CAMALIG BANK

Let's Redefine Banking

2019 ANNUAL REPORT

COMPANY PROFILE

We are a financial institution committed to support our clients' well-being. We share our clients' aspiration that they are given financial assistance through competitive rates and competent service while ensuring that fiscal discipline is realized.

We give reasonable rates of return for the public's hard earned money as reflected in our savings rates. Special accounts give better proceeds.

We also offer money remittance services to cater to the needs of our Overseas Filipino Workers. We improve our services to go in stride with technological advances.

We consciously practice prudent decision making in all transactions. Corporate good governance is upheld as a way of life.

VISION

We will be the leading financial institution in the Bicol Region by focusing on the following:

- Serving the underserved markets
- Building a robust and dynamic organization
- Building efficient and reliable processes
- Creating a wider reach
- Achieving superior financial performance
- Becoming a trusted rural banking partner

MISSION

To be the trusted partner in providing innovative, accessible and wide reaching financial products and services in the countryside.

CORE VALUES

Relationship. Connect positively.

We value healthy and positive relationships in all our connections and dealings. We listen and communicate openly. We respect diversity, ideas and beliefs among ourselves. We offer personalized service and sincere partnerships to our clients and our community. We value effective teamwork and deep commitment to group decisions and actions. We believe that banking is all about relationship and the greatest reward we can have is when the people we wish to serve choose to bank with us.

Integrity. Be worthy of trust and respect.

We demonstrate Integrity by remaining transparent in our dealings, being consistent, sincere and honest in all the things that we do. We match what we say with our actions. We see the connection of credibility, public trust and long-term success. We formulate sound policies to heighten understanding and professionalism to avoid situations where personal interests may conflict or appear to conflict. Whatever we have to offer, we assure that it is fired with a moral obligation to do business.

Service. Go the extra mile.

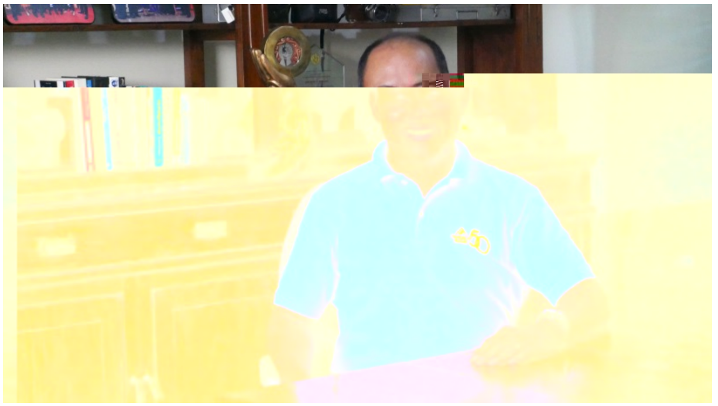
Our clients are the reason for our business. We affirm this through personalized service that always looks for appropriate yet convenient ways of doing business with us. We are responsive, attentive, accessible and reliable when it comes to their financial needs. Most importantly, we value their feedbacks so we can improve our brand of service, elevate it above the competition and satisfy their financial needs.

Excellence. Become better.

We believe that in order to be effective, the Bank must be run efficiently with the highest and superior standards in the industry. Therefore, we go beyond mere compliance and continually challenge ourselves to improve, overcome barriers and remain passionate in what we do. We achieve excellence by seeking the best talent through promotion of personal and professional development and instilling a high level of dedication and professionalism based on shared values.

Stewardship. Create value and do our part.

We put significance in our stewardship role by being passionate and accountable in all our actions and decision. We are committed to create value not only to our business but also to our clients, partners and shareholders. We preserve institutional memory and honor the heritage of our past leaders by building on the foundation that is laid for us. We strive for unity and continuity. We do our part and remain prepared to successfully pass the baton at the right time to the capable hands of the next generation.



The President's Message

Camalig Bank celebrated its Golden Jubilee Year with the tag line, "Let's Redefine Banking." The phrase connotes a collaborative effort to draw out what our clients, partners, personnel, and shareholders want in order to expand our banking services beyond the usual, earlier defined facilities.

Four branch lite units and a regular branch were opened in underserved communities to deepen our reach up to third class municipalities. Likewise, loan products were made readily available to the barangays and funds eventually found their way into spurring local economies. Small and medium enterprises were assisted through expedited loan processes so that additional capital supplemented operational and capital expenditures.

The digital transformation project got into full gear by partnering with Genuisto Philippines, an IT solutions company. It is the bank's goal to have a mobile application that can do numerous financial transactions by year 2020. On the side, the bank consulted with an IT security company to ensure that gaps in information and processes are plugged and strengthened. The regulators were kept abreast and guidance was constantly sought on all these initiatives.

The organization continued to grow. As we increased in number, trainings equipped our personnel so that readiness to promote new bank products would be easy. Regular internal audits and exposure to risk awareness activities ensured that bank procedures were strictly followed and deviation was kept to a minimum. Innovation though was encouraged to bring forth new ideas on doing things creatively, efficiently, and effectively.

On a more somber note, the bank's Chair Emeritus passed on, after years of being a moral guide to the Board. The bank will surely miss Corazon B. Moraleda's valuable insights in good governance.

For our 50th year, we celebrate the partnerships that have helped us grow. We reaffirm our commitment and look forward. The tone of the tagline is inviting and optimistic. The possibilities to do this are endless.

JOSE MISAEL B. MORALEDA
President/Chief Executive Officer

FINANCIAL AND OPERATING HIGHLIGHTS

(in million pesos)

	2019	2018	Change
Resources	1,707.43	1,392.30	23%
Liquid Assets	380.46	315.21	21%
Gross Loans	1,079.03	877.82	23%
Deposit Liabilities	1,085.99	894.50	21%
Equity	301.41	291.02	4%
Net Interest Income	143.54	130.57	10%
Non-Interest Income	26.99	31.98	-16%
Non-Interest Expense	146.65	137.20	7%
Gross Operating Income	190.24	180.55	5%
Pre-provision Profit	23.89	25.35	-6%
Allowance for Credit Losses	27.69	34.12	-19%
Net Profit	17.13	12.95	32%

Key Ratios

	2019	2018
Return on Average Equity	5.78%	4.55%
Return on Average Assets	1.11%	0.99%
Net Interest Margin	13.21%	15.34%
Liquidity Ratio	35.03%	35.24%
Risk-based Capital Adequacy Ratio	15.26%	18.52%
Past Due Ratio	4.71%	5.66%

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The growth in Resources of 23% is due to the organization's combined determination to increase the loan portfolio yearly, coupled with strengthened monitoring credit performances and remedial management measures. The growth in the loan portfolio of 23% brought down our past due ratio from 5.66% to 4.71%. This exhibits the Bank's superior past due ratio status against RB and Coop industry with an average past due ratio of 13.47% as of December 31, 2019.

The significant growth in the deposit portfolio of 21% is a validation of the public trust and confidence of its depositors on Camalig Bank.

The growth in Net Interest Income of 10% represents the sustained increase in loan portfolio; significant increase in interest income is evident in the last month of the fourth quarter. On the other hand, the 16% drop in Non-Interest Income is basically due to the decrease in the Bank's Commissions.

The bank did not book additional provision for losses for the year 2019 because, based on our Loan Loss Methodology, we are able to adequately provide for our non-performing financial assets.

Our year end CAR of 15.26% is above the required regulatory minimum of 10%. This ratio represents our level of capital efficiency as balanced by our liquidity.

BREAKDOWN OF THE COMPONENTS OF THE TIER 1 AND TIER 2 CAPITAL

(Including Deductions)

	Tier 1
Paid up common stock	172.55
Additional Paid-in Capital	0. 09
Retained Earnings	65.29
Undivided Profits	17.13
Other Comprehensive Income	1.34
TOTAL TIER 1	256.41
LESS Deductions from Tier 1 Capital:	
Deferred Tax Asset, net of deferred tax liability	7.88
Net TIER 1	248.52
	Tier 2
Preferred Shares	45.00
General Loan Loss Provision	10.28
TOTAL TIER 2	55.28
LESS Deductions from Tier 2 Capital:	
Sinking fund [redeemable preferred stock with the replacement requirement upon redemption]	37.69
Net TIER 2	17.59
NET TIER 1 and TIER 2 (Total Qualifying Capital)	**266.12**

DEDUCTIONS FROM TIER 1 FIFTY PERCENT (50%) AND TIER 2 FIFTY PERCENT (50%) CAPITAL:

- The bank has no eligible deductions to the above.

Capital Requirements

Credit Risks	1,532.00
Market Risks	-
Operational Risks	211.57
Total Risks Weighted Assets	1,743.57

TIER 1 Capital Adequacy Ratio and Total Capital Adequacy Ratio

TIER 1 Capital Adequacy	
Net TIER 1	248.52
Divided by	
Total Risks Weighted Assets	1,743.57
CAR TIER 1	14.254%

Total Capital Adequacy Ratio	
NET TIER 1 and TIER 2	266.12
Divided by	
Total Risks Weighted Assets	1,743.57
Total CAR	15.26%

Risk Management

Risk appetite and strategy

Camalig Bank has taken an active approach to risk management, ensuring that risks are mitigated and well understood in all cases.

The Board has established minimum and maximum thresholds that serve as guide for measuring different risks, tolerance levels, reviewing other key financial information and developing strategies to manage the Bank's Assets and Liabilities. These are contained in the Board-approved Camalig Bank Asset Liability Management (CALM) program.

Risk exposure

The Bank's CAR and Liquidity position remained strong for 2019. This existing ratio is superior compared to Industry. Liquidity forecasting and controls have regularly been monitored by the ALCO and have continued to improve, taking into consideration the regulatory and operational environments.

The Bank's PD ratio improved from the previous year. PD ratio is below the set soft limits and is superior compared to Industry. Collection and recoveries were made from clients that are unable to meet their loan obligation to reach a satisfactory conclusion while adhering to policy on treating clients fairly. Some accounts are offered with flexible payment schemes to adjust the repayments with their cash cycle and waiver of bank charges.

Loans to deposit is slightly below the minimum threshold but still manageable. There is no over concentration of credit risk to a single borrower. The Bank is well-positioned with regards to its credit concentration levels.

It has been an ongoing challenge for the Bank to fully automate its systems and processes as these increases the exposure to operational risks. The bank continuously aims for strong internal control processes and development of robust technology solutions to enable continued improvements in quality and efficiency of reports and transactions. A partnership with a financial technology has been established end quarter of 2019 to start bringing full digital banking services to Bicol.

The Bank is committed to a high level of compliance to applicable laws, regulations, and standards.

Risk structure

Camalig Bank's risk management structure is designed where roles and responsibilities are defined based on key function areas on the oversight of risk. It is comprised of the Board of Directors, key management positions and committees created and categorized into areas of operation/responsibilities.

The Bank's structure is constantly designed/redesigned not only to be responsive to the needs of the time but also to support the Bank's size with due consideration of its strategic direction while upholding its principles of good corporate governance.

The BOARD has overall responsibility for ensuring effective risk management within the Bank. The Board reviews report and procedures to ensure adherence with the CALM (Camalig Bank Asset and Liability Management) policy.

There are 3 BOD Committees: Audit Committee that monitors the regulatory risks; Corporate Governance and Compensation Committee that evaluates and recommends compensation and other benefits of the Bank's personnel (including officers and directors), as well as corporate governance matters; Risk Management Committee that is responsible for the development and oversight of the Bank's Risk Management Program.

Management Committees have been established to ensure detailed governance of different risk type.

CORPORATE GOVERNANCE

The guiding principles of Camalig Bank's Corporate Governance are summarized into 3S – which also serves as the heart of the Bank's corporate governance framework.

Stewardship

Stewardship spells the principle of "accountability" as one of the primary goals of the Bank when developing policies and procedures and in the conduct of operation. It is the view of the Bank that accountability is not only a proper function in itself but it also plays a critical role in achieving prevention.

Through "accountability" and sense of stewardship, the Bank and its people shall focus to achieve improvements based on self-awareness and empowerment. Taking "accountability" allows the Bank more opportunity to prudently utilize all of its resources for continuing progress and development.

Straightforwardness

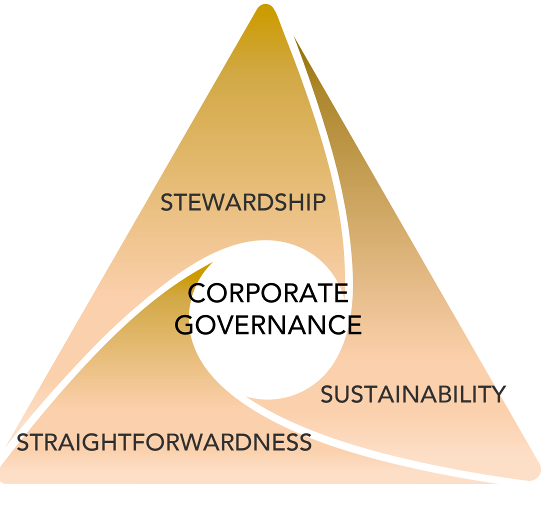
Straightforwardness in all Bank dealings promotes transparency. The Bank views this as a gateway to earning credibility and public trust. Without credibility and trust, the Bank cannot survive.

Through transparency the Bank aims to build trust within its operational environment and ecosystem for its long-term success.

Sustainability

Camalig Bank recognizes that thinking in terms of sustainability hand in hand with social responsibility makes good business sense and strategy. It helps the Bank in coming up with decisions where all sides, economically, socially and environmentally, are considered.

By embracing and being open to new ideas, technologies and methods where the needs of the present and future generations are properly considered if not fulfilled, the Bank's business operation shall be driven towards continuous improvement and excellence.



Board of Directors

- The Bank's Board of Directors is comprised of nine (9) members who are elected by the Bank's stockholders entitled to vote at its annual stockholders' meeting.
- The Board is responsible for ratifying decisions, monitoring and overseeing management action and performance.
- The Board has the duty to act for the Bank and in accordance with their best judgment.
- The Board is responsible for approving and overseeing the Bank's strategic objectives, risk strategy, corporate governance, and corporate values.
- The Board shall foster the long-term success of the Bank, and to sustain its competitiveness and profitability.
- Executive Directors have direct oversight to and manages the day to day operations of the Bank.
- Three Independent Directors serve as Chair to the Risk Management Committee, Audit Committee and Corporate Governance and Compensation Benefit Committee.

Chairman of the Board

The Chairman of the Board presides at all board meetings and ensures that meetings are held in accordance with the Bank's by-laws. He provides leadership in the board, and assists in ensuring compliance with the Bank's corporate governance guidelines. He maintains qualitative and timely communication lines between the board and the management. He also ensures that the board maintains a sound decision-making process.

Board Composition and Other Details

Name	Type of Directorship	No. of years served as Director	Number of Direct Shares Held*	Number of Indirect Shares Held	Percentage of Shares against Outstanding Shares of the Bank
Jose Misael B. Moraleda	Executive	4.5	307,953	1	14%
Geraldine P. Moraleda	Executive	4.5	217,508		10%
Martin Faustino B. Moraleda, M.D.	Non-executive	4.5	305,332		14%
Josefina B. Valer, M.D.	Non-executive	4.5	5,332		0%
Ana Maria B. Moraleda	Non-executive	4.5	305,324		14%
Atty. Ferdinand M. Casis	Independent	4.5	1		0%
Atty. Andres David M. Bolinas	Non-executive	4.5	1		0%
Rogelio A. Encinas, CPA	Independent	3.25	1		0%
Fr. Jose Victor E. Lobrigo	Independent	1.67	1		0%

BOARD QUALIFICATIONS

From left to right: Fr. Jose Victor E. Lobrigo, Josefina B. Valer, MD, Atty. Ferdinand M. Casis, Jose Misael B. Moraleda, Martin Faustino B. Moraleda, MD, Atty. Andres David M. Bolinas, Ana Maria B. Moraleda, Geraldine P. Moraleda, Rogelio A. Encinas

Fr. Jose Victor E. Lobrigo

Filipino, 55 years old
Previous affiliation: Social Action Center – Archdiocese of Legazpi; SEDP-Simbag sa Pag-Asenso; National Electrification Administration;
Concurrent directorship/officership: Evangelion Foundation; Bicol Consortium for Development Initiatives; Microfinance Council of the Philippines; National Microfinance Regulatory Council; SEDP Multipurpose Cooperative; SEDP- Simbag sa Pag-Asenso

Josefina B Valer, MD

Filipino, 60 years old
Previous affiliation: JP Rizal Hospital
Concurrent directorship/officership: Lagonoy High School

Atty. Ferdinand M. Casis

Filipino, 60 years old.
Previous affiliation: NEC Multipurpose Cooperative; Department of Agrarian Reform
Concurrent directorship/officership: Sentro ng Alternatibong Lingap Panlegal; National Conferderation of Cooperatives; K-Cooperatives

Jose Misael B. Moraleda
Filipino, 54 years old
Previous affiliation: Social Action Center - Archdiocese of Legazpi; Albay Chamber of Commerce and Industry
Concurrent directorship/officership: Ammin Holdings, Inc.; FC Moraleda, Inc.; Ayuda de Manos, Inc.; Sacred Heart Clinic Legazpi City, Inc.; Rural Bankers Research & Development Foundation, Inc.

Martin Faustino B. Moraleda, MD
Filipino, 56 years old
Previous affiliation: Lourdes Hospital
Concurrent directorship/officership: FC Moraleda, Inc.; Ammin Holdings, Inc.; Sacred Heart Clinic Legazpi City, Inc.; Estevez Memorial Hospital; Bicol Regional Training and Teaching Hospital

Atty. Andres David M. Bolinas
Filipino, 46 years old
Previous affiliation: Air Philippines Corp.; Lafarge Iligan, Inc.; Lafarge Mindanao, Inc.
Concurrent directorship/officership: Republic Cement Land & Resources, Inc.; Republic Cement Mindanao, Inc.; Republic Cement Iligan, Inc.; PVLB, Inc.

Ana Maria B. Moraleda
Filipino, 52 years old
Previous affiliation: Fort Bonifacio Development Corp.; The Manor, Camp John Hay; Fil-Estate Group of Campanies; Mareco Broadcasting Network
Concurrent directorship/officership: Ammin Holdings, Inc.; PVLB, Inc.; Philippine Transmarine Carriers, Inc.

Geraldine P. Moraleda
Filipino, 50 years old
Previous affiliation: Ateneo Center of Social Policy & Public Affairs; Philippine Business for Social Progress; Urban Bank
Concurrent directorship/officership: Ayuda de Manos, Inc.

Rogelio A. Encinas, CPA
Filipino, 70 years old
Previous affiliation: Banko Sentral ng Pilipinas

Board Administration

The Board implements and accomplishes an annual self-rating system that measures the performance of the board and the senior management.

Each new member of the board is required to undergo an orientation and a corporate governance seminar within three (3) months from date of election/ appointment. To maintain a current and effective board, all members are encouraged to attend at least one (1) training or seminar relevant to the banking operation per year.

The Bank's Corporate Governance Manual provides the succession procedures in cases of planned and unplanned separation of a BOD member. The policy and procedures are subject for review annually.

The regular term of a director shall be for one (1) year from the date of his/her election to the succeeding regular annual meeting of the stockholders of the Bank or until his/her successor shall have been elected and qualified to take his/her place at said annual meeting.

The average age of the current Board of Directors is only 55. The retirement age of the Board is at 80 but this will not preclude the Bank to consider cases where a member of the Board goes beyond the retirement age but can still actively participate and contribute to the Bank's administration.

Compensation, which may be in various forms, is fixed by a Board resolution, pursuant to the Bank's By-Laws that state, "By resolution of the Board, each director shall be entitled to receive from the Bank, fees and other compensation for his services as director taking into proper consideration the responsibilities and scope of work required for the Bank's size. However, the total yearly compensation of the directors shall not be more than ten (10%) of the net income before income tax of the corporation during the preceding year." The Executive Directors who are also officers receive remunerations as officer and not as director. Remuneration of officers follows the Bank's pay structure as approved by the Board.

The Bank chooses individuals with sufficient banking knowledge to serve as members of the Board and senior management through a critical nomination process, following a set of criteria and qualifications, to ensure that they are fit and proper for the position.

	Name of Directors	Board No. of Meetings	
		Attended	%
1	Jose Misael B. Moraleda	13	100%
2	Geraldine P. Moraleda	12	92%
3	Martin Faustino B. Moraleda, M.D.	12	92%
4	Josefina B. Valer, M.D.	11	85%
5	Ana Maria B. Moraleda	12	92%
6	Atty. Andres David M. Bolinas	10	77%
7	Atty. Ferdinand M. Casis	11	85%
8	Rogelio A. Encinas, CPA	13	100%
9	Fr. Jose Victor E. Lobrigo	12	92%
Total Number of Meetings Held During the Year		13	

Board Committee Meetings

	Name of Directors	Corporate Governance and Compensation Committee No. of Meetings		Audit Committee No. of Meetings		Risk Management Committee No. of Meetings	
		Attended	%	Attended	%	Attended	%
1	Jose Misael B. Moraleda						
2	Geraldine P. Moraleda						
3	Martin Faustino B. Moraleda, M.D.					M - 4	80%
4	Josefina B. Valer, M.D.						
5	Ana Maria B. Moraleda						
6	Atty. Ferdinand M. Casis			M - 8	89%	CM - 5	100%
7	Atty. Andres David M. Bolinas	M - 1	100%	M - 7	78%		
8	Rogelio A. Encinas, CPA	M - 1	CM - 100%	CM - 9	100%		
9	Fr. Jose Victor E. Lobrigo	CM - 1	100%			M - 5	100%
Total Number of Meetings Held During the Year*		**1**		**9**		**5**	

*actual meeting as Board committee, the rest of the meetings were conducted in an En Banc session
M = Member
C = Chair

Major Stockholders

Name	Nationality	Percentage of Stockholdings	Voting Status
Jose Misael B. Moraleda	Filipino	14%	Current
Martin Faustino B. Moraleda	Filipino	14%	Current
Ma. Celeste B. Moraleda	Filipino	14%	Current
Ana Maria B. Moraleda	Filipino	14%	Current
Geraldine P. Moraleda	Filipino	10%	Current

Performance Assessment

The Bank aims to recruit, maintain, and motivate a group of highly productive individuals. It also aims to keep and nurture energized leaders and the right people who are passionate, professional and share the same values with the Bank. On this ground, the Bank is committed to extend salaries that are equitable, commensurate and competitive. Performance, of both the individual and the Bank, is the foundation for all the Bank's compensation policies. Essentially, the compensation mechanism of the Bank involves the following objectives:

To reward performance according to merit. This involves recognizing and rewarding personal achievement of institutional and individual goals.

