CAMALIG BANK

Let's Redefine Banking

ANNUAL REPORT

2020

www.camaligbank.com.ph
Camalig Bank Building, Rizal Street, Ilawod East
Legazpi City 4500

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COMPANY PROFILE

Established in 1969, Camalig Bank has truly shaped the lives of the Bicolano communities through its innovative products and services that cater to their financial needs. Its growing network has now expanded to 16 branches and 5 branch-lites scattered throughout the region offering Banking access to the unbanked sector.

Clients' aspiration is shared by giving them financial assistance with competitive rates and competent service while ensuring that fiscal discipline is realized. Rooted in its vision and mission, the Bank is now geared towards digitalization as its response to the rapidly changing environment, opening a new door of possibilities and convenience to the clients.

Despite the difficulties brought by the pandemic, Camalig Bank has become more resilient in its operations to serve well its clients in the new normal environment.

Let's Redefine Banking!

OUR 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

OUR MISSION

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

Let's Redefine Banking!

OUR CORE VALUES

RELATIONSHIP. Connect Positively.

We are committed to serving our clients in a personalized manner that strengthens the foundation of a good relationship. We value healthy and effective communication. Respecting the established connection with our clients does not end after serving them. Listening to their pulse enables us to provide them with the best service all deserve.

INTEGRITY. Be worth of Trust and respect.

We assure that credibility and transparency are embodied in all our undertakings. These values remain firm as our oath to the clients' public trust. We assure you that whatever we have to offer, it is always within the bounds of moral obligation to do business.

SERVICE. Go the extra mile.

We provide the best service to our clients through our products and services that attend to their financial needs. Most importantly, we value their feedback so we can improve our brand of service, elevate it above the competition and satisfy their financial needs.

EXCELLENCE. Become better.

We ensure that the highest and superior standards are upheld in running the Bank efficiently. We go beyond mere compliance and continually challenge ourselves to improve and become the best in what we do.

STEWARDSHIP. Create value and do our part.

We are committed to being passionate and accountable in all our actions and decisions. We preserve the foundations laid by our predecessors through continually uniting and strengthening the pillars of our core values embedded with the institutional memory, an ode to our heritage.

OUR STRATEGY

Our business model especially in this time of pandemic is defined in our Resiliency Strategy Business Playbook positioning on 4 Strategic Goals:

Financial Resilience

Repositioning, recalibrating, and quickly adapting to the changing times thru thorough decision making for medium to long term survival and position.

Operational Resilience

Achieving excellence by adopting the PPT Framework- People, Process, and Tools.

Value Proposition

Strengthening client relationship by championing customer satisfaction.

Business Integrity

Remaining faithful to our core values and governance principles.

Let's Redefine Banking!

Message from the Chairman

When faced with adversities, **resiliency is essential to brave and hasten the pace of bouncing back**. The invigorating start of 2020 was a strong indication of a great year. Loan performance was at its best, projecting a double-digit growth to the Bank's portfolio. This high loan demand was also a manifestation of the need to expand. Unfortunately, the COVID-19 pandemic changed all the plans.

We had to recalibrate our strategies and create a resiliency strategic map as our business continuity plan. With the government's imposition of community lockdowns, the Bank made sure that its **financial ratios were maintained as we braced for the impact of an economic recession**.

To ensure the continued service to our clientele, the Bank implemented strict health protocols to **safeguard both the patrons and employees** against the virus.

Despite these challenging times, the Bank has successfully released **new loan products that are relevant to the new normal environment**; solely centered on financing technological needs and fund transfer systems.

As the Bank aspires to expand its reach to more untapped communities/areas, it also recognizes the requirement to adapt to the modern needs of clients. The much-awaited mobile application is in its final stages of testing. All these adaptive measures are products of the collective contribution of Camalig Bankers in which the **growth mindset plays its vital role**.

Adapting to the ever-changing demands of the market, the Bank's tagline: "**Let's Redefine Banking!**", has been our guiding compass in this difficult time.

To our clients, thank you for your continued trust. To the Camalig Bank team, thank you for your dedication, commitment, and professionalism. To the Shareholders, thank you for your confidence.

