0.00%
D. Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans		
Past Due	₱-	₱500,000
Total DOSRI/RP Loan	₱13,196,924	₱23,223,351
	0.00%	2.15%
E. Percentage of Non Performing DOSRI/RP to Total DOSRI/RP Loans		
Non Performing	₱-	₱500,000
Total DOSRI/RP Loan	₱13,196,924	₱23,223,351
	0.00%	2.15%
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%

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, 2020 and 2019, The Bank is in compliant with the maximum aggregate amount and sub-limit that was set by the Bank.

27. 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 less5%
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 2020 consists of taxes on:

Interest income on loans and other related income from lending operations	₱1,694,067
Other income	2,697,511
	₱4,391,578

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, 2020, follow:

Taxes and Licenses

a. Local	
Business Permit	₱512,514
Real Property Tax	73,383
Others	839,593
b. National	
Percentage Tax	4,391,578
Documentary Stamp Tax	-
Annual Registration - BIR	6,500
Total-Taxes and Licenses	₱5,823,568

Withholding taxes in 2020 are categorized into:

Paid:	
Final withholding tax on interest expense	₱2,223,836
Withholding taxes on compensation and benefits	236,252
Expanded withholding tax	1,063,096
	₱3,523,185

Tax Assessments and Cases

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

Revenue Regulation (RR) No 19-2011

The Bank reported the following schedules and information on taxable income and deductible expenses to be taken in 2020:

Sale of Services

The Bank's taxable sale of services amounted to ₱113,748,192 and income subject to final income tax and are exempt from tax amounted to ₱8,066,047 for the year ended December 31, 2020.

Cost of Services

	2020
Details of the Bank's tax deductible cost of services accounts are as follows:	
Direct Charges - Salaries and wages	₱ 44,937,331
Direct Charges - Insurance (PDIC)	3,071,623
Direct Charges – Supervision Fee	380,661
Direct Charges - Interest Expense	15,483,862
Interest expense	
Less: Limit (33% of interest income subj. to final tax)	(1,442,509)
Total	₱ 62,430,968

Itemized Deductions

	2020
Details of the Bank's itemized deductions are as follows:	
Miscellaneous	₱23,775,564
Depreciation expense	10,834,254
Rental	9,519,437
Taxes and Licenses	5,823,568
Security and Messengerial Services	2,663,244
Postage, Telephone, and Telegram	2,637,362
Power, Light, and Water	1,912,636
Documentary Stamps	1,541,148
Insurance expense - Others	1,457,934

Repair and Maintenance	1,402,998
Stationery and Supplies	1,181,354
Fuel and Lubrication	706,427
Management and Other Professional Fees	693,990
Litigation and Asset Acquired	337,890
Representation and Entertainment	319,922
Traveling	184,715
Bad Debts	98,216
Donation	74,247
Membership Fees and Dues	56,824
Fines and Penalties	43,250
Publicity and Advertisement	43,169
Periodicals and Magazines	26,973
Total	₱ 65,335,122

Total Deductible Expense	₱ 127,766,090
Expense Reported in Audited Financial Statements	131,255,710
Difference*	₱ (3,489,620)

*Reconciliation of Difference:

Interest Limit	₱ 1,442,509
Non-deductible Interest Expense and Depreciation	7,455,863
Accounts written-off	(98,216)
Lease Payments	(5,310,536)
	₱ 3,489,620

28. OTHER MATTERS

1. Anti-Money Laundering Act (AMLA)

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

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

29. AGGREGATE AMOUNT OF SECURED LIABILITIES AND ASSETS PLEDGED

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

30. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the previous reporting period year ended December 31, 2019 were reclassified to conform to the current year's presentation of accounts:

Account	As previously reported	Adjustments	Adjusted December 31, 2019
Deferred Tax Asset	₱ 5,304,700	₱ (2,607,477)	₱ 2,697,223
Deferred Tax Liability	₱ 2,607,477	₱ (2,607,477)	₱ -

Deferred Tax Liability is offset to Deferred Tax Assets account in the presentation of the statement of financial position in accordance with PAS 12.

31. LIST OF EFFECTIVE STANDARDS AND INTERPRETATION

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

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Servicing Contracts			✓
	Applicability of the Amendments to PFRS 7 to condensed interim financial statements			✓
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PFRS 9: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 9: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	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				✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
PFRS 11*	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisition of Interests in Joint Operations		✓	
PFRS 12*	Disclosure of Interests in Other Entities with transition guidance	✓		
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	Clarification of the Scope of the Standard			✓
PFRS 13*	Fair Value Measurement	✓		
PFRS 14*	Regulatory Deferral Accounts			✓
PFRS 15*	Revenue from Contracts with Customers	✓		
	Clarifications to PFRS 15	✓		
PFRS 16	Leases	✓		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative		✓	
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosures Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting 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	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
	Plan Amendment, Curtailment or Settlement	✓		
	Defined Benefit Plans: Employee Contributions			✓
	Discount Rate: Regional Market Issue			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates			✓
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Annual Improvements: Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Consolidated and Separate Financial Statements			✓
	Separate Financial Statements			✓
	Amendments to PAS 27: Equity Method on Separate Financial Statements			✓
PAS 28 (Amended)*	Investment in Associates	✓		
	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and Its Associate or Joint Ventures			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation exception			✓
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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
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	<i>Scope of PFRS 2</i>			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PFRS 9: Embedded Derivatives			✓
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
IFRIC 23	Uncertainty over Income Tax Treatments	✓		
SIC-7	Introduction of the Euro			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
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			✓

THE IMPACT OF CORONAVIRUS DISEASE 2019 (COVID-19) ON THE FINANCIAL STATEMENTS

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

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

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

The aforementioned quarantine measures implemented by the national government through the IATF and localized lockdowns implemented by various local government units significantly impacted the Bank's business operations from March 17, 2020 to May 15, 2020, the Bank implemented and adopted some changes and effects on its operation to cope up with the unexpected COVID-19 pandemic are as follows:

- a. The Bank have implemented shortened working hours up to 3 pm from March 23 to May 17, 2020 while under Skeletal Force, we have also adopted skeletal force from March 23 to May 17, 2020 while other personnel were placed on work from home arrangement with Telecommuting Agreement.
- b. Also, adopted the Implementation of IATF health and safety protocols. Preventive measures were taken -wearing of masks, sanitizing, body temperature checks and social distancing.
- c. The Bank also provided transportation to its employees, emergency loans were granted, Hazard pay given to the employees who worked during ECQ.
- d. Implementation of the "Bayanihan to Heal as One Act" and "Bayanihan to Recover as One Act" were causes to higher past due delinquency which resulted to lower net income and interest margins on its investments.
- e. Availment of the BSP Regulatory Relief Package BSP Memorandum M-2020-008:
 - a. exclusion from the computation of past due ratio of the loan borrowers in affected areas which should have been classified as past due under Section 304-303Q of the MORB from March 8, 2020 to September 2020.

The impact of COVID-19 on the Bank's business and operations continue to evolve. The Bank will continue to monitor the situation as of December 31, 2020.