To establish and maintain internal consistency and equity within each business unit/office/department. The position evaluation and salary administration policies ensure that the Camalig Bankers who perform their functions exceptionally (i.e. substantially equal in responsibility, personal demands and expertise) are given commensurate pay levels.

To maintain a competitive position within the marketplace. This is accomplished through participation in market surveys and other sampling techniques reflecting compensation practices among leading banks, comparable companies, and other similar organizations.

To control costs according to the Bank's budget. The Bank recognizes the vital role of a well-structured salary program. Individual excellence and innovation is highly encouraged. As such, basic compensation policies and procedures are implemented to ensure that Camalig Bankers are fairly and consistently rewarded according to individual performance.

All Camalig Bankers, including its Senior Officers, are required to submit their Performance Appraisal Report every last quarter of each year. This is one of the basis for promotion and merit increase. For Senior Officers and highly compensated management officers, the promotion and remuneration is duly approved by the Bank's Board of Directors based on the Bank's payscale.

Every year, the Training Officer conducts a training needs analysis both for the Bank and its employees. After which, a training plan for the following fiscal year will be prepared together with the corresponding budget. All personnel including the senior management are highly encouraged to undergo further education or attend to at least one training every year.

Independent Function

Independent Directors

The Bank has three (3) independent directors. They are selected based on their ability to exercise impartiality and sound judgment which are independent from the views of senior management.

Internal Audit

The Internal Audit Department implements the Bank's Audit Program. It reports directly to the Audit Committee. The adequacy and effectiveness of the Bank's internal control system is periodically reviewed and changes are recommended, if any, by the Department Head.

Compliance Department

The Bank's Compliance Department designs and implements the Bank's Compliance System. It reports directly to the Corporate Governance and Compensation Committee and whenever necessary, to Audit Committee and Risk Management Committee

Related Party Transactions

The Bank strictly implements its policy on related party transactions to avoid or mitigate risks of conflict of interest and abuse that are disadvantageous to the Bank and its depositors, creditors and other stakeholders.

The policy on Related Party Transactions is in conjunction with the following existing policies:

- Code of Conduct and Ethical Policy
- Conflict of Interest Policy
- Policy on Lending to DOSRI
- Whistleblowing Policy

On the reported material related party transaction with FC Moraleda which was submitted to the BSP on 2018, details of which were as follows:

1. Sale of two parcels of land covered by TCT Nos. 15020 and 14969 containing an area of 150 sqm together with its improvements. The properties are located at Salvacion, Virac, Catanduanes in the amount of Php 3.2M.
2. The properties mentioned above are presently under a 10-year Contract of Lease which will expire on September 30, 2028. Initial rent is P33,750 exclusive of taxes with escalation of 5% which will start on the 4th year from October 01, 2018.

There is no material related party transaction for the year ending 2019.

Dividend Policy

The Bank is compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital, except when the Bank is prohibited by the BSP or any FI / creditor to do so without consent; or when such retention is necessary for special circumstances, such as the need for special reserves; or when justified by definite and approved corporate expansion projects or programs. In 2019, no dividends were declared for the common shares. However, dividends were distributed for the preferred shares.

Anti-money Laundering Governance

The Bank has established an AML Program with a duly approved written Manual of Operation containing among others the following salient provisions: defined duties and responsibilities, customer identification process (Cash Operations Manual), reporting system, record-keeping guidelines and disposal procedures and training program.

In 2019, the Bank has been working on the full compliance to the regulatory requirements on beneficial ownership and digitization of records as can be gleaned from the upgrading of its core banking systems.

Independent review and testing on the Bank's AML compliance is regularly and prudently implemented.

AML trainings were conducted twice in the Orientation Seminar on Banking, thrice in the Inter-Unit Resource Sharing, BSP AMLA Training for the new Compliance Associate and CCO and separate training for Alternate Users in reporting was held and included in the modules of the Supervisory Training Program (STP) of the Bank.

Data Privacy

The Bank has a Data Privacy Officer / Information Security Officer to effectively oversee and manage the implementation of policies and processes on privacy and security of information handled by the Bank in compliance with the requirements of Republic Act No. 10173, also known as the Data Privacy Act (DPA).

Consumer Protection

The Board is responsible for ensuring that the Bank has an updated consumer protection compliance program which is embedded in the Bank's business operations. It shall demand to be apprised of consumer protection current trends, regulatory updates, exceptions to related Bank policies and amendments thereto.

A Consumer Support Unit is placed in the Bank's organizational structure and positioned under the Corporate Affairs Department (CAD) to centrally address and manage the Bank's consumer protection compliance. The primary objective of the Bank's consumer protection program is to reduce regulatory violations and protect consumers from non-compliance and associated harms or loss.

The risk management structure of the Bank on financial consumer protection is designed where roles and responsibilities are defined based on key function areas on the oversight of risks. A risk process map is in place to guide the organization.

Camalig Bank recognizes the significance of an effective risk management program for financial consumer protection that would identify risks at the onset before they become full blown problems. Likewise, the program is analyzed so as to determine eventual impact, probability, and time frame and to classify and prioritize risks according to desired action. Risks are reported and handled based on the risk rating. A risk grid with reporting party and business unit concerned is in place to guide the organization.

To ensure at the minimum that the Bank complies with regulatory standards and requirements, the overall assessment of the Consumer Protection Compliance Program is primarily based on the regulatory risk grid and corresponding assessment base.

In 2019, 48 simple complaints were received all of which were complaints on our third party provider. 38 were ATM complaints while 10 were POS-related complaints. All were resolved. There were no major complaints received for the year.

Corporate Social Responsibility

The Bank through and with the Camalig Bank Foundation, Inc. is active on the following undertakings or programs:

- Scholarship Program (20 current scholars)
- Financial Literacy Program (252 participants in 4 seminars conducted)
- Donation of Books and Reading Materials (9 boxes to 2 schools)
- Disaster Preparedness and Risk Program (55 participants in the lecture and 9 media packs given to 3 radio stations)
- Soup Kitchen Activity to Indigenous People affected by Typhoon Usman (200 individuals)
- Christmas Gift Giving (50 indigent families and 15 selected kids)

Company Information

Organizational Structure

The Bank management believes that its organizational structure should enhance rightsizing, promote decentralization of duties, streamline cross-functional teams, improve career-pathing and reinforce internal housekeeping programs.

The Bank's present organizational structure shall remain flexible to accommodate any adjustments to enhance the Bank's chances of achieving its established goals and objectives.

Corporate Office

The Corporate Office acts as the headquarters of the Bank where important functions are coordinated for the overall success of the organization. It plays a major role in the following areas of Bank management and/or operation: (1)Promoting good corporate governance across the organization; (2) Harnessing economy of scale through the balance of efficiency and effectiveness; (3) Driving of the Bank's competitive advantage towards the achievement of business goals; and (4) Delivering shared services for support and back-office functions.

Functional Groups

- Independent Group
- Relationship Management Group
- Product and Services Management Group
- Support and Delivery Management Group

Branch Banking Group

This group is composed of the Bank's branches which is divided into two (2) geographical groups each headed by a Group Head.

The Bank has 21 offices across Bicol Region, and as of 31 December 2019, with 1 Corporate/Head Office, 15 branches and 5 branch-lite units. (Please visit our official website, www.camaligbank.com.ph for the complete list of Camalig Bank branches.)

Officers and officers-in-charge

Name	Position
Jose Misael B. Moraleda	President/Chief Executive Officer
Geraldine P. Moraleda	Chief Operations Officer
Johanna B. Monis	Corporate Secretary / Head – Corporate Affairs Department
Jo-Ann T. Pontanes	Head – Compliance Department
Josephine V. Dino	Head – Risk Management Department
Rosemarie O. Dado	Head – Remedial and Assets Management Department
Clarice M. Aragon	Head – Internal Audit Department
Ninette B. Banzuela	Head – Human Resource Management Department
Agnes Chona Magno-de la Cruz	Head – Training, Development, and Recruitment Unit
Ann G. Loretcha	HR Officer
Michael T. Fernandez	Head – Finance Department / Treasurer
Ma. Celeste B. Moraleda	Head – Information Technology Department
Dominic A. Adra	Head – Cash Operations Unit
Francis Y. Egar	Head- Credit Department
Kristian R. Belaguin	Head – Central Clearing and Settlements Unit
Cristopher A. Manalo	Head- Credit Monitoring Unit
Jeffrey F. Zamora	Special Project Officer for LLM/Data Privacy Officer
Leizel M. Patacsil	Executive Assistant to CEO/Consumer Support Officer
Shiela M. Sesno	Head- Central Accounting Unit/Financial Planning and Control Unit
Editha Luna B. Advincula	Head – Business Development Department
Majel Joy B. Oriarte	Head – Deposit and Other Banking Services
Ferdinand B. Baliuag	Head – General Services Department
Jose M. Amaranto	Security Officer

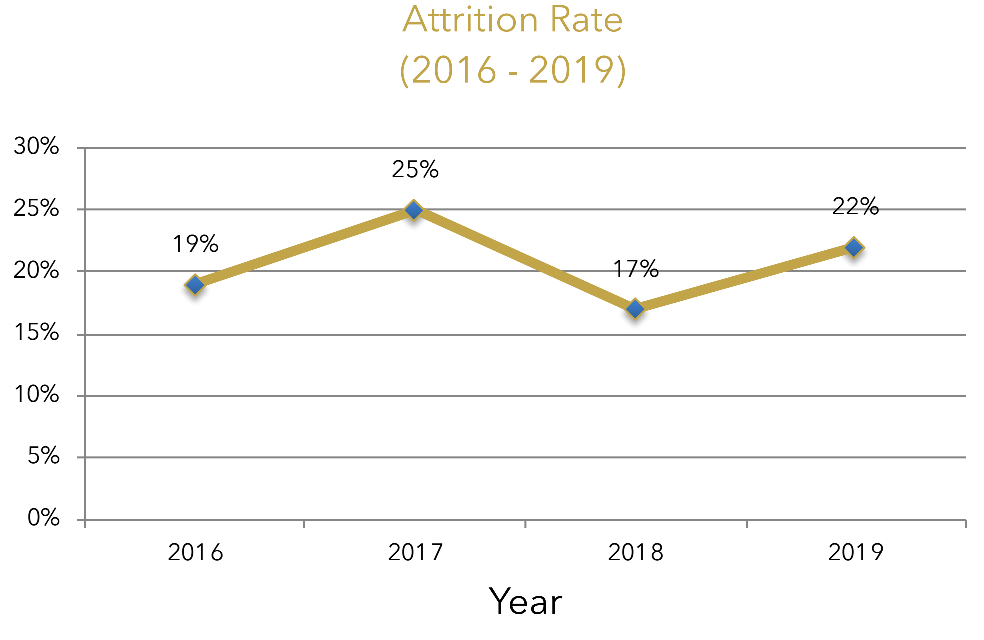
Officers and officers-in-charge

Name	Position
Lhea R. Adra	Head – Branch Banking Group 1 / Branch Manager – Daraga Office
Jonalyn L. Mirafuentes	Head – Branch Banking Group 2
Maria Rosewin N. Napay	Branch Manager – Tabaco City Office
Remedios D. Domo	Branch Manager – Head Office
Mario B. Faura, Jr.	Branch Manager – Manito BLU
Michelle G. Alvarez	Branch Manager – Camalig Office
Mary Grace G. Laciste	Branch Manager – Sorsogon City Office/Castilla Branchlite
Joanne Beda A. Rosacay	Branch Manager – Iriga City Office
Djohanna T. Alcaide	Branch Manager – Ocampo Office
Mary Ann A. Pante	Branch Manager – Milaor Office
Ma. Vithany T. Molet	Branch Manager – San Andres Office
Kathleen T. Muñoz	Branch Manager – Virac Office/Viga Branchlite
Alexis M. Torremana	Branch Manager – Masbate City Office
Sheryll L. Navarro	Branch Manager – Masbate City Office/Cataingan Branchlite
Marco Antonio C. Rivera	OIC Branch Manager – Daet Office
Sheryl E. Macasinag	OIC Branch Manager – Irosin Office
Hennan R. Huab	OIC Branch Manager – Bulan Office
Michelle A. Colaway	OIC Branch Manager – Ragay Office/Del Gallego Branchlite
Marygem T. Cristobal	OIC-Asst. Manager – Legazpi Office

Number of Employees per Rank

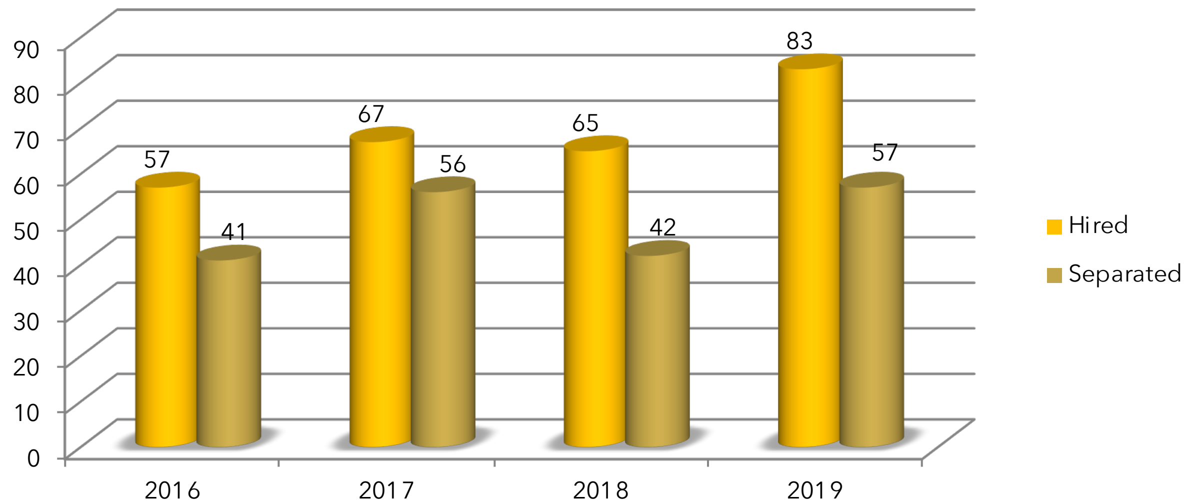
Year	Rank and File	Supervisor	Officer	Total
2016	154	31	32	217
2017	153	38	32	223
2018	170	45	31	246
2019	195	43	36	274

Attrition Rate (%)



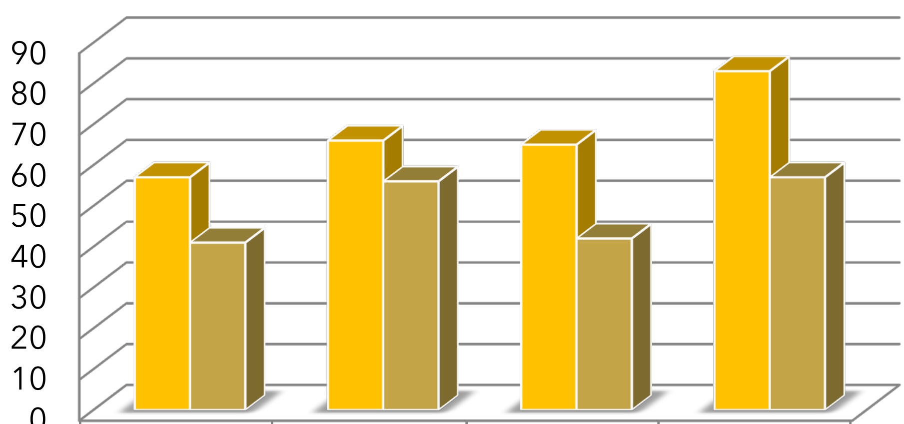
Attrition Rate (Number)

Overall Attrition Rate
(For the Last Four Years)



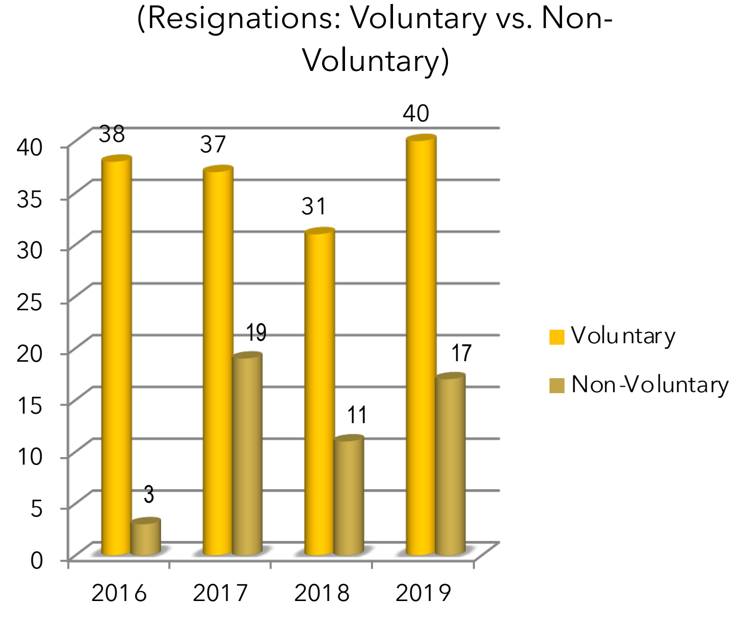
Recruitment

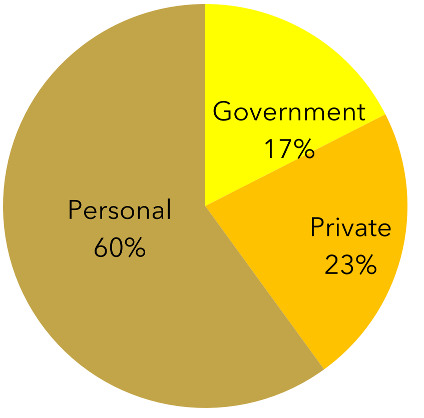
Number of Personnel Hired & Resigned from 2016 to 2019



	2016	2017	2018	2019
	Year			
Hired	57	66	65	83
Resigned	41	56	42	57

Resignations





Training

2019 Internal Trainings				
Internal Trainings based on approved 2019 Training Calendar	Internal Trainings conducted based on approved 2019 Training Calendar as scheduled	Internal Trainings conducted based on approved 2019 Training Calendar re-scheduled	Internal Trainings conducted but merged with other trainings/seminars based on approved 2019 Training Calendar	Internal Trainings not included in the approved 2019 Training Calendar but conducted
32	19	10	3	21

2019 External Trainings				
External Trainings based on approved 2019 Training Calendar	External Trainings attended based on approved 2019 Training Calendar	External Trainings deferred/cancelled based on approved 2019 Training Calendar	External Trainings not included in the approved 2019 Training Calendar but attended	Other Enagagements/Activities not included in the approved 2019 Training Calendar but attended
21	5	16	33	11

Promotions

AVPs

1. Rosemarie O. Dado
2. Josephine V. Dino
3. Johanna B. Monis
4. Jo-Ann T. Pontanes

Senior Manager – Junior Assistant Manager

1. Jonalyn L. Mirafuentes
2. Ferdinand B. Baliuag
3. Alexis M. Torremana Jr.
4. Mary Ann A. Pante
5. Shiela M. Sesno
6. Ann G. Loretcha
7. Leizel M. Patacsil
8. Mary Grace G. Laciste

Supervisor

1. Ronnel A. Mesa
2. Lalynfrancis A. Landong
3. Jannen E. Asaldo
4. Mary Joy B. Realoza
5. Marygem T. Cristobal
6. John Paul S. Maldea
7. Rizza Mae A. Marcayda
8. Miel Ryan H. Senson
9. Junko James T. Mamansag
10. Wennelyn N. Nuyles
11. Joseph Angelo T. Leonardo
12. Catherine B. Baroma

Deposit Products

Deposit Accounts

Savings
- Blue Account
- Yellow Account
- Rainbow Account
- Green Account
- Red Account (BDA)
- BB Account
- Orange Account
- Orange Account with Term

Time Deposits
- Gold Account
- Gold Five Account

Checking Account
- UV Account

Loan Products

Group Accounts
- DepEd
- Elementary/HS
- Autonomous Schools
- LGUs
- Barangays
- Other Government Offices
- Private School
- Other Private Offices

Individual Loans
- Gintong Puhunan
- Angat Negosyo
- Bayanihang Bayanihan
- Loanadan Program
- Pure-It Loan
- Agricultural Loan
- Personal Consumption Loans

Microfinance Loans
mSME Loans
OFW Loan
Car Loan/Chattel Mortgage

Other Products and Services

Micro Insurance (CB Kalinga)

ATM powered by DBP
Bills Payment via 3rd party (RuralNet)

Remittance Facilities (Western Union)

SSS & Philhealth Accredited Collecting Agent
SSS Pension Payment Program
Point-of-Sale Terminal (BDO)
Conduit Partner of LBP re: CCT payouts

AUDITED FINANCIAL STATEMENTS

Statement of Management's Responsibility for Financial Statements

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

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

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

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

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

Alas, Oplas & Co., CPAs, the independent auditor appointed by the stockholders for the years ended December 31, 2019 and 2018, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

MARTIN FAUSTINO B. MORALEDA
Chairman of the Board

JOSE MISAEL B. MORALEDA
President / CEO

MICHAEL T. FERNANDEZ
Head- Finance Department / Treasurer

Signed this 20th day of June 2020

CORPORATE OFFICE: Rizal Street, Legazpi City, 4500
Telefax (052) 480 0801 • Tel: (052) 480 0810 • Cel. No. (63) 917 595 6045
www.camaligbank.com.ph

Alas Oplas & Co., CPAs

8/F Richmonde Plaza, San Miguel Avenue
corner Lourdes Drive, Ortigas Center,
Pasig City Philippines 1605
Phone No.: (02) 8535-5029
Email: aocortigasbranch@alasoplascpas.com

23/F Philippine AXA Life Centre
1286 Sen. Gil Puyat Avenue
Makati City, Philippines 1200
Phone No.: (632) 7759-5090 | (632) 8889-1861
Email: aocheadoffice@alasoplascpas.com
www.alasoplascpas.com

Independent Member of
BKR International

INDEPENDENT AUDITORS' REPORT

JUN 24 2020

To the Stockholders and the Board of Directors
CAMALIG BANK, INC. (A RURAL BANK)
Rizal Street., Ilawod East, Legazpi City,
Albay, Philippines

Qualified Opinion

We have audited the financial statements of **CAMALIG BANK, INC. (A RURAL BANK)** (the "Bank") which comprise the statements of financial position as of December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effect on the financial statements of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Qualified Opinion

As discussed in Note 3 to the financial statements, the Bank opted not to use PFRS 16, *Leases*, which is effective starting January 1, 2019 and still continued to apply PAS 17, *Leases* in accounting for its lease transactions. The new standard introduces a single lessee accounting model that requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases, unless the underlying asset is of low value and the lease is short-term. Had the Bank opted to use the provisions of the new standard, ₱16,498,168 and ₱17,143,256 would have been recognized for the right-of use assets and lease liabilities, respectively, as of December 31, 2019. Total equity and profit would have decreased by ₱451,562 as of and for the year ended December 31, 2019, respectively.