MARTIN FAUSTINO B. MORALEDA, MD
Chairman

Message from the President

COVID-19 struck and disrupted 2020. As we took the brunt of the pandemic, being financial services frontliners, we had to take full stock in the way we work, and deliver our products and services. We needed to recalibrate our strategic map towards our established goals. Adaptation and resiliency are the key elements to do Banking in the new normal. Crafted by the Crisis Management Team, **the Resiliency Playbook was created as our response to oversee the Bank's well-being**. The redesigned framework has become our tool in getting things done.

Strict health protocols have been observed to curtail the spread of COVID-19. As such, **a workplace guide has been implemented to ensure everyone's safety against the virus**.

Delivery of services had to be tweaked so that these could be adaptive. **New products and services were launched in response to the needs of the clients**. TeknoLOAN was conceptualized to address the requirements of both students and professionals as they grappled with online classes and work from home arrangement. PowerLOAN was offered to mitigate the power outages caused by successive typhoons that battered the region in the last quarter of the year. AppLOAN was crafted to cater to the demand for home appliances and furniture. Meanwhile, clients were given a grace period extending their loan amortizations under the BARO Acts (1 &2).

The difficulties of 2020 have also hampered the digital transformation of the Bank. However, despite the delay in the completion of our mobile application, **digitalization has remained a priority to facilitate valuable financial services to our valued clients**. On the brighter side, convenient and safe fund transfer through Pesonet has now become part of the Bank's services.

Despite being tested by the low blows of 2020, **the Bank will continue to grow and serve with renewed strength, resilience, and energy adapted to the challenging environment.**

I would like to thank the Board of Directors for your guidance most especially in these trying times. Your judgment has enabled us to gradually bounce back from the economic effects of the pandemic. To the management whose relentless effort and commitment in maintaining the Bank afloat, you all deserve great recognition for it. And most importantly to our clients, for your unparalleled support and trust. We will remain steadfast and diligent in providing you excellent service.

JOSE MISAEL B. MORALEDA
President / CEO

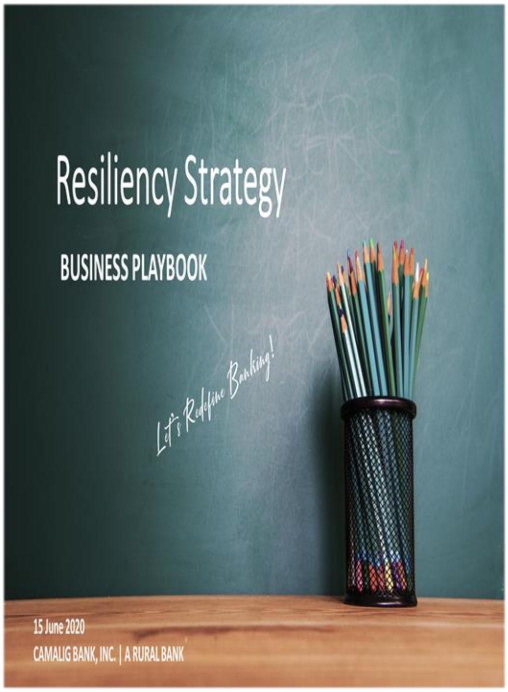
FINANCIAL HIGHLIGHTS

	2020	2019	2018
PROFITABILITY			
Total Net Interest Income	**153.72M**	143.54M	130.57M
Total Non-Interest Income	**15.49M**	27.00M	31.98M
Total Non-Interest Expenses	**153.23M**	147.07M	132.04M
Pre-Provision Profit	**15.99M**	23.46M	30.50M
Provision for Credit and Impairment Losses	**5.25M**	0.00M	12.40M
Net Income	**7.72M**	16.71M	12.96M
BALANCE SHEET			
Liquid Assets	**375.48M**	380.46M	315.20M
Gross Loans	**1,074.69M**	1,079.04M	877.82M
Allowance for Credit Losses	**32.94M**	27.70M	34.12M
Total Assets	**1,703.60M**	1,707.01M	1,392.30M
Deposits	**1,184.95M**	1,086.00M	894.50M
Total Equity	**290.31M**	300.98M	291.02M
RATIOS			
Return on Equity	**2.61%**	5.78%	4.55%
Return on Assets	**0.45%**	1.11%	1.02%
Tier 1 Capital Ratio	**13.57%**	14.25%	17.31%
CAPITAL ADEQUACY RATIO	**16.06%**	15.26%	18.51%
PER COMMON SHARE			
Net Income per Share			
Basic	**1.60**	5.77	7.51
Diluted	**1.34**	4.58	5.96
Book Value Per Share	**139.86**	148.35	142.58
OTHERS			
Cash Dividend Declared	**4.81M**	6.75M	-
Headcount	**268**	274	246

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

STRATEGIC DIRECTION

It was a challenging year not just for the Philippine Banking Industry but also for the global financial market due to the COVID-19 pandemic. It has become the goal of Camalig Bank to make the Bank resilient and agile during this time of crisis. Hence, as part of its effort to realize this goal, the Bank came up and implemented the following:



Resiliency Strategy Playbook. Strategic map was recalibrated in order to guide the Bank in navigating the present rough road. The Bank will not lose sight of its strategic goals despite the anxieties and challenges. The playbook orients and responds to the following:

1. Prioritize – Urgent creation of a level of stability and reduce unnecessary uncertainty during crisis
2. Train – to future-proof the organization – what skills must become evenly distributed across the organization
3. Transform – How must the organization change in a post-COVID world

COVID-19 Workplace Guide. The Bank is committed in providing and maintaining a healthy and safe working environment to its employees, clients, contractors and visitors. This guideline is in conjunction with the Bank's Occupational Safety and Health Policy and Program, is specific to the Bank's workplace and identifies all areas and job tasks with potential exposures to COVID-19, and includes control measures to eliminate or reduce such exposures.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Bank's Total Assets stood at 1.704 billion. The slight dip of 0.20% from the previous year can be attributed to the contraction of the Loan Portfolio, deliberate cut back on Bills Payable, and provision to increase the allowance for credit losses.

Contraction of the Banks lending activity was immediately felt right after the first COVID-19 lockdown and after experiencing a very promising growth during the first quarter.

Bills Payable, down by 53% from previous year, was deliberately cut down to manage borrowing costs and liquidity position vis-a-vis the slowdown in the funding requirements for the Bank's lending operations. This was also part of the Bank's decision to recalibrate targets, allocate funds for a healthy loan portfolio and essential costs and investments while monitoring and ensuring a healthy liquidity position and reserves.

Significant changes on the Bank's Audited Financial Statement from previous year is impacted by full compliance with accounting standards such as PFRS 16-Leases and PAS19R- Retirement Benefits. The effect of these accounting standards increased the Bank's total assets and liabilities by P30.84M and P45.60M respectively, and decreased equity of 14.75M for the year ended December 31, 2020.

For the year 2020, the Bank has set aside P5.24M worth of allowance for losses based on the Bank's Loan Loss Methodology computation. This is in line with the Bank's commitment to adequately provide for its non-performing financial assets and to safeguard its capital position that is capable of withstanding or absorbing financial and economic shocks posed by the COVID-19 pandemic.

Year-end CAR stood at 16.06%. The increase is due to the higher net qualifying capital for 2020 despite the slight decline in the equity due to recognition of additional allowance for credit losses and compliance to the PFRS 16 and PAS 19.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LOANS

The Bank's Net Loans Portfolio stood at 1.04 billion. There was a dip of 0.91% compared to the previous year resulting to a major variance from the target set at the start of the year.

Outlook and targets were very optimistic for the lending activity of the Bank. In fact, the Bank was able to post a remarkable 27% year on year increase on Interest Income from Loans for the first quarter. This was, however, tempered and recalibrated when the challenges and impact of the restrictions brought by community lockdowns became quickly evident. The Bank adjusted to ride the waves of the crisis, by ensuring that at least the same level of loan portfolio is maintained. With this, the Bank managed to realize a modest growth in Net Interest Income by 7%. This translated to a 13.29% increase on Interest income on loans at the end of the year.