Also, as discussed in Note 25 to the financial statements, the Bank recognizes the present value of retirement benefit obligation and the related current service cost and past service cost using the projected unit credit method. However, in 2019, the Bank opted to retain the previous result of the actuarial valuation of plan assets and present value of the retirement benefit obligation conducted on March 1, 2018. Had the Bank recognized the movement in the actuarial report using the current actuarial valuation report dated January 24, 2020, total assets and liabilities would have increased by ₱7,478 and ₱8,413,928 as of December 31, 2019, respectively. Total equity and profit would have decreased by ₱8,406,450 and ₱2,115,472 as of and for the year ended December 31, 2019, respectively.

As discussed in Note 4 to the financial statements, during the year, the Bank already adopted the requirements of recognizing allowance for credit losses in accordance with PFRSs. Under the PFRSs, allowance for credit losses shall be recognized 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 to the asset's original effective interest rate, otherwise known as, the expected credit losses (ECL) principles. The Bank previously recognized allowance for credit losses based on the provisions of Appendix 15 of the BSP Manual of Regulations for Banks, which became one of the bases for qualified opinion for the year ended December 31, 2018.

Alas Oplas & Co., CPAs

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Alas Oplas & Co., CPAs

The Supplementary Information Required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations Nos. 15-2010 and 19-2011

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary Information required under BSP Circular No. 1074 in Note 35, and Revenue Regulations Nos. 15-2010 and 19-2011 on taxes, duties and license fees paid or accrued during the taxable year, taxable income, and deductions in Notes 33 and 34 to the financial statements, are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of **CAMALIG BANK, INC. (A RURAL BANK)** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from September 4, 2019 to October 30, 2022
SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 002-013-406-000
BIR A.N. 08-001026-000-2018, issued on January 25, 2018; effective until January 24, 2021

By:

DANILO T. ALAS
Partner
CPA License No. 0027120
SEC A.N. (Individual) 1529-AR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 132-466-021-000
BIR A.N. 08-001026-001-2018, issued on January 25, 2018; effective until January 24, 2021
PTR No. 8117109, issued on January 2, 2020, Makati City

June 20, 2020
Makati City, Philippines

Statements of Financial Position

CAMALIG BANK, INC. (A RURAL BANK)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 and 2018
In Philippine Peso

JUN 25 2020

	Notes	2019	2018
ASSETS			
Cash and other cash items	8	**16,936,611**	9,119,612
Due from Bangko Sentral ng Pilipinas	8	**35,950,966**	30,658,844
Due from other banks	8	**327,571,303**	260,199,309
Investment securities at amortized cost	9	–	–
Held-to-maturity investments	9	–	15,225,283
Loans and receivables – net	10	**1,051,339,522**	843,700,586
Bank premises, furniture, fixtures and equipment – net	11	**134,146,692**	129,610,373
Intangible assets – net	12	**9,406,869**	5,784,962
Assets held for sale	13	**1,315,019**	939,669
Deferred tax assets	28	**8,712,304**	10,638,424
Other assets	14	**122,052,894**	86,424,199
TOTAL ASSETS		**1,707,432,180**	1,392,301,261
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	15	**1,085,999,254**	894,499,875
Due to the Treasurer of the Philippines	16	**512,175**	99,081
Bills payable	17	**255,046,950**	130,390,520
Accrued taxes, interest and other expenses	18	**7,971,713**	12,492,395
Income tax payable		**1,153,212**	2,247,325
Deferred tax liability	28	**829,682**	829,682
Other liabilities	19	**54,513,748**	60,717,859
Total Liabilities		**1,406,026,734**	1,101,276,737
EQUITY			
Capital stock	21	**217,552,200**	217,552,200
Additional paid-in capital	21	**90,914**	90,914
Surplus free	22	**34,303,225**	32,922,303
Surplus reserve	22	**48,119,439**	39,119,439
Actuarial gain on defined benefit obligation – net	25	**1,339,668**	1,339,668
Total Equity		**301,405,446**	291,024,524
TOTAL LIABILITIES AND EQUITY		**1,707,432,180**	1,392,301,261

See Notes to Financial Statements.

JUN 24 2020

Statements of Comprehensive Income

Camalig Bank, Inc. (A Rural Bank)
For the years ended December 31, 2019 & 2018
In Philippine Peso

	Notes	2019	2018
INTEREST INCOME			
Deposits with banks	8	617,724	473,223
Investment	9	1,730,176	1,148,593
Loans and receivables	10	160,893,998	146,945,245
		163,241,898	148,567,061
INTEREST EXPENSE			
Deposits	15	(13,495,398)	(14,637,477)
Bills payable	17	(6,208,344)	(3,362,308)
		(19,703,742)	(17,999,785)
NET INTEREST INCOME		143,538,156	130,567,276
PROVISION FOR CREDIT LOSSES	10,14	–	(12,396,000)
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		143,538,156	118,171,276
OTHER OPERATING INCOME	23	26,998,164	31,978,427
OTHER OPERATING EXPENSES	24	(146,650,133)	(132,044,828)
PROFIT BEFORE TAX		23,886,187	18,104,875
INCOME TAX EXPENSE	27	(6,755,265)	(5,145,618)
PROFIT		17,130,922	12,959,257
OTHER COMPREHENSIVE INCOME			
Item that will not be reclassified to profit or loss:			
Actuarial gain on defined benefit obligation – net of tax	25	–	–
TOTAL COMPREHENSIVE INCOME		17,130,922	12,959,257

See Notes to Financial Statements

Statements of Changes in Equity

Camalig Bank, Inc. (A Rural Bank)
For the years ended December 31, 2019 & 2018
In Philippine Peso

	Common stock (Note 21)	Preferred stock (Note 21)	Additional paid – up capital (Note 21)	Surplus Free (Note 22)	Surplus Reserve (Note 22)	Other comprehensive income (Note 25)	Total
Balance at December 31, 2017	**172,552,200**	**45,000,000**	**90,914**	**37,963,046**	**21,119,439**	**1,339,668**	**278,065,267**
Comprehensive income							
Profit	–	–	–	12,959,257	–	–	12,959,257
Actuarial gain on defined benefit obligation – net	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	12,959,257	–	–	12,959,257
Transactions with owners							
Transfer to surplus reserves	–	–	–	(18,000,000)	18,000,000	–	–
Balance at December 31, 2018	**172,552,200**	**45,000,000**	**90,914**	**32,922,303**	**39,119,439**	**1,339,668**	**291,024,524**
Comprehensive income							
Profit	–	–	–	17,130,922	–	–	17,130,922
Actuarial gain on defined benefit obligation – net	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	17,130,922	–	–	17,130,922
Transactions with owners							
Dividends declared	–	–	–	(6,750,000)	–	–	(6,750,000)
Transfer to surplus reserves	–	–	–	(9,000,000)	9,000,000	–	–
Total transactions with owners	–	–	–	(15,750,000)	9,000,000	–	(6,750,000)
Balance at December 31, 2019	**172,552,200**	**45,000,000**	**90,914**	**34,303,225**	**48,119,439**	**1,339,668**	**301,405,446**

See Notes to Financial Statements

JUN 2 4 2020

Statements of Cash Flows

Camalig Bank, Inc. (A Rural Bank)
For the years ended December 31, 2019 & 2018
In Philippine Peso

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**23,886,187**	18,104,875
Adjustments for:			
Depreciation	11,24	**13,804,798**	11,229,599
Interest expense	17	**6,208,344**	3,362,308
Interest income	8,9	**(2,347,900)**	(1,621,816)
Amortization	12,24	**1,094,263**	978,633
Gain on sale of non-financial assets	11,13	**(280,206)**	(394,944)
Provision for credit losses	10,14	**–**	12,396,000
Operating cash flows before working capital changes		**42,365,486**	44,054,655
Increase in operating assets:			
Loans and receivables		**(208,468,662)**	(233,623,578)
Other assets		**(35,731,320)**	(29,684,052)
Increase (Decrease) in operating liabilities:			
Deposit liabilities		**191,499,379**	60,795,050
Accrued interest, taxes and other liabilities		**(5,004,943)**	4,815,306
Other liabilities		**(5,791,017)**	42,301,336
Cash used in operations		**(21,131,077)**	(111,341,283)
Income tax paid		**(5,820,633)**	(6,826,813)
Interest paid		**(5,724,082)**	(2,623,280)
Interest received		**2,347,900**	1,259,693
Net cash used in operating activities		**(30,327,892)**	(119,531,683)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of bank premises, furniture and fixtures, and equipment	11	**(18,341,117)**	(9,277,093)
Proceeds from redemption of held-to-maturity investments	9	**15,225,283**	15,052,537
Acquisitions of intangible assets	12	**(4,716,170)**	(1,857,816)
Proceeds from disposal of ROPA	13	**734,581**	–
Acquisition of held to maturity investments	9	**–**	(15,225,283)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	11	**–**	3,525,398
Net cash used in investing activities		**(7,097,423)**	(7,782,257)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of bills payable	17	**270,046,900**	139,105,790
Payment of bills payable	17	**(145,390,470)**	(8,715,270)
Dividend payments	22	**(6,750,000)**	–
Net cash generated from financing activities		**117,906,430**	130,390,520
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**80,481,115**	3,076,580
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**9,119,612**	9,111,624
Due from Bangko Sentral ng Pilipinas		**30,658,844**	27,451,716
Due from other banks		**260,199,309**	260,337,845
		299,977,765	296,901,185
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	8	**16,936,611**	9,119,612
Due from Bangko Sentral ng Pilipinas	8	**35,950,966**	30,658,844
Due from other banks	8	**327,571,303**	260,199,309
		380,458,880	299,977,765

See Notes to Financial Statements.

In Philippine Peso

1. CORPORATE INFORMATION

CAMALIG BANK, INC. (A RURAL BANK), ("the Bank"), the product of a consolidation effective July 1, 2015, between Rural Bank of Camalig Bank (Albay), Inc. and Rural Bank of Ocampo (Camarines Sur), Inc., was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 5, 2015 under Registration No. CS201508627 to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises; to do and perform all acts and to transact and conduct all business which may legally be had or done by rural Banks under and in accordance with the Rural Bank's Act, as it exists or may be amended; and to all other things incident thereto and necessary and proper in connection with said purpose within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

Pursuant to Republic Act No. 7353 and the Monetary Board Resolution No. 1260 dated August 14, 2014, certificate of authority was granted on June 2, 2015 by the Bangko Sentral ng Pilipinas to Camalig Bank, Inc. (A Rural Bank) to operate as rural bank subject to the provisions and law and Bangko Sentral ng Pilipinas (BSP) rules and regulations.

The Bank operates as a rural bank and provides services such as deposit-taking, loans and trade finance, and microfinance services through twenty (20) banking units including corporate and head office. Offices are enumerated as follow:

Branches	Address
Albay	
Camalig Branch	National Highway, Centro, Camalig, Albay
Daraga Office	Royal Park Square Building, F. Lotivio Street, Daraga, Albay
Legazpi Port Office	114 Peñaranda St., Legazpi City
Tabaco City Office	Ziga Avenue, Basud, Tabaco City
Manito Office	Poblacion, Manito, Albay
Camarines Norte	
Daet Office	Vinzon's Ave., Brgy. Gahonon, Daet, Camarines Norte
Camarines Sur	
Iriga City Office	Guevara Street, San Roque, Iriga City
Milaor Office	National Highway, Milaor, Camarines Sur
Ocampo Office	Poblacion West, Ocampo, Camarines Sur
Ragay Office	Zone 7 Poblacion Ilaod, Ragay, Camarines Sur
Del Gallego Office	Brgy. Cabasag, Del Gallego, Camarines Sur
Catanduanes	
San Andres Office	Brgy. Divino Rostro, San Andres, Catanduanes
Virac Office	S. Surtida Cor., Quezon Street, Virac, Catanduanes
Viga Office	San Pedro, Viga, Catanduanes
Masbate	
Masbate City Office	Zurbito Cor., Domingo Streets, Brgy. Pating, Masbate City
Cataingan Office	Crossing, Cataingan
Sorsogon	
Bulan Office	Cor. Immaculada Concepcion St. & G. Girado St., Zone 4, Bulan, Sorsogon
Irosin Office	Brgy Bacolod, Irosin, Sorsogon
Sorsogon City Office	Rizal St., Brgy. Piot, Sorsogon City
Castilla Office	Brgy. Cumadcad, Castilla, Sorsogon

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements and adoption and use of safe banking practices as promulgated by the BSP.

The Bank's registered address, which is also its principal place of business, is at Rizal Street, Ilawod East, Legazpi City, Philippines. The Bank is domiciled in the Philippines.

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.01 Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC. All provisions and requirements of PFRSs are applied by the Bank in preparation of its financial statements except for the requirements of the following standards:

a. PFRS 16 Leases – The Bank has not yet adopted the provisions of PFRS 16 and continues to apply PAS 17 in accounting for its lease transactions.

b. PAS 19R Employee Benefits – The Bank has not adopted the provisions of PAS 19R for the year ended December 31, 2019.

2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI).

2.03 Presentation and Functional Currency

Items included in the financial statements of the Bank are measured using Philippine Peso, the currency of the primary economic environment in which the Bank operates (the "functional currency"). All information presented in Philippine Peso has been rounded to the nearest Peso, except when otherwise specified.

2.04 Use of Judgments and Estimates

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

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 ongoing basis. These are based on management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

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

2.05 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. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

3.01 New and Amended Standards, and Philippine Interpretation Adopted

The Bank applied, for the first time, the following applicable new and amended accounting standards.

Unless otherwise indicated, these new and amended accounting standards have no impact to the Bank. Except for these new and amended standards which were adopted as of January 1, 2019, the accounting policies adopted are consistent with those of previous financial year.

New Standard Adopted by the Bank

PFRS 9, Financial Instruments

PFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Classification and measurement of financial assets and financial liabilities
Financial assets are measured at fair value through profit or loss (FVTPL) unless these are measured at fair value through OCI (FVTOCI) or at amortized cost. The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as financial assets at FVTPL. The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured as financial assets at FVTPL. Subsequent measurement of instruments classified as financial assets at FVTPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as financial assets at FVOCI for debt. Debt instruments that are managed on a "hold to collect" basis will be classified as financial assets at amortized cost. Subsequent measurement of instruments classified as financial assets at FVOCI and at amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

For those debt financial assets that would otherwise be classified as financial assets at FVOCI or at amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument as financial asset at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity investments are required to be measured in the statement of financial position at fair value through profit or loss, except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI. Unlike AFS for equity securities under PAS 39, the FVTOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss.

In Philippine Peso

Impairment methodology
The impairment model under this standard reflects expected credit losses, as opposed to incurred credit losses under PAS 39. Under the impairment approach of this standard, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Hedge accounting
The general hedge accounting requirements for this standard retain the three types of hedge accounting mechanism in PAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of economic relationships. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The Bank has assessed that the requirements of PFRS 9 do not have any impact in its 2019 financial statements as the Bank does not apply hedge accounting.

Transition to PFRS 9
As permitted by transitional provisions of PFRS 9, the Bank elected not to restate comparative figures. The Bank adopted PFRS 9 on January 1, 2019 and the comparative information for 2018 financial instruments in scope of PFRS 9 was not restated and was reported under PAS 39, thus not comparable with the information presented for 2019.

Classification and measurement of financial assets
The measurement category and the carrying amount of financial assets in accordance with PAS 39 and PFRS 9 at January 1, 2019 are as follows:

	December 31, 2018 (PAS 39)		January 1, 2019 (PFRS 9)	
Financial assets	**Measurement category**	**Carrying amount**	**Measurement category**	**Carrying amount**
Cash and other cash items	Amortized cost	9,119,612	Amortized cost	9,119,612
Due from BSP	Amortized cost	30,658,844	Amortized cost	30,658,844
Due from other banks	Amortized cost	260,199,309	Amortized cost	260,199,309
Loans and receivables - net	Amortized cost	843,700,586	Amortized cost	843,700,586
Investment securities				
Debt	Amortized cost (HTM)	15,225,283	Amortized cost	15,225,283
Other financial assets	Amortized cost	37,745,908	Amortized cost	37,745,908

Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments

This addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The adoption of the above interpretation did not have a material impact on the financial statements of the Bank.

Amendments Adopted by the Bank

Amendments to PFRS 9, Financial Instruments – Prepayment Features with Negative Compensation

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or FVOCI. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Amendments to PAS 28, Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Annual Improvements to PFRS 2015 to 2017 Cycle

PFRS 3, Business Combinations and PFRS 11, Joint Arrangements – Previously Held Interest in a Joint Operation

The amendments clarify when an entity remeasures previously held interests in a business that is classified as a joint operation. If the entity obtains control, it remeasures previously held interests in that business. If the entity only obtains joint control, it does not remeasure previously held interests in that business.

PAS 12, Income Taxes - Income Tax Consequence of Payments on Financial Instruments classified as Equity

The amendments clarify that the requirements to recognize the income tax consequence of dividends where the transactions or events that generate distributable profits are recognized apply to all income tax consequences of dividends.

PAS 23, Borrowing Costs - Borrowing Costs Eligible for Capitalization

The amendments clarify that a specific borrowing that remains outstanding after the related asset is ready for its intended use becomes part of the general borrowings when calculating the capitalization rate on general borrowings.

All the amendments above have no significant impact on the Bank's financial statements.

3.02 New and Amended Standards already Effective but not yet Adopted

The Bank has not yet adopted the following new and amended accounting standard. The Bank is still in process of transitioning to the new and amended standard; thus, the accounting policies adopted in the current year are consistent with those of previous financial year.

In Philippine Peso

PFRS 16, Leases

Lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

PFRS 16, 'Leases' effective January 1, 2019. PFRS 16 replaces the guidance of PAS 17 that relate to the accounting by lessees and the recognition of almost all leases in the balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right-of-use asset) and a lease liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As of December 31, 2019, the Bank continued to apply PAS 17 in accounting for its leases.

(a) Amounts not recognized in the statements of financial position

		December 31, 2019		January 1, 2019
Right-of-use assets	₱	16,498,168	₱	21,238,434
Lease liabilities:				
Current	₱	3,881,537	₱	4,095,178
Non-current		13,261,719		17,143,256
	₱	17,143,256	₱	21,238,434

(b) Amounts not recognized in the statements of comprehensive income

		2019
Depreciation expense	₱	4,740,266
Interest expense		1,061,922
	₱	5,802,188

The reconciliation of operating lease commitments as at December 31, 2018 discounted using the incremental borrowing rate as at January 1, 2019 and the lease liabilities recognized as at January 1, 2019 follows:

Operating lease commitments as at December 31, 2018 as disclosed under PAS 17	₱	25,077,150
Discounted using the incremental borrowing rate at January 1, 2019		(3,838,716)
Lease liabilities not recognized as at January 1, 2019	₱	21,238,434

Subject to Board of Accountancy's Approval

Amendments to PAS 19, Employee Benefits - Plan Amendment, Curtailment or Settlement

The measurement requires the current service cost and the net interest for the period after the remeasurement be determined using the assumptions used for the remeasurement if a plan amendment, curtailment or settlement occurs.

3.03 New Standards and Amendments Issued but not yet Effective

The list below consists of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt these standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

Effective beginning on or after January 1, 2020 (subject to Board of Accountancy's Approval)

Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Amendments to PFRS 3 – Definition of a Business

The amendments to PFRS 3 were issued to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments add guidance to assess whether an acquired process is substantive and add illustrative examples. The amendments introduce an optional concentration test to permit a simplified assessment. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and apply prospectively. Earlier application is permitted.

PFRS 17, Insurance Contracts (effective for annual periods beginning on or after January 1, 2022)

PFRS 17 was issued in May 2017 as replacement for PFRS 4, Insurance Contracts. PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Insurance Commission, in coordination with Philippine Insurers and Reinsurers Association, is currently reviewing the impact of PFRS 17 across the entire industry and has established a project team to manage the implementation approach.

Deferred Effectivity

Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity ac-counting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Bank.

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.01 Financial Assets

Policies applicable beginning January 1, 2019 (PFRS 9)

Initial Recognition and Measurement
Financial assets are recognized in the Bank's financial statements when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Bank's financial assets, except for investments classified at fair value through profit or loss (FVTPL).

Classification
The Bank classifies its financial assets, other than hedging instruments, in the following categories: fair value through profit or loss (FVTPL), financial asset fair value through other comprehensive income (FVOCI) and financial asset at amortized cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial Assets at Amortized Cost
Financial assets at amortized cost are quoted non-derivative financial asset with fixed and determinable payment and fixed maturities for which Bank's management has the positive intention and ability to hold maturity.

A financial asset shall be measured at amortized cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold 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.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

As of December 31, 2019, the Bank's cash, investment securities at amortized cost, loans and receivables and other assets are classified under this category.

a) *Cash and Cash Equivalents*

In the statement of cash flows, cash and cash equivalents includes cash and other cash items, amounts due from BSP and due from other banks with original maturities of three months or less from dates of placement and that are subject to insignificant risk of changes in value.

Cash and cash equivalents are valued at face value. If a bank holding the funds of the Bank is in bankruptcy or financial difficulty, cash and cash equivalents should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount.

The Bank recognizes each item of cash and cash equivalents as a current asset when the cash is not restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

b) *Investment securities at amortized cost*

Investment securities at amortized cost include non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as at amortized cost if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. Investment securities at amortized cost are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, these financial assets are subsequently measured at amortized cost. Gains and losses are recognized in the statement of comprehensive income when the investment securities at amortized cost are derecognized and impaired, as well as through the amortization process.

The Bank's investment securities at amortized cost amounted to nil, as of December 31, 2019, as disclosed in Note 9.

c) *Loans and Receivables*

Loans and receivables include non-derivative financial assets with fixed and determinable payments that are not quoted in an active market and for which the Bank has no intention of trading. Loans and receivables are carried at amortized cost using the effective interest method less allowance for credit losses. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired through the amortization process.