The Bank's Net Loans Portfolio comprises sixty-one percent (61%) of the Bank's Total Assets. Loans to SME increased by 10% as the Bank continued to support small businesses in the community especially those that strongly manifested resiliency in adopting to changes. As a smaller sized bank with regional presence, the Bank positioned itself to act nimble to adapt and help provide support for the immediate recovery of small businesses in the local community.

On the other hand, exposure to Agri Loans declined by 35% in current loans and increased by 7% in past due (or a net decline of 28%) due to the simultaneous challenges brought by the Asian Swine Flu during the first quarter, the restrictions of movement of farm produce during the community lockdowns and destruction wrought by the Super Typhoons Rolly, Ulysses, and Quinta in the Bicol Region. It is worth mentioning that 55% of the decline in the Agri Loan Portfolio was abated and made up by the Bank's new loan products such as the TeknoLOAN, PowerLOAN and AppLOAN.

Past Due further decreased from 4.71% to 4.36% based on a 7.74% decrease in past due amount from previous year. This is a superior past due ratio compared to the RB industry which posted an average past due ratio of 17.49% as of December 31, 2020. Nonetheless, the Bank cannot be complacent and blur out the real effect of unpaid loans that, if left unmanaged, might make a huge impact on the Bank's present asset quality. The Bank has to strictly monitor and manage the potential risks of credit defaults and credit abandonment due to changed characters of borrowers as they, too, try to cope or take advantage of the altered environment.

The Bank maintained a Zero DOSRI Loan.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

DEPOSITS

Total Deposits stood at 1.18 billion, an increase of 99 million or 9% from previous year. This is supported by a 30% increase in Current Account and 7% increase in Savings / Time Deposits.

Average deposit size is at 23 thousand manifesting the role that the Bank plays in generating retail deposits in line with the national quest for financial inclusion.

INCOME AND EXPENSE

Gross Income increased by 4.6%. This is below the target set at the start of the year. This can be correlated to the contraction of the Bank's loan portfolio as 92% of the Bank's income is generated from this.

Total expenses increased by 11% despite concrete steps to manage cost structure or trim costs ahead of the curve. This is due to the decision to recognize the following in its books: (1) allowance for credit losses based on the Bank's Loan Loss Methodology; (2) lease liabilities recorded under right-of-use of depreciation expenses based on application of PFRS 16; (3)retirement benefit obligation as calculated by an independent actuarial company in line with PAS 19r.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BRANCH BANKING

Financial access has been provided to the underserved rural communities in the six provinces of the Bicol Region. Strategically located in various key cities and municipalities, Camalig Bank's 16 branches and 5 Branch Lite Units have enabled the Bank's clients to transact and avail of the products and services throughout the year.

INFORMATION TECHNOLOGY

Preparations for the move to the cloud were initiated through the conduct of Vulnerability Assessment and Penetration Testing and security network assessments. Evaluation of cloud banking system providers were also performed. The results of these appraisals have become the framework for improving the overall IT infrastructure and establishing a foundation of support to the Bank's identified organizational needs for a safe computing environment, right tools to get the jobs done and digital applications and touchpoints.

Specific Business Continuity Plan for IT Operations was strengthened and implemented. IT Solutions and support to the organization was improved especially when it comes to automating manual and tedious processes.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

HUMAN RESOURCES

People remain the most valuable asset of the Bank. As of December 31, 2020 the Bank had a manpower complement of 268 employees composed of 38 Officers and 230 Staff.

Attrition rate went down to 9%, as follows:

YEAR	VOLUNTARY	NON-VOLUNTARY	AVERAGE
2020	**21**	**3**	**9%**
2019	40	17	22%
2018	31	11	17%

The Bank steered its people to adopt to the challenges brought by the pandemic by swiftly implementing a recalibrated Wokplace Health and Safety Guide based on the priority of promoting health and safety of people and clients.

As part of the Bank's ongoing effort to respond effectively to the rapidly evolving pandemic, the Bank immediately activated its Crisis Management Team. Monitoring, assessment and response to different areas of the Bank's operation were heightened to ensure that decisions remain prudent especially on matters that might have a long-term negative impact to the organization.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

HUMAN RESOURCES cont'd.

A directive has been issued to combat disinformation and promote the Bank's identified official sources of information for the COVID-19 pandemic. Timely and accurate information was identified as a critical part of the Bank's response to the pandemic, thus communication channels were strengthened which included regular issuance of Bulletins. Responses to any impending scenarios or developments are promptly discussed and addressed which follows the Bank's chain of command and established communication strategy.

Physical meetings, gatherings, trainings and seminars were switched to virtual activities using a secure digital or online platform. An E-Learning Program was quickly formulated to ensure that training and development will not be hindered.

RISK MANAGEMENT FRAMEWORK

Culture and Philosophy

Everyone in the Bank is a risk owner and has a responsibility of compliance. Camalig Bank ensures that it takes an effective approach to risk management, ensuring that risks are identified, evaluated, controlled and mitigated in light of the potential impact to the Bank and its strategic direction.

Appetite and strategy

Camalig Bank focuses on risks that would have a significant impact on its resiliency strategy map, as follows: 1) financial resilience; 2) operational resilience; 3) value proposition that is inclusive, mobile, prompt, accessible and convenient; and, 4) business integrity.

Risk strategy, policies, appetite and limits are approved, reviewed and under the oversight of the Board. The Board has established minimum and maximum thresholds that serve as a 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. Specific guidelines are established for specific risks to provide clarity and ascertain effective implementation of the process owners at the transaction and business levels.

RISK MANAGEMENT
Cont'd.

Governance Structure and Risk Management

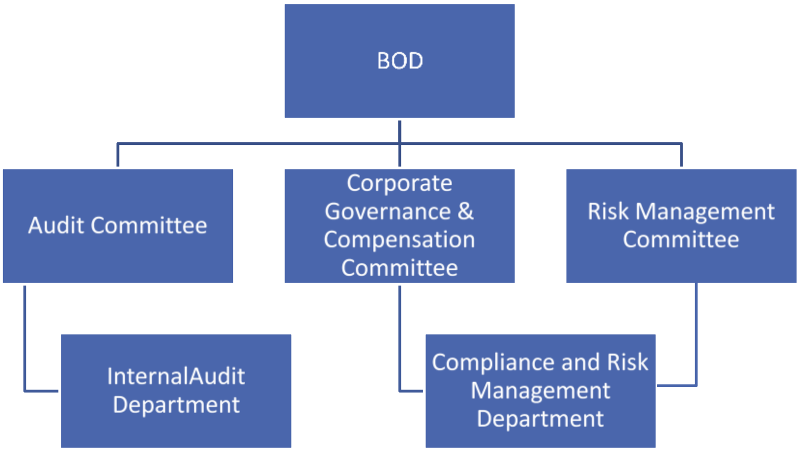
The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The 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 risks faced by the Bank.

The Bank's Audit Committee is assisted in these functions by the Intemal Audit Department. The Corporate Governance and Compensation Committee assist the Board in fulfilling its corporate governance responsibilities as well as evaluate and recommend compensation, payscale, title structure, fees and other benefits of the Bank's personnel including officers and directors.

The Compliance and Risk Management Department undertake both regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to the Risk Management / Audit Committee and/or directly to the Board.

RISK MANAGEMENT
Cont'd.



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, Board-level committees, key management positions and committees created and categorized into areas of operation and responsibilities to ensure detailed governance of different risk type.

The Board has established the Bank's assets, liability, credit and operational risk committees at the management level, which are responsible for developing and monitoring the Bank's risk management policies in their specific areas.

The Board requires and reviews specific reports and procedures to ensure adherence with the CALM (Camalig Bank Asset and Liability Management) Program and other identified risks. A consolidated management report containing reports from main business units is presented to the Board at the prescribed frequency.

RISK MANAGEMENT
Cont'd.

Risk Exposure

The main risk areas of oversight are credit risk, liquidity risk, interest/market risk and operational risk to include IT risk, information security and data protection risks, consumer and reputational risks.