Loans and receivables are stated at the outstanding principal balance, reduced by unearned interest and discount and allowances for credit losses.

The allowance for credit losses, which includes both specific and general loan loss reserves, represents management's estimate of credit losses inherent in the portfolio, after consideration of prevailing and anticipated economic conditions, prior loss experience, estimated recoverable value based on fair market values of underlying collaterals and prospects of support from guarantors, subsequent collections and evaluation made by the Bangko Sentral ng Pilipinas (BSP).

Loans to members of the Bank's management, governing body, or parties related to them should be fully disclosed, including outstanding amount, interest rates, collateral and repayment status. Small loans generally available to all employees can be reported showing only the total amount, number, interest rate, and degree of late payment on such outstanding loans. Policies on both types of insider loans should be described precisely.

The allowance for credit losses is established through the provision for credit losses charge to current operation. Loans are written-off against the allowance for credit losses when management believes that the collection of the principal is unlikely.

The BSP approved the staggered booking of unbooked specific allowance for credit losses on loans and other risk assets, if any, over a period of five years based on the first general examination of the BSP from date of consolidation.

d) Other Assets

This account pertains to other assets that are controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

Financial assets at FVOCI
Financial assets at FVOCI include debt and equity securities.

Debt Instruments at FVOCI
For debt instruments that are not designated at FVPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met: (1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (2) 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.

After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment gains or losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

As of December 31, 2019, the Bank does not have debt instruments at FVOCI.

Equity Instruments at FVOCI
For equity instruments that are not held for trading, the Bank may irrevocably designate, at initial recognition, a financial asset to be measured at FVOCI when it meets the definition of equity instrument under PAS 32, *Financial Instruments: Presentation*. This option is available and made on an instrument by instrument basis.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods, instead, these are transferred directly to retained earnings. Equity securities at FVOCI are not subject to impairment assessment.

As of December 31, 2019, the Bank does not have equity securities at FVOCI.

Financial Assets at FVPL
Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

This category includes debt instruments whose cash flows, based on the assessment at initial recognition of the assets, are not "solely for payment of principal and interest", and which are not held within a business model whose objective is either to collect contractual cash flows or to both collect contractual cash flows and sell. The Bank may, at initial recognition, designate a debt instrument meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets.

This category also includes equity instruments which the Bank had not irrevocably elected to classify at FVOCI at initial recognition.

After initial recognition, financial assets at FVPL are subsequently measured at fair value. Gains or losses arising from the fair valuation of financial assets at FVPL are recognized in profit or loss.

As of December 31, 2019, the Bank does not have equity securities at FVPL.

Reclassification
The Bank reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Impairment
The Bank recognizes an allowance for ECL for all debt instruments not held at FVPL. ECL is 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 to the asset's 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.

Overview of the ECL principles
The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no SICR of the financial asset since origination. Otherwise if a SICR is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The major portfolio of financial assets identified upon initial analysis of the Bank's credit exposure is the loan receivables. These portfolios can be further segmented by ranks and are grouped into Stage 1, Stage 2, and Stage 3. Loan segmentation and staging assessment are further described in Note 10.

Definition of "default" and "cure"
The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes more than 30 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

Determination of significant increase in credit risk (SICR)
In order to determine whether an instrument is subject to 12-month or Lifetime ECL, the Bank assesses whether there has been a SICR since initial recognition. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. These may include adverse trends or developments of financial, managerial, economic or political nature, or significant changes in government policies that directly impact the members of the Bank. Credit weakness may be manifested by unfavourable record or unsatisfactory characteristics or may only be potential that deserves management's close attention and may lead to significant losses or may result in collection or liquidation of the outstanding loan amount to be highly improbable. For exposures without internal credit grades, if contractual payments are more than a specified-days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial asset improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

The Bank assesses impairment as follows:

- individually for loans that exceed specified thresholds. Where there is objective evidence of impairment, individually assessed provisions will be recognized; and
- collectively for loans below the specified thresholds noted above or if there is no objective evidence of impairment. These loans are included in a group of loans with similar risk characteristics and collectively assessed for impairment. If there is objective evidence that the group of loans is collectively impaired, collectively assessed provisions will be recognized.

Measuring Expected Credit Loss (ECL)

ECL is a function of the probability of default (PD), exposure-at-default (EAD), and loss-given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement.

The probability of default represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual financial asset is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on identical risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behaviour of the accounts and materiality of the segment as compared to the total portfolio.

Exposure-at-default consists of the amortized cost and any accrued interest receivable.

Loss-given-default is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. Loss given default takes into consideration the amount and quality of any collateral held.

Forward-looking information incorporated in the ECL model

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as growth of the gross domestic product, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. To reflect this, qualitative adjustments are occasionally made as temporary adjustments when such differences are significantly material.

Derecognition

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

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

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

Policies applicable before January 1, 2019 (PAS 39)

Initial Recognition of Financial Assets
Financial assets are recognized in the Bank's financial statements when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Bank's financial assets, except for investments classified at fair value through profit or loss (FVTPL).

Classification
The Bank classifies its financial assets, other than hedging instruments, in the following categories: fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

<u>Held-to-Maturity Investments (HTM)</u>
HTM investments are quoted non-derivative financial asset with fixed and determinable payment and fixed maturities for which Bank's management has the positive intention and ability to hold maturity.

A financial asset shall be measured at amortized cost if both of the following conditions are met:
- The asset is held within a business model whose objective is to hold 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.

Realized gain and loss is recognized in the statement of income when the financial assets are derecognized or impaired and through the amortization process.

<u>Loans and Receivables</u>
Loans and receivables are non-derivative financial assets with fixed or determinable payments (a) that are not quoted in an active market, (b) with no intention of trading, and (c) that are not designated as available for sale. They arise when the Bank provides money or services directly to a debtor/customer with no intention of trading the receivables. Loans and receivable are initially recorded at fair value and subsequently measured at amortized cost using the effective interest method, less impairment losses (allowance for allowance for probable losses). Allowance for impairment is made when there is objective evidence that the Bank will not be able to collect the amounts due to it in accordance with the original terms of the receivables.

The amount of impairment loss is determined as the difference between the assets carrying amount and the present value of estimated cash flows. Allowance for impairment is determined based on the Manual of Regulations for Banks (MORB). Bad debts are written off when identified and upon approval of the BSP. Since these loans and receivable are interest-bearing and reduced for any impairment, its carrying amount corresponds to its fair value.

The Bank's financial assets categorized as loans and receivables are presented as cash and cash equivalents, loans and receivables, and other assets.

a) *Cash and Cash Equivalents*

In the statement of cash flows, cash and cash equivalents includes cash and other cash items, amounts due from BSP and due from other banks with original maturities of three months or less from dates of placement and that are subject to insignificant risk of changes in value.

Cash and cash equivalents are valued at face value. If a bank holding the funds of the Bank is in bankruptcy or financial difficulty, cash and cash equivalents should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount.

The Bank recognizes each item of cash and cash equivalents as a current asset when the cash is not restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

b) *Loans and Receivables*

Loans and receivables include non-derivative financial assets with fixed and determinable payments that are not quoted in an active market and for which the Bank has no intention of trading. Loans and receivables are carried at amortized cost using the effective interest method less allowance for credit losses. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired through the amortization process.

Loans and receivables are stated at the outstanding principal balance, reduced by unearned interest and discount and allowances for credit losses.

The allowance for credit losses, which includes both specific and general loan loss reserves, represents management's estimate of credit losses inherent in the portfolio, after consideration of prevailing and anticipated economic conditions, prior loss experience, estimated recoverable value based on fair market values of underlying collaterals and prospects of support from guarantors, subsequent collections and evaluation made by the Bangko Sentral ng Pilipinas (BSP).

Loans to members of the Bank's management, governing body, or parties related to them should be fully disclosed, including outstanding amount, interest rates, collateral and repayment status. Small loans generally available to all employees can be reported showing only the total amount, number, interest rate, and degree of late payment on such outstanding loans. Policies on both types of insider loans should be described precisely.

The allowance for credit losses is established through the provision for credit losses charge to current operation. Loans are written-off against the allowance for credit losses when management believes that the collection of the principal is unlikely.

The BSP approved the staggered booking of unbooked specific allowance for credit losses on loans and other risk assets, if any, over a period of five years based on the first general examination of the BSP from date of consolidation.

c) *Other Assets*

This account pertains to other assets that are controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

Impairment
Financial assets, other than those measured at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined.

Subsequent recoveries of amounts previously written off are recognized in the profit or loss as well the changes in the carrying amount of the allowance.

With the exception of AFS equity instruments, 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, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

Derecognition
The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, 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.

4.01.01 Effective Interest Method
The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period.

4.01.02 Offsetting Financial Instruments
Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

4.02 Bank Premises, Furniture, Fixtures and Equipment (BPFFE)

Items of bank premises, furniture, fixtures and equipment are measured at cost less accumulated depreciation and impairment losses. The initial cost of bank premises, furniture, fixture and equipment comprises its purchased price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The cost of self-constructed assets (normally leasehold improvement) includes the cost of material and direct labor, any other cost directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the item and restoring the site which they are located.

Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives of Bank premises, furniture, fixtures and equipment are:

Buildings	–	Up to 20 years
Furniture, Fixtures and Equipment	–	2 – 5 years

Leasehold improvements are depreciated over the shorter between the improvements' useful life of 10 years or the lease term.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. When re-valued assets are sold, the amounts included in other reserves are transferred to retained earnings.

4.03 Intangible Assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired is its fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

4.04 Assets Held for Sale

Assets held for sale or the foreclosed assets, in the statement of financial position are accounted for at the lower of cost and fair value less cost to sell in accordance with PFRS 5 when the asset meets the criteria. The cost of assets held for sale includes the carrying amount of the loan less allowance for impairment at the time of foreclosure. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

Foreclosed assets not classified as held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:

- Investment property is accounted for using the cost model under PAS 40;
- Bank-occupied property is accounted for using the cost model under PAS 16; and
- Financial assets are classified as available-for-sale.

4.05 Impairment of Non-financial Assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit (CGU) is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed, if any. In respect of other assets, impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income.

4.06 Financial Liabilities and Equity Instruments

4.06.01 Classification as Financial Liability or Equity Instrument
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

4.06.02 Financial Liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial Liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and PAS 39, Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the statement of comprehensive income.

As of December 31, 2019 and 2018, the Bank has no financial liabilities at FVTPL.

Other Financial Liabilities
Other financial liabilities, including bills payable, deposit liabilities, accrued interest and other liabilities are initially measured at fair value inclusive of directly attributable transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

Capital stock
Common and preferred stock are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Additional paid-in capital
Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of tax. The additional paid-in capital account is recorded on the Bank's statements of financial position as part of equity and cannot be returned to shareholders as dividends.

Surplus free
Surplus free represents all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amounts of dividend declared, if any.

Surplus reserve
Surplus reserve comprises reserve for expansion, sinking fund, allowance for credit losses and for redemption of preferred shares.

Other comprehensive income
Other comprehensive income comprises actuarial gains and losses, remeasurement losses and asset ceiling.

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

4.07 Revenue and Expense Recognition

4.07.01 Revenue Recognition for Revenues within the scope of PFRS 15
Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Bank and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable by the Bank for services provided in the normal course of business.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has assessed that it is acting as principal in all arrangements.

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

Income from Assets Sold or Exchange
Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included as part of "other operating income" account in the statement of profit or loss.

Fees, Commissions, and Other Income
Fees, commissions and other income are generally recognized on an accrual basis when the service has been provided. Penalties are recognized only upon collection or where there is a reasonable degree of certainty as to their collectibility.

4.07.02 Revenue Recognition for Revenues outside the scope of PFRS 15
For revenues outside the scope of PFRS 15, the following specific recognition criteria must also be met before revenue is recognized:

Interest Income
Interest income are recognized in the statements of comprehensive income for all interest-bearing financial instruments using the effective interest rate method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are integral part of the effective interest rate. The change in carrying amounts is recorded as "interest income".

In the case of past due accounts, interest income is recognized only upon the actual collection, as provided under existing BSP regulations.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Unearned discount is recognized as income over the terms of the receivables using the effective interest rate method and shown as deduction from loans.

4.07.03 Expense Recognition
Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or
- immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Interest expense are expenses incurred that are associated with the Bank's deposit liabilities and bills payable. Non-interest expenses are costs attributable to administrative, marketing, collection and other business activities of the Bank.

4.08 Borrowing Costs

Borrowing cost are generally expensed when incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset.

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred, and ceases when the assets are ready for their intended use.

The Bank has no qualifying assets as of the reporting period.

4.09 Leases

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 leases are classified as operating leases.

4.09.01 The Bank as Lessee
Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset 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 when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4.09.02 The Bank as Lessor
Property leased out under operating lease is included in investment property in the statement of financial position. Rental income under operating lease is recognized in profit or loss on a straight-line basis over the period of the lease.

4.10 Related Party Relationships and Transactions

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel of the Bank, post-employment benefit plans for the benefit of Bank's employees, and close members of the family of any individuals owning directly or indirectly a significant voting power of the Bank, that gives them significant influence in the financial and operating policy decisions of the Bank, are also considered to be related parties.

A related party transaction is a transfer of resources, services or obligations between the Bank and its related parties, regardless of whether a price is charged.

4.11 Employee Benefits

Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees, including directors and management.

4.11.01 Short Term Employee Benefits
The Bank recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses, non-monetary benefits, and other short-term benefits.

4.11.02 Retirement Benefit Obligation
The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among other, discount rates, and expected salary rate increase. In accordance with PFRS, actual results that differ from assumptions are accumulated and amortized over the future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement costs are determined on the basis of the Projected Unit Credit (PUC) actuarial cost method. This method reflects services rendered by employee to the date of valuation and incorporates assumptions concerning employees" projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments, and changes in actuarial assumptions.

The revised PAS 19 renames actuarial gains and losses as 'remeasurements' and they will be recognized immediately in 'other comprehensive income'. Actuarial gains and losses can no longer be deferred using the corridor approach or recognized in profit or loss. As a result, this may cause volatility in the statement of financial position and other comprehensive income (OCI).

4.11.03 Termination Benefits
Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whether an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

4.12 Income Tax

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxing authority.

4.13 Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and these 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 at the reporting 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, not exceeding the amount 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 the money is material.

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

In those cases where the possible outflow of an economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for 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, are not recognized in the financial statements

4.14 Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

4.15 Events After the End of the Reporting Period

The Bank identifies events after the reporting date as events that occurred after the reporting date but before the date the financial statements were authorized for issue. Any event that provides additional information about the Bank's financial position at the reporting date is reflected in the financial statements. Non-adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Bank's financial statements prepared in accordance with Financial Reporting Standards in the Philippines requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates used are based upon management's evaluation of relevant facts and circumstances that are believed to be reasonable. Actual results could differ from such estimates.

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

5.01 Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations, that management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

5.01.01 Revenue and Expense Recognition
The Bank's revenue and expense recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and expense. The Bank's revenue and expense are recognized when earned or incurred, except interest on loans receivables on past due account which are recognized when collection is actually made as provided under existing BSP MORB.

5.01.02 Classifying Between Operating and Finance Lease
The Bank has entered into lease agreements as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rent expense of the Bank for the years ended December 31, 2019 and 2018 amounted to ₱6,514,921 and ₱5,311,787, respectively, as disclosed in Notes 24 and 26.

5.01.03 Determining Provisions 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 discussed in Note 30.

5.01.04 Classification of Financial Assets Not Quoted in an Active Market
The Bank classifies financial assets by evaluating, among others, whether the assets is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

5.01.05 Recognition of Deferred Tax Assets
The Bank reviews its deferred tax assets at each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

5.02 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5.02.01 Assessing Impairment on Loans and Receivables
The Bank reviews its debt financial assets subject to ECL on an annual basis with updating provisions as necessary based on the continuing analysis and monitoring of individual accounts by credit officers. The measurement of credit losses both under PFRS 9 and PAS 39 across all categories of such financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining credit losses and the assessment of a SICR. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Beginning January 1, 2019

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include, among others:

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- Criteria for assessing if there has been a SICR and so allowances for debt financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- Segmentation of debt financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomics scenarios and their probability weightings, to derive the economic inputs into the ECL models

Detailed discussions regarding the abovementioned significant judgments and estimates in relation to ECL estimation are disclosed in Note 4.

As of December 31, 2019, loans receivables amounted to ₱1,051,339,522 net of allowance for credit losses amounting to ₱27,696,155, as disclosed in Note 10.

Prior to January 1, 2019

Adequate amount of allowance is made and provided for specific and groups of accounts, where objective evidence of impairment exists. The Bank evaluates these accounts based on available facts and circumstances affecting the collectibility of the accounts, including but not limited to, the length of the Bank's relationship with customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

As of December 31, 2018, loans receivables amounted to ₱843,700,586 net of allowance for credit losses amounting to ₱34,116,555, as disclosed in Note 10.

5.02.02 Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, and Intangible Assets

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

5.02.03 Assessing Impairment on Non-financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are approximate and reasonable, significant changes in these assumptions may materially affect assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

The carrying amount of bank premises, furniture, fixtures and equipment amounted to ₱134,146,692 and ₱129,610,373 as of December 31, 2019 and 2018, respectively, as disclosed in Note 11. The carrying amount of assets held for sale amounted to ₱1,315,019 and ₱939,669 as of December 31, 2019 and 2018, respectively, as disclosed in Note 13.

5.02.04 Determining Realizable Amount of Deferred Tax Assets
The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The Bank recognized deferred tax assets amounting to ₱8,712,304 and ₱10,638,424 as of December 31, 2019 and 2018, respectively, as disclosed in Note 28.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Interest/Market risks
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Banks management of capital.

6.01 General Risk Management Principle

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board has established the Bank's assets, liability, credit and operational risk committees, which are responsible for developing and monitoring Bank's risk management policies in their specific areas.

All board committees have executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and control, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes to market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's risk management committee is responsible for monitoring compliance with Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risk faced by the Bank. The Bank's audit committee is assisted in these functions by the Internal Audit Department. The Compliance and Risk Management Departments also undertake both regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to the Audit Committee and/or the board.

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Generally, the maximum risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position, as summarized below.

	Notes	2019	2018
Financial Assets			
Cash and other cash items	8	₱ **16,936,611**	₱ 9,119,612
Due from BSP	8	**35,950,966**	30,658,844
Due from other banks	8	**327,571,303**	260,199,309
Held-to-maturity investments	9	–	15,225,283
Loans and receivables – net	10	**1,051,339,522**	843,700,586
Other assets*	14	**71,386,239**	37,745,908
		₱ **1,503,184,641**	₱ 1,196,649,542

**except non-financial assets amounting to ₱50,666,655 and ₱48,678,291 as of December 31, 2019 and 2018, respectively*

	Notes	2019	2018
Financial Liabilities			
Deposit liabilities	15	₱ **1,085,999,254**	₱ 894,499,875
Bills payable	17	**255,046,950**	130,390,520
Accrued interest expense	18	**4,392,152**	5,360,550
Other liabilities**	19	**53,036,244**	59,492,065
		₱ **1,398,474,600**	₱ 1,089,743,010

***excluding government-related payables and non-financial liabilities amounting to ₱1,477,504 and ₱1,225,794 as of December 31, 2019 and 2018, respectively*

6.02 Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Bank defines counterparties as having similar characteristics if they are entities.

On-going credit evaluation is performed on the financial condition of loans and other receivable and, where appropriate, obtaining additional collateral is requested to cover the loans.

Also, the Bank manages its credit risk by depositing its cash with high credit quality banking institutions.

The carrying amount of financial assets recognized in the financial statements represents the Bank's maximum exposure to credit risk.

6.02.01 Credit Risk Exposure
The table below shows the gross maximum exposure to credit risk of the Bank as of the year ended December 31, 2019 and 2018, without considering the effects of credit risk mitigation techniques.

	Notes	2019	2018
Financial Assets			
Checks and other cash items	8	₱ **4,653,954**	₱ 10,081
Due from Bangko Sentral ng Pilipinas	8	**35,950,966**	30,658,844
Due from other banks	8	**327,571,303**	260,199,309
Held-to-maturity investments	9	–	15,225,283
Loans and receivables*	10	**1,079,035,677**	877,817,141
Other assets**	14	**71,386,239**	37,745,908
		₱ **1,518,598,139**	₱ 1,221,656,566

**gross of allowance amounting to ₱27,696,155 and ₱34,116,555 for the year ended December 31, 2019 and 2018, respectively*
***except non-financial assets amounting to ₱50,666,655 and ₱48,678,291 as of December 31, 2019 and 2018, respectively*

The Bank holds collateral against loans receivables in the form of real estate and chattel mortgages, and deposit hold outs over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally updated every two years except when a loan is assessed to be impaired. Generally, collateral is held over loans and advances to the Bank. Collateral is not usually held against investment securities.

6.02.02 Management of Credit Risk
The Board of Directors has delegated primary responsibility for the management of credit risk to the Credit Department and supported by an independent unit, the Credit Risk Unit under the Risk Management Department. The overall credit risk management structure of the Bank takes into consideration the following controls, among others:

- Formulating credit policies in consultation with the business units, covering collateral requirements, credit assessment, risk scoring and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirement.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Branch Managers and Area Heads. Larger facilities require approval by Credit Committee and/or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Bank credit committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentration of exposures to counterparties, geographies and industries (loans and advances), and by issuer, credit rating band, market liquidity.
- Developing and maintaining the Bank's credit risk scoring in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk scoring system is used in determining where impairment provisions may be required against specific credit exposures.
- Reviewing compliance with agreed exposure limit, including those for selected industries, and product types. Regular reports are provided to Bank management and the Board on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialized skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Conducting weekly Credit Committee meeting and Branch Loan Committee meetings.

All personnel in-charge in lending is required to implement Bank credit policies and procedure, with credit approval authorities delegated from the Bank Credit Committee.

Regular audits of Credit Group and Bank Credit processes are undertaken by Internal Audit.

Impaired Loans and Receivables
Impaired loan and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to contractual terms of the loans/securities agreement(s).

Past Due but not Impaired Loans
Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of amounts owed to the Bank.

Loans with Renegotiated Terms
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for Credit Losses
The Bank establishes an allowance for credit losses that represent its estimate of incurred losses in its loan portfolio. The main component of this allowance are specific loss component that relates to individually significant exposures, and a collectives loan loss allowance established for groups of homogenous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-Off Policy
The Bank writes off a loan/security balance (and any related allowances for credit losses) when Bank determines that the loans/securities are finally uncollectible. This is determined after considering information like the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from the loan collateral will not be sufficient to pay back the entire exposure.

For smaller balance standardize loans, charge off decisions generally are based on a product specific past due status.

The Bank holds collateral against loans and receivables from customers/borrowers in the form of mortgage interest over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Settlement Risk
The Bank's activities may give rise to risk at the time of settlement of transaction and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honor its obligations to deliver cash, securities or another asset as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligation. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement requires transaction specific or counterparty specific approval from Bank Risk.

6.02.03 Risk Concentration of the Maximum Exposure to Credit Risk
Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions, concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Bank's financial strength and undermine public confidence.

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6.02.04 Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets, excluding loans receivables, as of December 31, 2019 (PFRS 9).

2019	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Past due but not impaired	Impaired	Total
Cash and other cash items	16,936,611	–	–	–	–	16,936,611
Due from BSP	35,950,966	–	–	–	–	35,950,966
Due from other banks	327,571,303	–	–	–	–	327,571,303
Investment securities at amortized cost	–	–	–	–	–	–
Other assets*	71,386,239	–	–	–	–	71,386,239
	451,845,119	**–**	–	–	–	**451,845,119**

**except non-financial assets amounting to ₱50,666,655.*

The credit quality of loans receivables, gross of allowance for credit losses and net of unamortized discounts, as of December 31, 2019 follows (PFRS 9):

2019	Stage 1	Stage 2	Stage 3	Total
Consumption loans				
High grade	₱ 682,557,391	₱ –	₱ –	₱ 682,557,391
Standard grade	–	–	–	–
Substandard grade	–	1,212,639	–	1,212,639
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	16,615,178	16,615,178
Subtotal	**682,557,391**	**1,212,639**	**16,615,178**	**700,385,208**
Commercial loans				
High grade	165,864,526	–	–	165,864,526
Standard grade	–	–	–	–
Substandard grade	–	135,437	–	135,437
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	2,785,142	2,785,142
Subtotal	**165,864,526**	**135,437**	**2,785,142**	**168,785,105**
Agri-agra loans				
High grade	172,737,476	–	–	172,737,476
Standard grade	–	–	–	–
Substandard grade	–	1,942,984	–	1,942,984
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	23,136,303	23,136,303
Subtotal	**172,737,476**	**1,942,984**	**23,136,303**	**197,816,763**
Micro-finance loans				
High grade	7,099,068	–	–	7,099,068
Standard grade	–	–	–	–
Substandard grade	–	–	–	–
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	4,949,533	4,949,533
Subtotal	**7,099,068**	–	**4,949,533**	**12,048,601**
Total	**₱ 1,028,258,461**	**₱ 3,291,060**	**₱ 47,486,156**	**₱ 1,079,035,677**

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The table below shows the credit quality by class of financial assets of the Bank as of December 31, 2018 (PAS 39):

2018

	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Past due but not impaired	Impaired	Total
Cash and other cash items	9,119,612	–	–	–	–	9,119,612
Due from BSP	30,658,844	–	–	–	–	30,658,844
Due from other banks	260,199,309	–	–	–	–	260,199,309
Held-to-maturity (HTM)	15,225,283	–	–	–	–	15,225,283
Loans and receivables*	827,556,660	–	584,550	5,197,535	44,478,396	877,817,141
Other assets**	37,745,908	–	–	–	–	37,745,908
	1,180,505,616	–	584,550	5,197,535	44,478,396	1,230,766,097

*gross of allowance for credit losses amounting to ₱34,116,555.
**except non-financial assets amounting to ₱48,678,291.

The credit risk arising from Due from BSP and other banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of ₱0.5 million per depositor per banking institution, as provided for under Republic Act No. 9576, Amendment to Charter of PDIC.

High grade cash on hand and in banks and working capital cash fund placed, invested, or deposited in local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability. Other high grade accounts are accounts considered to be high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have a probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up and extended payment terms.

Past due but not impaired accounts are accounts which are not paid upon maturity but typically not impaired as counterparties continuously respond to the Bank's credit actions.

Included in this account category are those accounts provided with less than 50% allowance for credit losses.

Impaired accounts are those accounts that are under litigation and those provided with 100% allowance since collections from counterparties are considered unrealizable.

In Philippine Peso

6.02.05 Aging Analysis

An aging analysis of the Bank's loans and receivables as of December 31, 2019 and 2018 is as follows:

	2019	2018
Outstanding loans and receivables:*		
Current accounts	₱ 1,028,258,461	₱ 828,141,210
Past due accounts:		
1 – 30 days past due	255,547	90,916
31 – 60 days past due	2,355,197	3,719,143
61 – 90 days past due	1,248,797	1,387,476
over 90 days past due	46,917,675	44,478,396
	₱ 1,079,035,677	₱ 877,817,141

**receivables at gross amount of allowance for credit losses amounting to ₱27,696,155 and ₱34,116,555 for the years ended December 31, 2019 and 2018, respectively*

6.02.06 Impairment Assessment

The Bank recognizes impairment losses based on the results of the specific/individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold. These and the other factors constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Bank in assessing and measuring impairment include: (1) specific/individual assessment; and (2) collective assessment. Under specific/individual assessment, the Bank assesses each individual significant credit exposure for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment.

Among the items and factors considered by the Bank when assessing and measuring specific impairment allowances are: (a) the timing of the expected cash flows; (b) the projected receipts or expected cash flows; (c) the going concern of the counterparty's business; (d) the ability of the counterparty to repay its obligations during financial crises; (e) the availability of other sources of financial support; and (f) the existing realizable value of collateral. The impairment allowances, if any, are evaluated as the need arises, in view of favourable or unfavourable developments.

With regard to the collective assessment of impairment, allowances are assessed collectively for losses on receivables that are not individually significant and for individually significant receivables when there is no apparent or objective evidence of individual impairment.

A particular portfolio is reviewed on a periodic basis, in order to determine its corresponding appropriate allowances. The collective assessment evaluates and estimates the impairment of the portfolio in its entirety even though there is no objective evidence of impairment on an individual assessment.

Impairment losses are estimated by taking into consideration the following deterministic information: (a) historical losses/write offs; (b) losses which are likely to occur but has not yet occurred; and (c) the expected receipts and recoveries once impaired.

6.03 Liquidity Risk

Liquidity risk is the risk that the Bank might encounter difficulty in meeting obligation from its financial liabilities.

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6.03.01 Management of Liquidity Risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Bangko Sentral ng Pilipinas receives information from other business units regarding the liquidity profile of their financial assets and liabilities and detailed of other projected cash flows arising from projected future business. BSP then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to Banks and other inter-Bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity positions monitored and regular liquidity testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedure are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank.

As of December 31, 2019 and 2018, minimum liquidity ratio of the Bank is 45.35% and 28.62%, respectively.

6.03.02 Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposit from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade securities (if available) for which there is an active and liquid market less any deposit from Banks and other borrowing and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's lead regulator.

The tables below summarize maturity profile of the Bank's financial assets and liabilities as of the year ended December 31, 2019 and 2018:

2019	Within 1 Year	1 – 5 Years	Over 5 Years	Total
Financial Assets:				
Cash and other cash items	₱ 16,936,611	₱ –	₱ –	₱ 16,936,611
Due from Bangko Sentral ng Pilipinas	35,950,966	–	–	35,950,966
Due from other banks	327,571,303	–	–	327,571,303
Held-to-maturity investment	–	–	–	–
Loans and receivables*	371,806,509	628,330,942	78,898,226	1,079,035,677
Other assets**	71,386,239	–	–	71,386,239
	₱ 823,651,628	**₱ 628,330,942**	**₱ 78,898,226**	**₱ 1,530,880,796**

*gross of allowance amounting to ₱27,696,155
**except non-financial assets amounting to ₱50,666,655

2019	Within 1 Year	1 – 5 Years	Over 5 Years	Total
Financial Liabilities:				
Deposit liabilities	₱ 1,020,668,509	₱ 65,330,745	₱ –	₱ 1,085,999,254
Bills payable	255,046,950	–	–	255,046,950
Accrued interest payable	4,392,152	–	–	4,392,152
Other liabilities*	53,036,244	–	–	53,036,244
	₱ 1,333,143,855	**₱ 65,330,745**	**₱ –**	**₱ 1,398,474,600**

*excluding government-related payables and non-financial liabilities amounting to ₱1,477,504

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2018	Within 1 Year	1 – 5 Years	Over 5 Years	Total
Financial Assets:				
Cash and other cash items	₱ 9,119,612	₱ –	₱ –	₱ 9,119,612
Due from Bangko Sentral ng Pilipinas	30,658,844	–	–	30,658,844
Due from other banks	260,199,309	–	–	260,199,309
Held-to-maturity investment	15,225,283	–	–	15,225,283
Loans and receivables*	309,876,300	531,076,565	36,864,276	877,817,141
Other assets**	37,745,908	–	–	37,745,908
	₱ 662,825,256	₱ 531,076,565	₱ 36,864,276	₱ 1,230,766,097

gross of allowance for credit losses amounting to ₱34,116,555
***except non-financial assets amounting to ₱48,678,291*

2018	Within 1 Year	1 – 5 Years	Over 5 Years	Total
Financial Liabilities:				
Deposit liabilities	₱ 875,300,304	₱ 19,199,571	₱ –	₱ 894,499,875
Bills payable	130,390,520	–	–	130,390,520
Accrued interest payable	4,408,318	952,232	–	5,360,550
Other liabilities*	59,492,065	–	–	59,492,065
	₱ 1,069,591,207	₱ 20,151,803	₱ –	₱ 1,089,743,010

excluding government-related payables and non-financial liabilities amounting to ₱1,225,794

6.04 Market Risks

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

6.04.01 Management of Market Risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Investment Banking unit, and include positions arising from market making and propriety position taking, together with financial assets and liabilities that are managed on a fair values basis.

The management of interest rate risk against interest gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios.

Interest Rate Risk

Interest rate risk is the risk to the earning or capital resulting from adverse movements in the interest rates. The Bank is exposed to interest rate risk since its financial assets and financial liabilities have fixed and variable rates.

The Bank closely monitors the movements of interest rates in the market and reviews its asset and liability structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits. Interest rate risk management comes in the forms of proper matching of asset and liability products in terms of tenor, yield and interest rate sensitivity.

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The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis is prepared assuming the amount of the financial assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 10% increase or decrease is used when reporting interest rate risk internally to key management personnel and this represents management's assessment of the reasonably possible changes in interest rates.

2019	**Amount**	**Average Interest rate**	**10% increase**	**Net effect**
Interest income				
Due from other banks	₱ 617,724	0.21%	0.021%	₱ 129
Held-to-maturity financial assets	1,730,176	7.07%	0.707%	12,232
Loans receivables	160,893,998	17.51%	1.751%	2,817,254
	163,241,898			**2,829,615**
Interest expense				
Deposit liabilities	13,495,398	1.24%	0.124%	16,734
Bills payable	6,208,344	2.77%	0.277%	17,197
	19,703,742			**33,931**
Net interest income	**₱ 143,538,156**			**₱ 2,795,684**
Effect on equity				**₱ 1,956,979**

2018	Amount	Average Interest rate	10% increase	Net effect
Interest income				
Due from other banks	₱ 473,223	0.18%	0.018%	₱ 85
Held-to-maturity financial assets	1,148,593	2.20%	0.220%	2,527
Loans receivables	146,945,245	17.42%	1.742%	2,559,786
	148,567,061			2,562,398
Interest expense				
Deposit liabilities	14,637,477	1.64%	0.164%	24,005
Bills payable	3,362,308	5.35%	0.535%	17,988
	17,999,785			41,993
Net interest income	₱ 130,567,276			₱ 2,520,405
Effect on equity				₱ 1,764,284

There is no material impact of changes in interest rates on equity for the years ended December 31, 2019 and 2018.

6.05 Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from the all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk 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.

The primary responsibility for the development and implementation of control to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirement for appropriate segregation of duties, including the independent authorization of transaction
- Requirement for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risk faced, and the adequacy of control and procedures to address the risk identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank, with summaries to the Audit Committee and senior management of the Bank.

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial assets and financial liabilities measured at amortized cost approximates their carrying values either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

7.01 Fair Value Hierarchy

The Bank uses the following hierarchy as guide for determining fair value of financial instruments:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchange;

Level 2: 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 for the asset or liability that are not based on observable market data (observable inputs). This level includes equity investment (if any) and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank has no assets or liabilities classified under Level 3.

As of December 31, 2019 and 2018, there are no transfers between Level 1 and Level 2 fair value measurement.

7.02 Fair Value Determination

Basis or assumptions in determining the fair value of financial instruments are disclosed below:

7.02.01 Due from BSP and Other Banks
The estimated fair value of fixed interest-bearing deposits is made based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

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7.02.02 Investment Securities at Amortized Cost
The fair value for investment securities at amortized cost is based on market prices. Where this information is not available, the fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or through valuation techniques using discounted cash flow analysis.

7.02.03 Loans and Receivables
Loans and receivables are net of provisions for probable losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at original rates to determine fair value.

7.02.04 Deposit Liabilities
The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of other deposits represents the estimated cash flows expected to be paid which are discounted at the current market rates.

7.02.05 Other Financial Assets, Bills Payable, Accrued Interest and Other Expenses, and Other Liabilities
Due to their short duration, the carrying amounts of other financial assets, accrued interest and other expenses and other liabilities in the statement of financial position are considered to be reasonable approximations of their fair values.

Bills payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method for those with maturities beyond one year, less settlement payments.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2019	2018
Cash and other cash items:		
Cash in vault	₱ 12,282,657	₱ 9,109,531
Checks and other cash items	4,653,954	10,081
	16,936,611	9,119,612
Due from Bangko Sentral ng Pilipinas	35,950,966	30,658,844
Due from other banks	327,571,303	260,199,309
	₱ 380,458,880	₱ 299,977,765

This account covers funds and other deposits maintained with local depository universal/commercial banks primarily to facilitate checks or other similar payment orders, clearing and collections and other banking services between banks.

Cash and other cash items include cash on hand and checks and other cash items. Cash on hand are actual cash in vault and while checks and other cash items include those checks still in the possession of the Bank awaiting for deposits.

Due from BSP is the balance of demand deposit maintained in compliance with the BSP requirement for rural banks to maintain reserves on savings and time deposits and on certain deposit and deposit substitute liabilities.

Reserves against deposit liabilities for rural banks shall be 3% for savings, time deposits and demand deposits.

On top of the regular reserve requirements, legal reserves against Peso demand deposit, savings, and time deposit and deposit substitutes shall be 0% for rural banks.

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As of December 31, 2019 and 2018, the Bank has been compliant with the reserve requirement as set by the BSP.

Due from other banks comprise of savings deposits bear interest rates ranging from 0.25% to 0.50% and time deposits having interest rates ranging from 0.875% to 1.75% for 2018 and 2017.

Interest earned on deposits on local banks amounted to ₱617,724 and ₱473,223 for the years ended December 31, 2019 and 2018, respectively.

9. INVESTMENT SECURITIES AT AMORTIZED COST

The account amounted to nil as of December 31, 2019 (PFRS 9).

The investments previously classified as held-to-maturity as of December 31, 2018, are the Small and Medium Enterprise Notes (SME Notes) from Small Business Corporation (SB Corporation) as of December 31, 2018 invested by the Bank as an alternative compliance to mandatory credit allocation.

	2018 (PAS 39)
MSME Note for Small Enterprise	₱ 8,305,026
MSME Note for Medium Enterprise	6,920,257
	₱ 15,225,283

Movements of the account are disclosed below:

	2019	2018
Balance at January 1	₱ **15,225,283**	₱ 15,052,537
Additions	–	15,225,283
Redemptions	**(15,225,283)**	(15,052,537)
Balance at December 31	₱ –	₱ 15,225,283

The investments bear interest rate of 1.50% for small and medium enterprise note.

Interest earned on the investment for the years ended December 31, 2019 and 2018 amounted to ₱1,730,176 and ₱1,148,593, respectively.

10. LOANS AND RECEIVABLES – net

The Bank's loan and receivables consist of:

	2019	2018
Current loans	₱ **1,058,204,409**	₱ 857,010,375
Past due loans	**48,509,198**	47,573,184
Items in litigation	**2,326,926**	2,170,782
Total loans and receivables	**1,109,040,533**	906,754,341
Unamortized interests and discounts	**(30,004,856)**	(28,937,200)
	1,079,035,677	877,817,141
Allowance for credit losses	**(27,696,155)**	(34,116,555)
	₱ **1,051,339,522**	₱ 843,700,586

Total earned interest amounted to ₱160,893,998 and ₱146,945,245 for the years ended December 31, 2019 and 2018, respectively.

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The promissory notes of loans and receivables amounting to ₱255,046,950 and ₱130,390,520 are pledged as security for the related bills payable as of December 31, 2019 and 2018, respectively, as disclosed in Note 17.

Breakdown of loan portfolio as of December 31, 2019 and 2018:

	2019	2018
Loans and discount	**₱ 869,238,313**	₱ 598,317,904
Agrarian reform/other agricultural credit	**197,748,761**	264,907,139
Microfinance loans	**12,048,603**	14,505,340
Development incentive loan	**–**	86,758
	1,079,035,677	877,817,141
Allowance for credit losses	**(27,696,155)**	(34,116,555)
	₱ 1,051,339,522	₱ 843,700,586

Average interest rates (%) of loans and receivables as of December 31 are as follows:

	2019	2018
Loans and discounts	**15.27**	14.21
Agrarian reform/other agricultural credit	**22.78**	17.78
Development incentive loans	**8.83**	17.00
Microfinance loans	**26.89**	25.66

The maturity profile of the Bank's loan portfolio follows (net of unamortized discounts):

	2019	2018
Within one year	**₱ 371,806,509**	₱ 236,343,259
Beyond one year but within five years	**628,330,942**	598,507,861
Beyond five years	**78,898,226**	42,966,021
	₱ 1,079,035,677	₱ 877,817,141

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The movements of loans receivable for 2019 are presented as follows (PFRS 9):

2019	Stage 1	Stage 2	Stage 3	Total
Consumer loans				
Balance at January 1, 2019	499,263,624	735,040	17,804,429	517,803,093
New assets originated or purchased	594,583,200	–	–	594,583,200
Assets derecognized or repaid	(367,629,175)	(9,828,247)	(12,245,900)	(389,703,322)
Amounts written off	–	–	(2,516,963)	(2,516,963)
Transfers to/(from) Stage 1	(23,925,647)	23,925,647	–	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	(13,596,784)	13,596,784	–
Others	–	–	–	–
Balance at December 31	**702,292,002**	**1,235,656**	**16,638,350**	**720,166,008**
Commercial loans				
Balance at January 1, 2019	91,197,126	522,573	2,618,527	94,338,226
New assets originated or purchased	122,794,000	–	–	122,794,000
Assets derecognized or repaid	(45,255,258)	(489,755)	(1,469,972)	(47,214,985)
Amounts written off	–	–	–	–
Transfers to/(from) Stage 1	(1,773,003)	1,773,003	–	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	(1,669,949)	1,669,949	–
Others	–	–	–	–
Balance at December 31	**166,962,865**	**135,872**	**2,818,504**	**169,917,241**
Agri-agra loans				
Balance at January 1, 2019	256,143,539	1,579,621	21,950,412	279,673,572
New assets originated or purchased	277,880,000	–	–	277,880,000
Assets derecognized or repaid	(307,322,705)	(25,139,860)	(15,359,435)	(347,822,000)
Amounts written off	–	–	(3,018,835)	(3,018,835)
Transfers to/(from) Stage 1	(45,070,561)	45,070,561	–	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	(19,566,749)	19,566,749	–
Others	–	–	–	–
Balance at December 31	**181,630,273**	**1,943,573**	**23,138,891**	**206,712,737**
Microfinance loans				
Balance at January 1, 2019	10,406,086	–	4,533,364	14,939,450
New assets originated or purchased	24,235,000	–	–	24,235,000
Assets derecognized or repaid	(22,396,857)	–	(3,648,444)	(26,045,301)
Amounts written off	–	–	(884,602)	(884,602)
Transfers to/(from) Stage 1	(4,924,960)	–	4,924,960	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	–	–	–
Others	–	–	–	–
Balance at December 31	**7,319,269**	–	**4,925,278**	**12,244,547**
Total, December 31	**1,058,204,409**	**3,315,101**	**47,521,023**	**1,109,040,533**

The movements of loans receivable for 2018 are presented as follows (PAS 39):

		2018
Balance, January 1	₱	674,131,043
Loan releases		1,923,356,800
Collections		(1,690,733,502)
Balance, December 31	₱	906,754,341

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The movements of allowance for credit losses on loans receivables for 2019 are presented follows (PFRS 9):

2019	Stage 1	Stage 2	Stage 3	Total
Consumer loans				
Balance at January 1, 2019	5,505,442	84,408	9,477,419	15,067,269
New assets originated or purchased	–	–	–	–
Assets derecognized or repaid	–	–	–	–
Amounts written off	–	–	(2,516,963)	(2,516,963)
Transfers to/(from) Stage 1	678,183	–	(678,183)	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	–	–	–
Others	–	–	–	–
Balance at December 31	**6,183,625**	**84,408**	**6,282,273**	**12,550,306**
Commercial loans				
Balance at January 1, 2019	1,499,358	15,458	1,708,657	3,223,473
New assets originated or purchased	–	–	–	–
Assets derecognized or repaid	–	–	–	–
Amounts written off	–	–	–	–
Transfers to/(from) Stage 1	534,651	–	(534,651)	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	–	–	–
Others	–	–	–	–
Balance at December 31	**2,034,009**	**15,458**	**1,174,006**	**3,223,473**
Agri-agra loans				
Balance at January 1, 2019	1,318,249	582,341	11,415,142	13,315,732
New assets originated or purchased	–	–	–	–
Assets derecognized or repaid	–	–	–	–
Amounts written off	–	–	(3,018,835)	(3,018,835)
Transfers to/(from) Stage 1	455,591	(455,591)	–	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	–	–	–
Others	–	–	–	–
Balance at December 31	**1,773,840**	**126,750**	**8,396,307**	**10,296,897**
Microfinance loans				
Balance at January 1, 2019	189,086	–	2,320,995	2,510,081
New assets originated or purchased	–	–	–	–
Assets derecognized or repaid	–	–	–	–
Amounts written off	–	–	(884,602)	(884,602)
Transfers to/(from) Stage 1	152,413	–	(152,413)	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	–	–	–
Others	–	–	–	–
Balance at December 31	**341,499**	–	**1,283,980**	**1,625,479**
Total, December 31	**10,332,973**	**226,616**	**17,136,566**	**27,696,155**

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The changes in the allowance for credit losses on loans for the year ended December 31, 2018 (PAS 39):

	Consumer	Commercial	Agri-Agra	Microfinance	Total
Balance, December 31, 2017	₱ 9,761,754	₱ 774,948	₱ 9,183,120	₱ 2,500,733	₱ 22,220,555
Provision for credit losses	4,750,874	1,550,757	5,379,292	215,077	11,896,000
Balance, December 31, 2018	₱ 14,512,628	₱ 2,325,705	₱ 14,562,412	₱ 2,715,810	₱ 34,116,555

Breakdown of the allowance for credit losses on loans as to specific and general are disclosed below:

2019	Consumer	Commercial	Agri-Agra	Microfinance	Total
Specific loan loss provision	₱ 6,511,271	₱ 52,206	₱ 8,674,726	₱ 2,175,367	₱ 17,413,570
General loan loss provision	6,825,574	1,417,248	1,727,375	312,388	10,282,585
Total allowance for credit losses	**₱ 13,336,845**	**₱ 1,469,454**	**₱ 10,402,101**	**₱ 2,487,755**	**₱ 27,696,155**

2018	Consumer	Commercial	Agri-Agra	Microfinance	Total
Specific loan loss provision	₱ 9,656,029	₱ 1,419,777	₱ 12,149,152	₱ 2,379,461	₱ 25,604,419
General loan loss provision	4,856,599	905,928	2,413,260	336,349	8,512,136
Total allowance for credit losses	₱ 14,512,628	₱ 2,325,705	₱ 14,562,412	₱ 2,715,810	₱ 34,116,555

Allowance for credit losses consisted of a specific component and a general unallocated component. For consumer loans, the specific reserve is based on an aging formula. Specific reserve for corporate loans is based on the classification of the individual loans, in accordance with the guidelines set by the BSP.

Specific reserves are supplemented by a general allowance for loans not covered by specific reserves, which is likewise in line with the BSP guidelines.

In the ordinary course of business, the Bank may enter into loan and other transactions with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risk.

10.01 Impairment Assessment

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

In 2019, the Bank has followed its own Loan Loss Methodology (LLM) that adheres to PFRS 9. The LLM covers the calculation of expected credit losses (ECL) as follows:

$$ECL = PD * LGD * EAD$$

Where:

PD = Probability of Default is the likelihood that an account will default in the future

LGD = Loss Given Default is the percentage of the credit exposure that the Bank can expect to lose if an account default. This is the inverse of recover (1 – Recovery)

EAD = Exposure at Default is the amount of the Bank's credit exposure at the time of default.

Expected Credit Loss (ECL) in the context of PFRS 9 is the probability-weighted estimate of credit losses (i.e., the present value of all cash shortfalls) over the expected life of the financial instrument. It is an essential criterion in formulating capital buffer or LLP to cover for the possible losses that the Bank may incur if borrowers default.

The Bank used two collective approaches to derive probability of default as follows:

a. Survival analysis

   Survival analysis is a method for analyzing data to describe the duration of time for an event to happen. The techniques implored in the analysis create a solution for identifying the proportion of a population which shall survive past a certain time.

   The inverse of survival is death, and in the case of credit, this pertains to delinquency. This methodology aims to identify the probability of default of a portfolio during each specified period in a life of a loan.

b. Migration matrix

   Also known as a probability matrix, migration matrices describe the probability of a transition from one status to another at a specified time period. In case of the Bank, the analysis concerned with the identifying the probability of an account transitioning to a different risk stage at each year of the loan cycle. The succeeding diagram exemplifies how migration matrices works.

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	1st year		
	Stage 1	Stage 2	Stage 3
Stage 1 (0 to 30 DPD)	95.2%	0.6%	4.2%

	2nd year		
	Stage 1	Stage 2	Stage 3
Stage 1 (0 to 30 DPD)	98.1%	1.9%	0.0%
Stage 2 (31 to 90 DPD)	100.0%	0.0%	0.0%
Stage 3 (above 90 DPD)	28.6%	0.0%	71.4%
Total	**95.2%**	**1.8%**	**3.0%**

	3rd year		
	Stage 1	Stage 2	Stage 3
Stage 1 (0 to 30 DPD)	100.0%	0.0%	0.0%
Stage 2 (31 to 90 DPD)	100.0%	0.0%	0.0%
Stage 3 (above 90 DPD)	80.0%	0.0%	20.0%
Total	**99.4%**	**0.0%**	**0.6%**

Given that the accounts are at the first year of its loan term, the probability of moving to Risk Stage 3, if the account is currently at Risk Stage 1, is 4.2%; and the likelihood that it will retain the current status is 95.2%. However, if at the second year, an account is at Risk Stage 3, the probability that it will remain in stage 3 by the end of the year is 71.4%; and the likelihood that it will move back to Stage 1 is 28.6%.

Exposure at default is the outstanding balance of an account after it has been recognized at default. It is computed for the present value of the outstanding balance given its remaining loan term.

Table below shows the computed recovery rates and corresponding loss given default rates based on the Bank's loan loss estimation of accounts.

	LGD calculations	
Loan Segment / Type	Recovery rate	Loss given default
TUBO Loan	36%	64%
Agricultural Loan	10%	90%
LGU Loan	27%	73%
SME Loan	51%	49%
DepEd APDS Loan	36%	64%
Autonomous Loan	26%	74%
Bayaning Bayanihan Loan	25%	75%
Government Loan	41%	59%
Gintong Puhunan	19%	81%
Individual Loan	21%	79%
Private Office	63%	37%
Private School	5%	95%

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During 2018, the Bank has followed Appendix 15 of the MORB except for the computation of allowance for accounts classified as "Loss", computed as follows:

Loan Type/Segments	Individually Assessed	Collectively Assessed
DepEd APDS	67.07%	73.59%
Microfinance Loans	96.73%	89.65%
Agricultural Loans	89.03%	85.51%
Autonomous Schools	85.69%	87.86%
Barangays	97.48%	83.86%
BB Loan	98.44%	84.25%
Small and Medium Scale Enterprise	100.00%	100.00%
Private Institution	58.73%	88.28%
Government	69.86%	79.67%
Individual	96.43%	97.38%
LGU	95.90%	64.84%
Other Micro Enterprise Loans	96.94%	96.80%
Private School	100.00%	100.00%

The figures above are taken from the Bank's historical data, analyzed and computed based on the acceptable formulas of computing recoveries. The Bank has taken into account the recommendations of the BSP based on their evaluation of the LLM. The latest version of the Bank's own LLM has been submitted to the BSP and was acknowledged by the latter on October 15, 2019.

On August 20, 2014, the Bank received a letter from BSP allowing the staggered booking of unbooked specific allowance for credit losses on loans and other risk assets, if any, for a period of 5 years based on the first general examination by BSP of the Consolidated Bank.

Details of the Bank's unbooked allowance for credit losses against its own LLM and Appendix 15 of the MORB as of December 31, 2019 and 2018 are disclosed below:

2019	**Per Bank's own LLM**	**Per Appendix 15**
Required allowance	₱ 27,696,155	₱ 56,190,774
Booked allowance	(27,696,155)	(27,696,155)
Unbooked allowance	–	28,494,619
Balance of unbooked allowance covered by staggered booking	(11,091,000)	(11,091,000)
	₱ (11,091,000)	**₱ 17,403,619**

2018	Per Bank's own LLM	Per Appendix 15
Required allowance	₱ 49,162,185	₱ 54,144,159
Booked allowance	(34,116,555)	(34,116,555)
Unbooked allowance	15,045,630	20,027,604
Balance of unbooked allowance covered by staggered booking	(11,091,000)	(11,091,000)
	₱ 3,954,630	₱ 8,936,604

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10.02 Past Due Loans

Past due loans 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 maturity.

Section 304 of the MORB defined the classification of past due loans as follows:

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual date, in which case, the total outstanding balance thereof shall be considered past due.

However, BSFIs may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due: Provided, That any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays: Provided further, That the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that BSFIs shall regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten (10) days.

Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates to be 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 expenses and reduced by write-offs and reversals.

10.03 Non-Performing Loans

Breakdown of non-performing loans (based on Circular 941) based on days outstanding are as follows:

		2019		2018
Past due accounts:				
Less than 30 days	₱	**169,338**	₱	90,916
30 – 60 days		**84,715**		129,968
61 – 90 days		**228,219**		61,712
91 – 180 days		**3,014,630**		3,812,598
Over 180 days		**43,989,254**		42,757,460
	₱	**47,486,156**	₱	46,852,654

As of December 31, 2019 and 2018, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows (net of unamortized discounts):

		2019		2018
Total Non-performing loans	₱	**47,486,156**	₱	46,852,654
Non-performing loans covered by allowance for credit losses		**(15,600,076)**		(23,386,476)
	₱	**31,886,080**	₱	23,466,178

In Philippine Peso

Section 304 of the MORB defined non-performing loans (NPLs) as follows:

Loans, investments, receivables or any financial asset shall be considered non-performing, even without 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. 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 interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

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

The Bank has restructured loans receivable amounting to ₱261,393 and ₱460,141 as of December 31, 2019 and 2018, respectively.

Information regarding the Bank's non-performing loans is as follows:

	2019	2018
Ratio of gross NPLs to gross TLP (%)	**4.40%**	5.34%
Ratio of net NPLs to gross TLP (%)	**2.95%**	2.67%
Ratio of total allowance for credit losses to gross NPLs (%)	**58.32%**	72.82%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	**36.67%**	54.65%

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – net

The carrying amounts of bank premises, furniture, fixtures and equipment for the years ended December 31, 2019 and 2018 are as follows:

2019	**Land**	**Building and Improvements**	**Furniture, Fixtures and Equipment**	**Total**
Cost:				
At January 1	₱ 21,396,053	₱ 136,612,452	₱ 67,943,608	₱ 225,952,113
Additions	–	6,390,692	11,950,425	18,341,117
Disposal	–	–	–	–
Adjustment	–	–	–	–
December 31	**21,396,053**	**143,003,144**	**79,894,033**	**244,293,230**
Accumulated depreciation:				
At January 1	–	37,460,376	58,881,364	96,341,740
Depreciation (Note 24)	–	7,661,885	6,142,913	13,804,798
Disposal	–	–	–	–
Adjustments	–	–	–	–
December 31	–	**45,122,261**	**65,024,277**	**110,146,538**
Carrying value	**₱ 21,396,053**	**₱ 97,880,883**	**₱ 14,869,756**	**₱ 134,146,692**

In Philippine Peso

2018	Land	Building and Improvements	Furniture, Fixtures and Equipment	Total
Cost:				
At January 1	₱ 23,346,053	₱ 137,149,805	₱ 62,490,727	₱ 222,986,585
Additions	–	2,353,552	6,923,541	9,277,093
Disposal	(1,950,000)	(2,890,905)	(1,470,660)	(6,311,565)
December 31	21,396,053	136,612,452	67,943,608	225,952,113
Accumulated depreciation:				
At January 1	–	31,835,809	56,458,276	88,294,085
Depreciation (Note 24)	–	7,335,851	3,893,748	11,229,599
Disposal	–	(1,710,451)	(1,470,660)	(3,181,111)
Adjustments	–	(833)	–	(833)
December 31	–	37,460,376	58,881,364	96,341,740
Carrying value	₱ 21,396,053	₱ 99,152,076	₱ 9,062,244	₱ 129,610,373

The Bank assesses at each financial reporting date whether there is an indication that an item of bank premises, furniture, fixtures and equipment may be impaired, and believes that there is no such indication as of December 31, 2019 and 2018.

No bank premises, furniture, fixtures and equipment were used as collateral for liabilities as at December 31, 2019 and 2018.

All additions were paid in cash.

As of December 31, 2019 and 2018, the Bank has no commitment to purchase bank premises, furniture, fixtures and equipment.

In 2018, the Bank disposed some of its bank premises, furniture, fixtures and equipment with carrying amount of ₱3,130,454 for ₱3,525,398, resulting to a gain on sale of ₱394,944, as disclosed in Note 23.

Under Section 109 of the MORB, investments in bank premises, furniture, fixtures and other equipment should not exceed 50% of a Bank's unimpaired capital. As of December 31, 2017, the Bank has complied with this provision.

12. INTANGIBLE ASSETS – net

The carrying amounts of the Bank's intangible assets for the years ended December 31, 2019 and 2018 are as follow:

	Note	2019	2018
Cost			
At January 1		₱ **10,524,652**	₱ 8,666,836
Additions		**4,716,170**	1,857,816
Adjustments		–	–
		15,240,822	10,524,652
Accumulated amortization			
At January 1		**4,739,690**	3,760,224
Amortization	24	**1,094,263**	978,633
Adjustments		–	833
		5,833,953	4,739,690
Carrying value		₱ **9,406,869**	₱ 5,784,962

During the year, the Bank carried out a review of the recoverable amounts of its intangible asset. The Bank has determined that there is no indication that an impairment loss has occurred on its intangible asset.

In Philippine Peso

13. ASSETS HELD FOR SALE – net

Included in this account as of December 31, 2019 and 2018:

	2019	2018
At January 1	₱ 1,173,180	₱ 1,173,180
Reclassifications	874,030	–
Disposal	(732,191)	–
At December 31	1,315,019	1,173,180
Allowance for impairment loss	–	(233,511)
Carrying value	₱ 1,315,019	₱ 939,669

Assets held for sale represent real and other properties acquired (ROPA) other than those used for banking purposes acquired by the Bank in settlement of loans and which are intended for sale later by the Bank usually on installment basis. The properties acquired in settlement of loans are taken up at their recorded balances of the total Bank's claim at foreclosure date (unpaid face amount less any recorded allowance for credit losses).

In 2019, the Bank disposed some of its assets held for sale, with carrying amount of ₱454,375 for ₱734,581, resulting to a gain of ₱280,206, as disclosed in Note 23. The related allowance for impairment of the disposed asset is reversed. Also, some of the Bank's assets held for sale are disposed through a raffle drawn on its Christmas Party. The book value of the raffle prizes amounted to ₱44,305 was charged as part of miscellaneous expenses, as disclosed in Note 24.

Strategies of the Bank relative to disposal of assets held for sale are as follows:

1. Publishing of ROPA accounts in the Bank's website
2. Entertaining walk-in and inquiries
3. Updating of ROPA appraisal
4. Updating of communication with previous owners
5. Consider tie-ups with real estate developers

The fair value of the assets held for sale as of December 31, 2019 and 2018 amounted to ₱2,552,970 and ₱2,432,780, respectively. Such fair values have been determined by in-house appraisers on the basis of recent sales of similar assets. For real properties held for sale, fair values have been determined on the basis of recent sales of similar property in the same area as the properties, which were adjusted for differences in key attributes such as property size, zoning, and accessibility, and taking into account the economic conditions prevailing at the time the valuations were made.

In Philippine Peso

14. OTHER ASSETS

Below is the composition of the Bank's other assets as of December 31, 2019 and 2018.

	Note	2019	2018
Accounts receivable		₱ 64,067,863	₱ 33,920,404
Sinking fund redeemable preferred shares		37,688,333	37,060,123
Accrued interest receivable		8,632,317	5,144,360
Prepaid expenses		5,041,053	5,197,700
Retirement benefit asset	25	2,765,605	2,765,605
Stationery and supplies on hand		1,593,544	1,386,340
Bond sinking fund		152,669	152,669
Petty cash fund		30,915	26,000
Others		3,425,451	2,115,854
		123,397,750	87,769,055
Allowance for credit losses – accounts receivable		(1,344,856)	(1,344,856)
Total		₱ 122,052,894	₱ 86,424,199

The changes in the allowance for credit losses – accounts receivable for the years ended December 31, 2019 and 2018 are disclosed below:

	2019	2018
At January 1	₱ 1,344,856	₱ 844,856
Provisions	–	500,000
At December 31	₱ 1,344,856	₱ 1,344,856

Accounts receivable consists mainly of amount due from AGFP claims and amount due from the previous Bank's owners as a result of acquisition of RB Ocampo by RB Camalig.

Others refer to the Bank's souvenir and promotional items.

15. DEPOSIT LIABILITIES

This account represents depositor's accounts consisting of savings, time and non-reserve deposits as shown below:

	2019	2018
Savings	₱ 987,706,158	₱ 808,228,300
Demand	78,742,050	63,855,240
Time	19,551,046	22,416,335
	₱ 1,085,999,254	₱ 894,499,875

Demand deposits are non-interest bearing.

Savings deposits are interest bearing and are withdrawable on demand upon presentation of a properly accomplished withdrawal slip, which is usually accompanied by a passbook.

Time certificate of deposits is interest bearing, has specific maturity dates, and is evidenced by certificates issued by the Bank to depositors/clients.

In Philippine Peso

Interest rates per annum provided to deposits as of December 31, 2019 and 2018 are as follows:

Type	Range
Savings	0.25% – 0.75% per annum
Time	1.25% – 3.50% per annum

Interest expense on deposit liabilities charged to profit or loss for the years ended December 31, 2019 and 2018 amounted to ₱13,495,398 and ₱14,637,477, respectively.

Under the Section 251 of the MORB, savings deposits, time deposits, and demand deposits of the Bank are subject to statutory reserve equivalent to 3.0%.

As of December 31, 2019 and 2018, the Bank's reserves are maintained in the form of Due from BSP.

Available reserves as of December 31, 2019 and 2018 are as follows:

	2019		2018	
	Rate	**Amount**	Rate	Amount
Savings	3%	**₱ 29,530,037**	3%	₱ 24,246,849
Time	3%	**586,531**	3%	672,490
Demand	3%	**2,515,764**	5%	3,192,762
Total		**32,632,332**		28,112,101
Due from BSP (Note 8)		**35,950,966**		30,658,844
Excess reserves		**₱ (3,318,634)**		₱ (2,546,743)

16. DUE TO THE TREASURER OF THE PHILIPPINES

This refers to all credits and deposits, including interest thereon, held by the bank in favor of persons known to be dead or who have not made further deposits or withdrawals during the preceding ten (10) years or more, which have been reported to the Treasurer of the Philippines pursuant to the provisions of the Unclaimed Balances Act (Act No. 3936, as amended). These credits and deposits, including interest thereon, shall remain in this account up to the time the proceeds thereof have been remitted under court order to the Treasurer of the Philippines or other parties.

As of December 31, 2019 and 2018, the Bank has due to the Treasurer of the Philippines amounting to ₱512,175 and ₱99,081, respectively.

17. BILLS PAYABLE

This account pertains to borrowings from the BSP and Land Bank of the Philippines (LBP) amounting to ₱255,046,950 and ₱130,390,520 as of December 31, 2019 and 2018, respectively.

Movements of the account are disclosed below:

	2019	2018
Balance at January 1	**₱ 130,390,520**	₱ –
Availments	**270,046,900**	139,105,790
Payments	**(145,390,470)**	(8,715,270)
Balance at December 31	**₱ 255,046,950**	₱ 130,390,520

Interest rates (%) of bills payable ranges from 5.20% to 5.50% per annum in 2019 and 2018.

In Philippine Peso

The average payment terms of these bills payable is one (1) year. The promissory notes of loans and receivables amounting to ₱255,046,950 and ₱130,390,520 are pledged as security for the related bills payable as of December 31, 2019 and 2018, respectively, as disclosed in Note 10.

Interest expense on bills payable charged to profit or loss for the years ended December 31, 2019 and 2018 amounted to ₱6,208,344 and ₱3,362,308, respectively.

18. ACCRUED TAXES, INTEREST AND OTHER EXPENSES

Included in this account as of December 31, 2019 and 2018 are the following:

		2019		2018
Accrued interest expense	₱	**4,392,152**	₱	5,360,550
Accrued expenses		**3,579,561**		7,131,845
	₱	**7,971,713**	₱	12,492,395

Accrued interest expense consists of:

		2019		2018
Savings deposits	₱	**2,245,156**	₱	2,582,230
Time deposits		**1,662,734**		2,039,291
Borrowings – LBP		**484,262**		733,104
Borrowings – BSP		**–**		5,925
	₱	**4,392,152**	₱	5,360,550

Accrued expenses pertain to expenses already incurred but not yet incurred such as rentals, utilities, and bonuses.

19. OTHER LIABILITIES

The Bank's other liabilities consist of:

		2019		2018
Accounts payable	₱	**53,036,244**	₱	59,492,065
Withholding tax payable		**842,570**		603,127
SSS, Medicare, employer's compensation premiums and PAG-IBIG contribution payable		**221,291**		314,644
Unearned income		**308,023**		308,023
SSS salary loan payable		**86,914**		–
Others		**18,706**		–
	₱	**54,513,748**	₱	60,717,859

Accounts payable includes payable to Agricultural Credit Policy Council (ACPC) advance loan remittances from borrowers, retention fee for the construction of corporate site and other payables.

In 2018, the Bank has entered into an agreement with ACPC to access funds granted by the latter for the implementation of Survival and Recovery (SURE) and Production Loan Easy Access (PLEA) assistance programs.

SURE assistance program is a quick response post-disaster support facility of the Department of Agriculture that provides immediate financial assistance package to small farmers and fisherfolk and their households in calamity-affected areas so that they may immediately regain their capacity to earn a living.

In Philippine Peso

PLEA assistance program is a special lending facility designed to address the needs of farmers and fisherfolk-borrowers that are classified as poor. The facility seeks to extend credit that is fast, convenient and at a cost affordable to the intended borrowers.

20. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loans and other transactions with certain directors, officers, stakeholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the terms as with other individuals and businesses of comparable risks.

20.01 DOSRI Loans

The General Banking Act and BSP regulations limit the amount of the loans to each DOSRI as follows:

a. The individual ceiling for credit accommodations of a bank to each of its DOSRI shall be equivalent to his outstanding deposits and book value of his paid-in capital in the lending bank. The unsecured credit accommodations to each of the Bank's directors and officers shall not exceed 30% of his total credit accommodations.

b. The aggregate ceiling for credit accommodations, whether direct or indirect, to DOSRI of a bank shall not exceed 15% of the total loan portfolio of the Bank or its combined capital accounts net of deferred income tax, unbooked valuation reserves and other capital adjustments required by the BSP, whichever is lower. The total unsecured direct and indirect borrowings of directors and officers shall not exceed 30% of the aggregate ceiling or the outstanding direct/indirect credit accommodations thereto, whichever is lower.

The Bank has no DOSRI and related party loans as of December 31, 2019 and 2018.

For the years ended December 31, 2019 and 2018, the Bank is in full compliance with the General Banking Act and the Bangko Sentral ng Pilipinas (BSP) regulations on DOSRI loans. The outstanding balance of fringe benefit loans to employees under the Bank's Fringe Benefit Loans Program approved by the BSP amounted to ₱8,656,577 and ₱8,173,769 as of December 31, 2019 and 2018, respectively.

20.02 DOSRI Deposits

Details of deposits from related parties as of December 31, 2019 and 2018 are shown below:

	2019	2018
Time and savings deposits	₱ **30,435,222**	₱ 25,375,762

Interest on DOSRI deposits are within the approved Board Rates ranging from 0.25% to 3.50%.

20.03 Real Estate Transactions with DOSRI

On August 25, 2018, the stockholders, through Stockholders Resolution No.2018/07, approved the sale of the Bank's property in Virac to FC Moraleda Corporation amounting to ₱3,200,000 covered by TCT Nos. 15020 and 14969. The stockholders also approved that the Bank lease the said property by paying a monthly rental amounting to ₱33,750, net of tax, for a period of 10 years starting October 1, 2018.

The Bank is also leasing properties for its operations from its lessor, AMMIN Holdings, Inc. Real estate transactions with DOSRI were reported to the BSP.

Rent expense recognized from its related party transactions amounted to ₱1,534,217 and ₱1,138,579 for the years ended December 31, 2019 and 2018, respectively.

In Philippine Peso

20.04 Remuneration of Key Management Personnel

The key management compensation for the years ended December 31, 2019 and 2018 are composed of:

		2019		2018
Directors' fees	₱	1,157,895	₱	1,263,743
Key management personnel compensation, salaries, and other short-term benefits		21,553,505		19,096,287
	₱	22,711,400	₱	20,360,030

20.05 Other related party transactions

Management and professional fees incurred by the Bank from its related parties amounted to ₱90,000 for the years ended December 31, 2019 and 2018.

21. CAPITAL STOCK

The issued capital of the Bank for the years ended December 31, 2019 and 2018 are as follows:

		2019		2018
Preferred stock	₱	45,000,000	₱	45,000,000
Common stock		172,552,200		172,552,200
		217,552,200		217,552,200
Additional paid-in capital		90,914		90,914
	₱	217,643,114	₱	217,643,114

21.01 Preferred Stock

Shown below are the details on the movements of common stock for the years ended December 31, 2019 and 2018:

	2019			2018		
	Shares		Amount	Shares		Amount
Authorized shares ₱100 par value	1,300,000	₱	130,000,000	1,300,000	₱	130,000,000
Issued and fully paid, at ₱100 par value						
Balance, beginning	450,000	₱	45,000,000	450,000	₱	45,000,000
Issuances	–		–	–		–
Balance, December 31	450,000	₱	45,000,000	450,000	₱	45,000,000

Preferred stocks are redeemable at par value by the Bank after at lease five (5) years from the issuance of the stocks. However, the Bank may, at its option, redeem such share before five (5) years from issuance thereof. Redemption of shares shall be allowed at the specific dates or period fixed for redemption only upon prior approval of the Bangko Sentral ng Pilipinas, and where conditions of the issuance specifically state, only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption. Provided, that such redemption may not be made where the Bank is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the Bank to meet its debt as they mature. Preferred stocks are automatically convertible to common stock upon redemption.

In Philippine Peso

Preferred stocks do not carry power to vote and shall earn cumulative cash dividend at a certain rate of interest to be determined and fixed by the Board of Directors upon subscription thereof. Also, preferred stocks shall have no right of pre-emption to buy new shares to be issued by the Bank.

21.02 Common Stock

Shown below are the details on the movements of common stock for the years ended December 31, 2019 and 2018:

	2019			2018		
	Shares		**Amount**	Shares		Amount
Authorized shares At ₱100 par value	**3,500,000**	**₱**	**350,000,000**	3,500,000	₱	350,000,000
Issued and fully paid, at ₱100 par value						
Balance, beginning	**1,725,522**	**₱**	**172,552,200**	1,725,522	₱	172,552,200
Issuances	**–**		**–**	–		–
Balance, December 31	**1,725,522**	**₱**	**172,552,200**	1,725,522	₱	172,552,200

Common stocks carry one vote per share and a right to dividend.

21.03 Capital Management

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure, which is composed of paid-up capital and surplus reserve, and makes adjustments to these ratios 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 structure or issue capital securities.

Based on MORB Section 121, the Bank qualifies as a rural bank with head office in all other areas outside National Capital Region (up to 3rd class municipalities with 11 to 100 branches). This type is required to meet ₱40,000,000 minimum capitalization. As of December 31, 2019 and 2018, the Bank is compliant with the minimum capitalization requirement.

Under current banking regulations, the combined capital accounts of a Bank should not be less than an amount equal to ten percent (10%) of its risk assets. Risk assets consists of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on 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.

The regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 of the Bank are defined as follows:

a. Tier 1 Capital includes the following:
   i. paid up common stock,
   ii. surplus,
   iii. surplus reserves, and
   iv. undivided profits (for domestic banks only),

   Subject to deductions for:
   i. deferred income tax.

In Philippine Peso

b. Tier 2 Capital includes:
   i. paid up perpetual cumulative preferred stock,
   ii. general loan loss provision,

   Subject to deductions for:
   i. sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption.

Under the 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 capital) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRSs in some respects.

Information regarding the Bank's "unimpaired capital" for the years ended December 31, 2019 and 2018 is shown below.

		2019 In (000,000's)		2018 In (000,000's)
Tier 1 Capital	₱	**248.52**	₱	236.21
Tier 2 Capital		**17.59**		16.45
Net qualifying capital	₱	**266.11**	₱	252.66
Total risk-weighted assets	₱	**1,743.57**	₱	1,364.65
Tier 1 ratio		**14.25%**		17.31%
Total capital adequacy ratio		**15.26%**		18.51%

22. SURPLUS

22.01 Surplus Reserve

For the years ended December 31, 2019 and 2018, surplus reserve has the following composition:

		2019		2018
At January 1	₱	**39,119,439**	₱	21,119,439
Appropriation of surplus free		**9,000,000**		18,000,000
At December 31	₱	**48,119,439**	₱	39,119,439

The Board of Directors, through Board Resolution No. 2019/58 and 2018/70 approved to set aside ₱9,000,000 and ₱18,000,000 from surplus free to surplus reserves for the redemption of preferred shares for the years ended December 31, 2019 and 2018, respectively.

22.02 Surplus Free

The table below shows the surplus free for the years ended December 31, 2019 and 2018.

		2019		2018
At January 1	₱	**32,922,303**	₱	37,963,046
Appropriation of surplus free		**(9,000,000)**		(18,000,000)
Profit		**17,130,922**		12,959,257
Dividends declared		**(6,750,000)**		–
At December 31	₱	**34,303,225**	₱	32,922,303

In Philippine Peso

The Bank's surplus is not subject and is exempt from the provision of improperly accumulated earnings tax as provided under Section 29 of National Internal Revenue Code of the Philippines and as implemented by Revenue Regulation 02-2001, and Section 34 Republic Act No. 8791 requiring banks to maintain a specific minimum Capital Adequacy Ratio (CAR).

In 2019, the Board of Directors, through Board Resolution No. 2019/141 approved the declaration of dividends amounting to ₱6,750,000 to preferred stocks from the surplus free and paid during the same year.

23. OTHER OPERATING INCOME

The account is composed of the following other operating income:

		2019		2018
Commissions	₱	**12,205,693**	₱	18,723,757
Service charges		**5,407,497**		3,374,133
Loan penalty income		**3,415,280**		1,888,008
Recovery of charged-off assets		**2,179,109**		4,365,339
Gain on sale of non-financial assets		**280,206**		394,944
Miscellaneous income		**3,510,379**		3,232,246
	₱	**26,998,164**	₱	31,978,427

Recovery of charged-off assets pertains to the collection of accounts previously written-off.

Gain on sale of non-financial assets pertain to the following:

	Notes		**2019**		2018
Gain on sale of:					
Bank premises, furniture, fixtures and equipment	11	₱	–	₱	394,944
Assets held for sale	13		**280,206**		–
		₱	**280,206**	₱	394,944

Miscellaneous income includes rental income and other income from sale of Bank's souvenir and promotional items.

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24. OTHER OPERATING EXPENSES

The account is composed of the following other operating expenses:

	Notes	2019	2018
Compensation and benefits		₱ 70,949,457	₱ 63,591,839
Depreciation	11	13,804,798	11,229,599
Security and janitorial		10,867,639	9,602,381
Rent	26	6,514,921	5,311,787
Travelling expense		4,890,363	3,647,420
Power, light and water		4,268,071	4,185,044
Postage, telephone, cables		3,652,456	3,756,310
Fuel and lubricants		3,438,603	3,269,901
Insurance		3,197,024	3,038,706
Management and other professional fee		2,666,263	1,188,316
Documentary stamps tax		2,039,848	1,404,537
Stationery and supplies used		1,776,400	1,774,874
Staff development		1,765,445	1,605,637
Repairs and maintenance		1,722,889	1,644,858
Taxes and licenses		1,743,840	1,578,831
Representation and entertainment		1,312,444	1,209,004
Amortization	12	1,094,263	978,633
Advertising and publicity		770,715	845,076
Information technology expense		499,367	140,711
Banking supervision fees		247,187	221,522
Membership fees		83,580	111,223
Litigation expenses on assets acquired		65,825	70,911
Periodicals and magazines		27,477	25,617
Fines, penalties and charges		–	2,000
Miscellaneous expenses		9,251,258	11,610,091
		₱ 146,650,133	₱ 132,044,828

Miscellaneous expenses pertain to high volume with relatively small value expenses such as guarantee fees and other expenses.

Compensation and benefits include:

	Note	2019	2018
Salaries and allowances		₱ 65,747,784	₱ 58,947,798
SSS, Medicare & employees' compensation premium and PAG-IBIG contributions		4,043,778	3,380,298
Directors' and committee member's fees		1,157,895	1,263,743
		₱ 70,949,457	₱ 63,591,839

25. RETIREMENT BENEFIT OBLIGATION

The Bank's retirement plan is non-contributory and of the defined benefit type which provides a retirement benefit from eighty percent (80%) up to one hundred fifty percent (150%) of final monthly pay for every year of credited service. Benefits are paid in a lump sum upon retirement or separation in accordance with the terms of the plan.

The most recent actuarial valuations of plan assets and the present value of the retirement benefit obligation were carried out at December 31, 2019 by E.M. Zalamea Actuarial Services, Inc. The present value of the retirement benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. However, the management opted not to follow the study for the year ended December 31, 2019.

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Net assets recognized in the statements of financial position amounted to ₱2,765,605 as of December 31, 2019 and 2018, as disclosed in Note 14.

The funding status of the retirement benefit plan is disclosed below:

	Note	2019	2018
Present value of defined benefit obligation		₱ 18,413,084	₱ 18,413,084
Fair value of the plan assets		(21,379,050)	(21,379,050)
Funding status – Deficit (surplus)		(2,965,966)	(2,965,966)
Effect of asset ceiling		200,361	200,361
Net retirement benefit asset	14	₱ (2,765,605)	₱ (2,765,605)

Cumulative balances of other comprehensive income in respect of retirement benefit plans amounted to ₱1,339,668, net of deferred tax amounting to ₱574,144 as of December 31, 2019 and 2018.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

The assumptions used to determine retirement benefits of the Bank are as follows:

	2019	2018
Discount rate	–	–
Salary rate increase	–	–

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero-coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The allocation of the fair value of plan assets at the end of the reporting period by category is presented below.

	2019		2018	
	%	Amount	%	Amount
Cash and cash equivalents	1.28	273,652	1.28	₱ 273,652
Equity instruments	46.74	9,992,568	46.74	9,992,568
Debt instruments – government bonds	17.18	3,672,921	17.18	3,672,921
Debt instruments – other bonds	25.73	5,500,830	25.73	5,500,830
Unit investments trust funds	6.87	1,468,741	6.87	1,468,741
Others	2.20	470,338	2.20	470,338
Total	100.00	21,379,050	100.00	₱ 21,379,050

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The information on the sensitivity analysis and the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation are described below:

	Impact on Retirement Benefit Obligation		
2019	**Change in Assumption**	**Increase in Assumption**	**Decrease in Assumption**
Discount rate	+/- 1.0%	–	–
Salary growth rate	+/- 1.0%	–	–

	Impact on Retirement Benefit Obligation		
2018	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 1.0%	–	–
Salary growth rate	+/- 1.0%	–	–

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be a representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The retirement assets are valued by the fund manager at fair value using the mark-to-market valuation. While no significant changes in asset allocation are expected in the next financial year, the Retirement Plan Trustee may make changes at any time.

The expected future benefit payments are as follows:

Financial Year		
2020	₱	**523,909**
2021		**1,132,757**
2022		**665,101**
2023-2027		**9,493,685**

26. OPERATING LEASE AGREEMENTS

The Bank has several lease agreements which are renewable under certain terms and conditions. The rentals are included as part of Depreciation/Amortization, rent and other equipment-related expenses.

On March 8, 2011, the Bank entered into a lease agreement with the owner of the building Bonacua Commercial Building, located at Guevara St., San Roque, Iriga City. The leased premise is currently being used by the Bank's unit in Iriga City.

The lease contract for the Tabaco City branch was entered into by the Bank for a 25-year lease contract with Ms. Nelia A. Ziga for a monthly rental of ₱50,000 from 1st to 2nd year with a 5% escalation beginning on the 4th year up to the 10th subject to renegotiation on the renewal of the contract. The contract was renewed on August 8, 2018 subject to 5% annual increase based on the original contract.

On March 15, 2014, lease contract with the owner of Royal and Park Square and Commercial Complex was entered by the Bank for a 102 sq. meter commercial space for its Daraga Office with monthly rental of ₱44,000 subject to a 10% increase in the fourth year of the contract. Contract is renewable.

Lease contract was also entered by the Bank with the owner of South Sea Construction and Development Corporation on February 1, 2013 to expire on December 31, 2022, renewable upon mutual agreement of both parties for a portion of property consisting of the ground floor containing an area of 125 sq. meters with monthly rental of ₱25,000 subject to a 5% increase annually starting on the fourth year of the contract. Leased premise is for the use of the Bank's Bulan office.

On July 1, 2014, a 10-year lease contract was also entered by the Bank with AMMIN Holdings for the ground floor containing an area of 144 sq. meters of the building located at Penaranda Street, Legazpi City. Monthly rental is ₱39,500, inclusive of VAT, less withholding tax. Same is subject to a 5% annual increase beginning on the 6th year of the contract. Leased premise is for the use of the Bank's Legazpi office.

Building containing 145.72 sq. meters office space located at Rizal Street, Barangay 5, Centro Camalig Albay was also leased by the Bank from AMMIN Holdings for the use of its Camalig Office. Contract is for 10 years commencing from January 1, 2014 to December 31, 2023 with ₱39,000 monthly rental, inclusive of VAT and other taxes subject to 5% increase annually beginning on the 6th year or January 1, 2019 applied on the base rent of ₱39,000. An additional office space was also leased by the Bank from the same lessor starting July 1, 2015 to December 31, 2023 for an additional monthly rental of ₱7,500.

Portion of commercial building located at Vinzon's Avenue Brgy. Gahonon, Daet Camarines Norte containing an area 92 sq. meters was also leased by the Bank from Mona Liza A. Arandia, lessor, for the use of its Daet office. The lease is for 10 years commencing on November 16, 2015 to November 15, 2025. Monthly rental is ₱23,000 net of taxes, which shall be increased by ₱1,000 annually beginning on the 3rd year or November 16, 2017. The escalation of ₱1,000 will stop on the 9th year until the end of the contract on the 10th year.

The Bank also leased a building from Carl Anthony Clores, lessor, located at Zurbito corner Domingo Streets, Barangay Pating, Masbate City, containing an area of 120 sq. meters for 10 years commencing from August 16, 2010 to August 15, 2020 renewable upon mutual agreement of both parties. Monthly rental is ₱30,000, inclusive of VAT but exclusive of applicable withholding taxes, and subject to 5% increase on the monthly rental beginning on the 4th year up to the 10th year.

The Bank leased a building in Brgy. Piot, Sorsogon City to be used as its new office in Sorsogon City. Monthly rental amounted to ₱42,000.

A building located at Cumadcad, Castilla, Sorsogon was leased by the Bank beginning March 1, 2018 for a period of 10 years, for the use of its Castilla office. Monthly rent per contract amounted to ₱15,000, with 10% increase on the 4th year and every two (2) years thereafter.

The Bank also leased a building located at Cataingan, Masbate at a monthly rate of ₱12,000. Terms of the lease contract included 10% increase in rent every two (2) years. The leased property will be used for the Bank's Cataingan office.

A building located in Ragay, Camarines Sur was leased by the Bank for ten (10) years beginning July 16, 2019. Monthly rental amounted to ₱40,421, with 5% increase on the 3rd year and every two (2) years thereafter.

The Bank leased a building in Manito, Albay for a period of ten (10) years beginning March 15, 2019 with a monthly rental of ₱10,000 subject to 5% increase on the 4th year and every two (2) years thereafter.

The Bank also leased a building from Bocago Clan Agri-aqua Farm, Inc., located in Del Gallego, Camarines Sur beginning April 3, 2019 for a period of ten (10) years with a monthly rental of ₱18,000 subject to 8% increase on the 3rd year and every two (2) years thereafter.

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Also, as disclosed in Note 20, the Bank sold a property to FC Moraleda Corporation and subsequently leased the property at monthly rate of ₱33,750, net of tax, for a period of 10 years starting October 1, 2018. Terms of the lease contract included 10% increase on the 2nd year and every two (2) years thereafter.

Rent expense recognized in the statement of comprehensive income amounted to ₱6,514,921 and ₱5,311,787 for the years ended December 31, 2019 and 2018, respectively as disclosed in Note 24.

At the reporting date, the future minimum lease payment under non-cancellable operating leases is as follows:

		2019		2018
Not later than one year	₱	**6,428,693**	₱	5,157,100
Later than one year and not later than five years		**20,083,699**		17,133,925
Later than five years		**16,718,712**		2,786,125
	₱	**43,231,104**	₱	25,077,150

27. INCOME TAXES

Under Philippine tax laws, the Bank is subject to percentage and other taxes (included in taxes and licenses in the comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax. The Bank's liability will be based on regulations to be issued by tax authorities.

Income taxes include the corporate income tax, discussed below, and final tax paid which represents the final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as provision for income tax in the statements of income.

Under current tax regulations, the applicable income tax rate is thirty percent (30%). Interest allowed as a deductible expense is reduced by an amount equivalent to thirty three percent (33%) of interest income subjected to final tax. Also, entertainment, amusement and recreation (EAR) expense is limited to one percent (1%) of net revenues, as defined, for sellers of services beginning September 1, 2002.

The Bank's liability for income tax is based on existing tax laws and BIR regulations. However, income tax expense as shown on the statement of position is determined under the provision of PAS 12 *Income Taxes*. Under PAS 12, income tax expense is the sum of current tax expense computed under tax laws and deferred tax expense determined through the use of balance sheet liability method. Deferred tax expense is the sum of changes in deferred tax asset and deferred tax liability. The balance sheet liability method focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

27.01 Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

		2019		2018
Income tax expense – current	₱	**4,829,145**	₱	8,864,418
Income tax expense (benefit) – deferred		**1,926,120**		(3,718,800)
	₱	**6,755,265**	₱	5,145,618

In Philippine Peso

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the tax rate for the years ended December 31, 2019 and 2018 is as follows:

		2019		2018
Accounting profit	₱	**23,886,187**	₱	18,104,875
Tax expense at 30%		**7,165,856**		5,431,463
Tax effect of:				
Interest income subject to final tax		**(704,370)**		(486,545)
Non-deductible interest expense		**290,553**		200,700
Non-deductible expense		**3,226**		–
	₱	**6,755,265**	₱	5,145,618

28. DEFERRED TAXES

28.01 Deferred Tax Assets

The components of the Bank's deferred tax assets and liabilities and their respective movements for the years ended December 31, 2019 and 2018 are as follow:

		Allowance for credit losses				
		Loans receivable		Accounts receivable		Total
Balance, December 31, 2017	₱	6,666,167	₱	253,457	₱	6,919,624
Recognition in profit or loss						
Origination		3,568,800		150,000		3,718,800
Balance, December 31, 2018		10,234,967		403,457	₱	10,638,424
Recognition in profit or loss						
Reversal		(1,926,120)		–		(1,926,120)
Balance, December 31, 2019	₱	**8,308,847**	₱	**403,457**	₱	**8,712,304**

28.02 Deferred Tax Liability

The Bank's deferred tax liability as of December 31, 2019 and 2018 amounted to ₱829,682 arising from net retirement benefit asset.

29. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table shows the reconciliation analysis of liabilities arising from financing activities for the years ended December 31, 2019 and 2018:

	2018	Cash Inflow	Cash Outflow	Non-cash changes	2019
Bills payable	130,390,520	270,046,900	(145,390,470)	–	255,046,950

	2017	Cash Inflow	Cash Outflow	Non-cash changes	2018
Bills payable	–	139,105,790	(8,715,270)	–	130,390,520

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30. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank is a claimant in various cases, arising from the normal course of business, pending in courts for claims in favor of the Bank; the outcome of which cannot be determined at present.

31. EVENTS AFTER THE END OF THE REPORTING PERIOD

As a measure to contain the COVID-19 outbreak, on March 12, 2020, the Office of the President of the Philippines initially issued a memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. Subsequently on March 16, 2020, President Rodrigo Duterte declared the entire Luzon island under "enhanced community quarantine" which is effectively a total lockdown, restricting the movement of the population with exceptions, in response to the growing pandemic of coronavirus disease 2019 (COVID-19) in the country. Additional lockdown restrictions mandated the temporary closure of non-essential shops and businesses.

The Bank considers the measure taken by the government as a non-adjusting event, which does not impact its financial position and performance as of and for the year ended December 31, 2019. However, it could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Bank cannot determine at this time the impact to its financial position, performance and cash flows. The Bank will continue to monitor the situation.

Except for the above, no events after the end of the reporting date were identified in these financial statements that provide evidence of conditions that existed at the reporting date (adjusting events after reporting date), and that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

32. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Board of Directors on June 20, 2020.

33. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 15-2010

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

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

33.01 Gross Receipts Tax (GRT)

In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-Bank financial intermediaries performing quasi-Banking function pursuant to Section 121 of the Tax Code, as amended.

Per Rural Bank Act No. 7353, Sec.15, All rural banks created and organized under the provisions of this Act shall be exempt from the payment of all taxes, fees and charges of whatever nature and description, except the corporate income tax and local taxes, fees and charges, for a period of five (5) years from the date of commencement of operations. The application for exemption per Board Resolution No.2015/136 was already approved.

In Philippine Peso

Gross receipt tax paid by the Bank as of December 31, 2019 and 2018 amounted to nil.

33.02 Withholding Taxes

Withholding taxes paid and accrued during the year are as follows:

2019		**Paid**		**Accrued**		**Total**
Expanded withholding tax	₱	908,435	₱	157,668	₱	1,066,103
Withholding tax on compensation		1,759,154		274,276		2,033,430
Final withholding tax		2,413,290		410,626		2,823,916
	₱	**5,080,879**	**₱**	**842,570**	**₱**	**5,923,449**

2018		Paid		Accrued		Total
Expanded withholding tax	₱	666,524	₱	57,846	₱	724,370
Withholding tax on compensation		1,354,252		233,564		1,587,816
Final withholding tax		2,948,784		311,717		3,260,501
	₱	4,969,560	₱	603,127	₱	5,572,687

33.03 Taxes and Licenses

Other taxes and licenses paid and accrued during 2019 and 2018 are as follows:

		2019		2018
Permit fees	₱	**1,175,726**	₱	1,000,463
Others		**568,114**		578,368
	₱	**1,743,840**	₱	1,578,831

33.04 Tax Cases

The Bank has no outstanding tax cases in any other court or bodies outside of the BIR as of December 31, 2019 and 2018.

34. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 19-2011

Revenue Regulation No. 19-2011 was issued to prescribe the new BIR forms that will be used for Income Tax filing covering and starting with December 31, 2011. In case of the corporations using BIR form 1702, the tax payer is now required to include as part of its notes to the audited financial statements, which will be attached to the income tax return (ITR), the schedules and information on taxable income and deductions to be taken. The information is presented for the purposes of filing with the BIR and is not required part of the basic financial statements

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The following are the schedules prescribed under existing revenue issuances applicable to the Bank for the year ended December 31, 2019:

34.01 Interest Income

The breakdown of the Bank's interest income consists of:

	Per financial statements	Per income tax return
Interest income on loans	₱ 160,893,998	₱ 160,893,998
Interest on investments	1,730,176	–
Interest on bank deposits	617,724	–
	₱ 163,241,898	**₱ 160,893,998**

34.02 Cost of Services

The breakdown of deductible cost of services consists of:

	Per financial statements	Per income tax return
Personnel costs – direct	₱ 39,560,365	₱ 39,560,365
Interest expense	19,703,742	18,735,233
Insurance – PDIC	2,078,963	2,078,963
Supervision fees	247,187	247,187
	₱ 61,590,257	**₱ 60,621,748**

34.03 Other Operating Income

Details of operating and taxable other income consists of:

	Per financial statements	Per income tax return
Commissions	₱ 12,205,693	₱ 12,205,693
Service charges	5,407,497	5,407,497
Loan penalty income	3,415,280	3,415,280
Recovery of charged off assets	2,179,109	2,179,109
Gain on sale of non-financial assets	286,936	286,936
Miscellaneous income	3,503,649	3,503,649
	₱ 26,998,164	**₱ 26,998,164**

In Philippine Peso

34.04 Allowable Deductions

Deductible costs and expenses consist of:

	Per financial statements	Per income tax return
Compensation and fringe benefits	₱ 31,389,092	₱ 31,389,092
Depreciation	13,804,798	13,804,798
Security and janitorial	10,867,639	10,867,639
Rent	6,514,921	6,514,921
Travelling expense	4,890,363	4,890,363
Power, light and water	4,268,071	4,268,071
Postage, telephone, cables	3,652,456	3,652,456
Fuel and lubricants	3,438,603	3,438,603
Management and other professional fee	2,666,263	2,666,263
Documentary stamps tax	2,039,848	2,039,848
Stationery and supplies used	1,776,400	1,776,400
Staff development	1,765,445	1,765,445
Repairs and maintenance	1,722,889	1,722,889
Taxes and licenses	1,743,840	1,743,840
Representation and entertainment	1,312,444	1,312,444
Insurance – others	1,118,061	1,118,061
Amortization	1,094,263	1,094,263
Advertising and publicity	770,715	770,715
Information technology expense	499,367	499,367
Membership fees	83,580	83,580
Litigation expenses on assets acquired	65,825	65,825
Periodicals and magazines	27,477	27,477
Accounts written-off	–	6,420,400
Miscellaneous expenses	9,251,258	9,240,504
	₱ 104,763,618	**₱ 111,173,264**

35. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR 1074

On January 8, 2020, the Monetary Board (MB), through Resolution No. 48, approved the amendments to the relevant provisions of the MORB. Subsequently, on February 7, 2020, the BSP issued Circular No. 1074 requiring banks to include the following information in their audited financial statements:

35.01 Basic Quantitative Indicators of Financial Performance

	2019	2018
Return on average equity	**5.78%**	4.55%
Return on average assets	**1.11%**	1.02%
Net interest margin	**13.21%**	15.34%

35.02 Description of Capital Instruments Issued

Refer to Note 21.

35.03 Significant Credit Exposures

Disclosure as to industry is as follows (net of unamortized discounts):

	2019		2018	
	Amount	**%**	Amount	%
Household consumption	**₱ 427,965,314**	**39.66%**	₱ 480,231,080	54.71%
Agriculture, forestry, and fishing	**198,391,113**	**18.39%**	265,819,066	30.28%
Human health and social work activities	**57,805,928**	**5.36%**	25,527,413	2.91%
Wholesale and retail trade repair of motor vehicles, motorcycles	**50,678,143**	**4.70%**	38,471,630	4.38%
Education	**5,016,925**	**0.46%**	4,058,462	0.46%
Others service activities	**339,178,254**	**31.43%**	63,709,490	7.26%
	₱ 1,079,035,677	**100%**	₱ 877,817,141	100.00%

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30% of total loan portfolio or 10% of Tier 1 Capital.

In 2019, the Bank is exposed to household consumption and other service activities, amounting to more than 30% of the total loan portfolio. The Bank is also exposed to agriculture, forestry, and fishing, wholesale and retail trade repair of motor vehicles, motorcycles and human health and social work activities amounting to more than 10% of Tier 1 Capital.

In 2018, the Bank is exposed to agriculture, forestry, and fishing and household consumption, amounting to more than 30% of the total loan portfolio. The Bank is also exposed to wholesale and retail trade repair of motor vehicles, motorcycles, human health and social work activities and other service activities, amounting to more than 10% of Tier 1 Capital.

35.04 Breakdown of Total Loans

35.04.01 As to Security

Breakdown of loans as to secured and unsecured, and secured loan as to type security as of December 31, 2019 and 2018 are as follows: (net of unamortized discounts):

	2019	2018
Secured by real estate mortgage	**₱ 67,761,740**	₱ 42,829,428
Secured by chattel mortgage	**113,545,865**	75,482,911
Secured by other collateral	**114,709,319**	129,951,617
Secured	**296,016,924**	248,263,956
Unsecured	**783,018,753**	629,553,185
	₱ 1,079,035,677	₱ 877,817,141

In Philippine Peso

35.04.02 As to Status per Product Line

Breakdown of gross loan receivables as to status are disclosed below:

2019					
Loan Product	**Performing**		**Non-performing**		**Total**
	Current	**Past Due**	**Past Due**	**Under Litigation**	
TUBO	447,358,422	225,162	3,280,027	25	450,863,636
Agriculture	96,591,535	1,851,226	15,823,461	–	114,266,222
LGU	188,397,653	587,727	8,614,730	5	197,600,115
SME	165,243,835	135,873	2,786,211	–	168,165,919
APDS	5,839,534	45,191	271,984	8	6,156,717
Autonomous	28,488,808	151,242	3,528,264	1	32,168,315
BB	6,685,799	43,534	950,344	–	7,679,677
Government	19,601,894	117,839	3,102,560	2	22,822,295
GP	7,319,269	–	4,925,293	–	12,244,562
Individual	74,513,468	6,493	1,609,247	2,326,885	78,456,093
Private Office	16,616,352	150,814	301,965	–	17,069,131
Private School	1,547,840	–	11	–	1,547,851
Total	**1,058,204,409**	**3,316,101**	**45,194,097**	**2,326,926**	**1,109,040,533**

2018					
Loan Product	Performing		Non-performing		Total
	Current	Past Due	Past Due	Under Litigation	
TUBO	301,504,645	53,978	2,929,782	25	304,488,430
Agriculture	148,977,312	1,415,776	12,381,387	–	162,774,475
LGU	149,615,669	374,235	10,954,011	5	160,943,920
SME	89,112,479	522,573	2,618,517	–	92,253,569
APDS	4,786,520	46,508	384,648	8	5,217,684
Autonomous	43,319,627	182,844	5,115,099	1	48,617,571
BB	6,920,606	101,142	1,135,334	–	8,157,082
Government	16,690,670	65,843	3,586,994	2	20,343,509
GP	10,406,086	–	4,501,127	–	14,907,213
Individual	60,410,128	–	997,317	2,170,741	63,578,186
Private Office	17,778,858	74,335	67,177	–	17,920,370
Private School	7,487,775	–	64,557	–	7,552,332
Total	857,010,375	2,837,234	44,735,950	2,170,782	906,754,341

35.05 Information on Related Party Loans

Refer to Note 20.

35.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2019 and 2018, bills payable amounting to ₱255,046,950 and ₱130,390,520, respectively, are secured by a pledge of certain asset as follows:

	2019	2018
Loans receivables	₱ **255,046,950**	₱ 130,390,520

35.07 Nature and Amount of Contingencies and Commitments

In the normal course of the Bank's operations, there are various commitments to extend credit which are not reflected in the Banking financial statements. As at December 31, 2019 and 2018, management believes that liabilities or losses, if any, arising from these commitments will not have a material effect on the financial position and results of operations of the Bank.

The following is a summary of the Bank's contingent accounts as of December 31, 2019 and 2018:

	2019	2018
Items held as collateral	**440**	412
Items held for safekeeping	**4**	6
	444	418

C E R T I F I C A T I O N

We have audited the financial statements of **CAMALIG BANK, INC. (A RURAL BANK)** with principal office address at Rizal Street, Ilawod East, Legazpi City, Albay.

In compliance with Circular 1074 dated February 7, 2020, **ALAS OPLAS & CO. CPAs**, external auditors of **CAMALIG BANK, INC. (A RURAL BANK)** (the "Bank") do hereby depose and state that we complied with the following:

1. Confidentiality clause pertinent to read-only access to the Report of Examination; and
2. Disclosure requirements under Section 174 and other information that may be required.

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

ALAS, OPLAS & CO., CPAs

By:

RYAN A. SABUG
Affiant

JUN 25 2020

MANDALUYONG CITY

Subscribed and sworn before me this ______ day of ______________, 2020 at Pasig City. Affiant who exhibited to me his Professional Tax Receipt No. 8117110 issued in Makati City on January 3, 2020.

Doc No.: 70
Page No.: 15
Book No.: 74
Series of 2020.

ATTY. JAMES [illegible] ABUGAN
NOTARY PUBLIC
Appt. No. 0[illegible]-19
Until Dec 31, 2020
IBP No. [illegible] Rizal Chapter
Roll No. [illegible] Lifetime
MCLE No. [illegible] Until 4/14/2022
TIN No. [illegible]-956
PTR No. [illegible] /01-03-2020
Tel. No. 631-40-90
Mandaluyong City

CERTIFICATION

In compliance with Appendix 55 of the Manual of Regulations for Banks (MORB), **ALAS OPLAS & CO. CPAs**, external auditor of **CAMALIG BANK, INC. (A RURAL BANK),** do hereby depose and state that based on the audit with the records of **CAMALIG BANK, INC. (A RURAL BANK)**, on which the external auditor issued the report dated June 20, 2020, there is none to report (e.g. fraud, dishonesty, breach of laws, etc., as required under item 7-Appendix 55 of the MORB) that may require urgent action by the Bangko Sentral ng Pilipinas.

It is 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.

ALAS, OPLAS & CO., CPAs

By:

RYAN A. SABUG
Affiant

JUN 25 2020

Subscribed and sworn before me this ______ day of ______________, 2020 at Pasig City. MANDALUYONG CITY Affiant who exhibited to me his Professional Tax Receipt No. 8117110 issued in Makati City on January 3, 2020.

Doc No.: 71
Page No.: 16
Book No.: 74
Series of 2020.

...Y. JAMES ... ABUGAN
NOTARY PUBLIC
Appt. No. 0[illegible]42-19
Until Dec 31, 2020
IBP No. 101013 01/03/2020 Rizal Chapter
Roll No. 26890 Lifetime
MCLE No. VI-[illegible]12975 Until 4/14/2022
TIN No. 116-239-956
PTR No. 4333[illegible]5 /01-03-2020
Tel. No. 631-40-90
Mandaluyong City

Comparison of Submitted Consolidated Balance Sheet and Income Statement

CAMALIG BANK, INC. (A RURAL BANK)
Comparison of Submitted Consolidated Balance Sheet and Income Statement
and Audited Financial Statements
As of December 31, 2019

	Submitted Report	Audited Report	Variance/ Discrepancy	Reason for discrepancy (see list of adjusting journal entries)
ASSETS				
Cash and other cash items	16,936,611	16,936,611	-	
Due from Bangko Sentral ng Pilipinas	35,950,966	35,950,966	-	
Due from other banks	327,571,303	327,571,303	-	
Loans and other receivables – net	1,051,038,011	1,051,339,522	(301,511)	6,9
Bank premises, furniture, fixtures and equipment – net	134,214,592	134,146,692	67,900	8,12
Intangible assets - net	9,406,869	9,406,869	-	
Assets held for sale	1,315,019	1,315,019	-	
Deferred tax assets	8,712,304	8,712,304	-	
Accrued interest income from financial assets	8,539,339	-	8,539,339	19
Other assets	117,038,092	122,052,894	(5,014,802)	3,4,5,6,13,14,17,18,19
TOTAL ASSETS	**1,710,723,106**	**1,707,432,180**	**3,290,926**	
LIABILITIES				
Deposit liabilities	1,085,999,254	1,085,999,254	-	
Due to the Treasurer of the Philippines	512,175	512,175	-	
Bills payable	255,046,950	255,046,950	-	
Accrued taxes, interest and other expenses	4,392,152	7,971,713	(3,579,561)	20
Accrued Expenses	9,536,009	-	9,536,009	20
Unearned Income	308,023	-	308,023	20
Income tax payable	1,085,033	1,153,212	(68,179)	4,18
Deferred tax liability	829,682	829,682	-	
Other liabilities	52,061,097	54,513,748	(2,452,651)	3,10,13,16,20, rounding off
Total Liabilities	1,409,770,375	1,406,026,734	3,743,641	
EQUITY				
Capital stock – common	217,552,200	217,552,200	-	
Additional paid-in capital	90,914	90,914	-	
Surplus free	81,969,949	34,303,225	47,666,724	1,2,7,9,10,11,12,14,15,16,17,21, rounding off
Surplus reserve	-	48,119,439	(48,119,439)	21
Actuarial gain on defined benefit obligation – net	1,339,668	1,339,668	-	
Total Equity	300,952,731	301,405,446	(452,715)	
TOTAL LIABILITIES AND EQUITY	**1,710,723,106**	**1,707,432,180**	**3,290,926**	
INCOME AND EXPENSES				
TOTAL INCOME	189,499,535	190,240,062	(740,527)	1,2,9,10,11,14,16, rounding off
TOTAL EXPENSES	166,236,827	166,353,875	(117,048)	7,11,12,15,17
NET INCOME BEFORE INCOME TAX	**23,262,708**	**23,886,187**	**(623,479)**	

Adjusting Journal Entries

Client: CAMALIG BANK, INC. (A RURAL BANK)
Year end: December 31, 2019
Subject: Adjusting Journal Entries (AJEs)

AJE No.	Account Code	ACCOUNTS	Amount (in Php) DR	CR
1	04-01-02-04-00-00-00-00-00	Interest - DFOB - (TCD)	29,787.02	
	03-04-02-00-00-00-00-00-00	Retained Earnings (Surplus) Free		29,787.02
		to post prior year adjustment		
2	03-04-02-00-00-00-00-00-00	Retained Earnings (Surplus) Free	720.00	
	04-11-02-00-00-00-00-00-00	Miscellaneous Income		720.00
		to post prior year adjustment		
3	02-32-06-00-00-00-00-00-00	Accounts Payable	3,231,013.76	
	01-41-03-04-00-00-00-00-00	Account Receivable		3,231,013.76
		to record AGFP claims		
4	02-26-00-00-00-00-00-00-00	Income Tax Payable	29,027.16	
	01-41-09-11-00-00-00-00-00	Prepaid Income Tax		29,027.16
		to correct income tax payable balance		
5	01-41-09-00-00-00-00-00-00	Prepaid Expenses - Other Assets	21,264.71	
	01-41-09-11-00-00-00-00-00	Prepaid Income Tax		21,264.71
		to correct prepaid income tax balance		
6	01-16-04-03-02-02-00-00-00	Other Agricultural Credit Loans - Non-Performing	68,000.00	
	01-41-03-04-00-00-00-00-00	Account Receivable		68,000.00
		to revert back accounts receivable to other agricultural credit loans		
7	05-06-10-00-00-00-00-00-00	Amortization On Leasehold Rights And Improvement	104,306.41	
	05-06-04-00-00-00-00-00-00	Depreciation - Other Office Equipment	21,546.81	
	05-06-03-00-00-00-00-00-00	Depreciation - Information And Technology Equipment	3,202.64	
	05-06-07-00-00-00-00-00-00	Depreciation - Buildings		104,306.41
	05-06-02-00-00-00-00-00-00	Depreciation - Furniture And Fixtures		21,546.81
	05-06-05-00-00-00-00-00-00	Depreciation - Transportation Equipment		3,202.64
		to reclass depreciation of byffe items		
8	01-28-03-00-00-00-00-00-00	Furniture, Fixtures And Equipment - Accumulated Depreciation	21,546.83	
	01-28-08-00-00-00-00-00-00	Other Office Equipment-Accumulated Depreciation		21,546.83
		to reclass accumulated depreciation of byffe items		
9	01-16-06-14-00-00-00-00-00	Allowance For Credit Losses -Loans To Individuals For Other Purposes	233,510.64	
	04-10-01-00-00-00-00-00-00	Gains/(Losses) from Sale/Derecognition - ROPA		233,510.64
		to recognize gain on disposal of ROPA		
10	02-32-06-00-00-00-00-00-00	Accounts Payable	170.14	
	04-10-01-00-00-00-00-00-00	Gains/(Losses) from Sale/Derecognition - ROPA		170.14
		to reverse double posting of AP-DST		
11	05-05-30-00-00-00-00-00-00	Miscellaneous Expenses	38,394.00	
	04-10-01-00-00-00-00-00-00	Gains/(Losses) from Sale/Derecognition - ROPA		38,394.00
		to reverse double posting of AP-DST		
12	05-06-02-00-00-00-00-00-00	Depreciation - Furniture And Fixtures	67,900.20	
	01-28-03-00-00-00-00-00-00	Furniture, Fixtures And Equipment - Accumulated Depreciation		67,900.20
		To fully depreciate the FFE		
13	02-32-06-00-00-00-00-00-00	Accounts Payable	176,095.73	
	01-41-03-04-00-00-00-00-00	Account Receivable		176,095.73
		to reverse accounts payable and accounts receivable		
14	01-41-14-00-00-00-00-00-00	Accrued Interest Income From Financial Asset	92,978.01	
	04-01-06-00-00-00-00-00-00	INT- Held-to-Maturity (HTM) Financial Assets		92,978.01
		To adjust accrued interest income on Sinking Fund		
15	05-05-30-00-00-00-00-00-00	Miscellaneous Expenses	973.00	
	05-03-00-00-00-00-00-00-00	Taxes and Licenses		973.00
		to reclass taxes and licenses to various expenses		
16	02-32-06-00-00-00-00-00-00	Accounts Payable	404,540.59	
	04-11-02-00-00-00-00-00-00	Miscellaneous Income		404,540.59
		to write-off long outstanding payable		
17	05-05-30-00-00-00-00-00-00	Miscellaneous Expenses	10,754.24	
	01-41-09-11-00-00-00-00-00	Prepaid Income Tax		10,754.24
		to charge to loss the unclaimed CWT in 2018		
18	AOC-0004	Income tax expense - deferred	1,926,120.04	
	05-16-00-00-00-00-00-00-00	Income Tax Expense		1,726,290.14
	02-26-00-00-00-00-00-00-00	Income Tax Payable		97,205.44
	01-41-09-11-00-00-00-00-00	Prepaid Income Tax		102,624.59
		to record income tax expense		
19	RECLASS	Other assets	8,539,339.00	
		Accrued interest income from financial assets		8,539,339.00
20	RECLASS	Accrued Expenses	9,536,008.65	
		Unearned Income	308,022.59	
		Accrued taxes, interest and other expenses		3,579,561.17
		Other liabilities		6,264,470.27
21	RECLASS	Surplus free	48,119,438.59	
		Surplus reserve		48,119,438.59

Schedule of Financial Soundness Indicators

ANNEX 68-E

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

CAMALIG BANK, INC. (A RURAL BANK)
As of December 31, 2019

Ratio	Formula	Current Year	Prior Year
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	111.34%	113.31%
Acid test ratio	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	102.60%	105.35%
Solvency ratio	$\frac{\text{Net Income + Depreciation and Amortization}}{\text{Total Liabilities}}$	2.28%	2.29%
Debt-to-equity ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	466.49%	378.41%
Asset-to-equity ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	566.49%	478.41%
Interest rate coverage ratio	$\frac{\text{Earnings before Interest and Taxes}}{\text{Interest Expense}}$	221.23%	200.58%
Return on equity	$\frac{\text{Net Income}}{\text{Average Total Equity}}$	5.78%	4.55%
Return on assets	$\frac{\text{Net Income}}{\text{Average Total Assets}}$	1.11%	1.02%
Net profit margin	$\frac{\text{Net Income}}{\text{Revenue}}$	10.49%	8.72%