The CAR and Liquidity position remained strong amidst the impact of the pandemic to the Bank's operations, the ratios of which are still higher than the required minimum regulatory ratios. 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.

Camalig 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. This comes in the form of proper matching of asset and liability products in terms of tenor, yield and interest rate sensitivity.

The overall credit risk management structure is spearheaded by the Credit Department with strong support in terms of independent validation and scoring of the Credit Risk Unit positioned in the Independent Group (Risk Management Unit). Credit policy formulation, product development of credit facilities, approving structure, limits on exposures, concentration, authorization and exceptions, proactive and remedial management and provisioning requirements form part of the overall credit risk management framework apart from the strict monitoring of the implementation of the Bank policies and processes on credit.

A strong capital base, financially resilient operation and supported by good governance make a sound foundation in managing operational risks so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. Camalig Bank targets operational resiliency through agile people, processes, tools and technology, geared to significantly contribute to the community, trade, employment and progress.

ANTI-MONEY LAUNDERING GOVERNANCE

Camalig Bank has established and implements an AML Program containing among others the following salient provisions: defined duties and responsibilities of all Camalig Bankers, customer identification and due diligence process and monitoring of customer activities, reporting system for covered and suspicious transactions, record-keeping and retention guidelines and disposal procedures and AMLA training program. Digitization of customer records is targeted to be completed at the prescribed latest deadline. The Bank takes into account risk assessments on the money laundering landscape of the country including AMLC programs and initiatives as part of its ongoing risk assessment at its level. Independent review and testing on the Bank's AML compliance is regularly and prudently implemented.

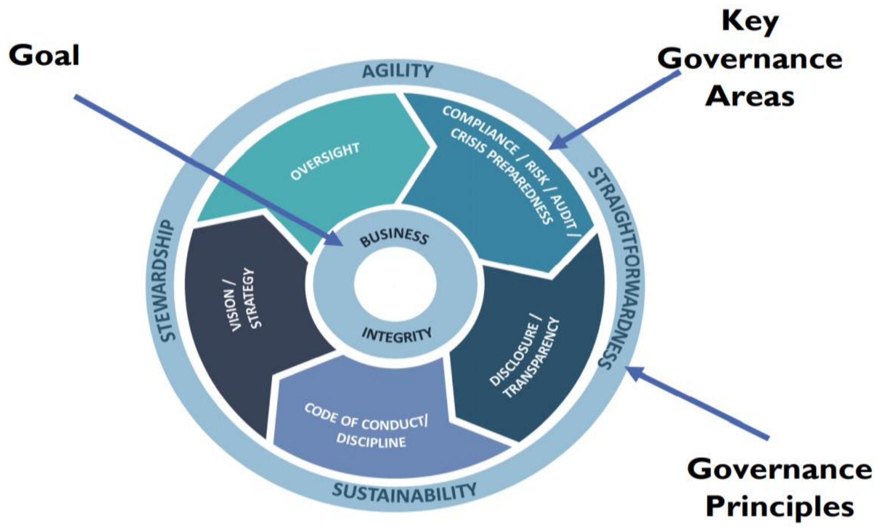
Customer Identification and Due Diligence. Policies are established to properly guide process owners in ensuring the true identity of clients through institution of proper validation procedures and collection of information necessary for risk classification and appropriate profiling. Depending on the classification of risk as a result of evaluation, corresponding due diligence level is implemented. Monitoring of clients and transactions do not end upon on-boarding but on a continuous basis, taking into consideration sudden changes in the transaction patterns as well as external information gathered as regards the reputation and activities of the client in the course of the business relationship with the Bank.

Reporting of Covered and Suspicious Transactions. Reporting system for covered and suspicious transactions (CTR and STR) necessitates intervention of business units at the transactional level. Prescribed timeline is set for the timely submission of CTR and/or STR which passes through two-tiered checking prior to uploading to the AMLC portal by the Compliance Unit.

Record Keeping and Retention. Safekeeping of records and documents of clients and transactions is a responsibility of each business unit. The Bank is obligated to safely maintain and store these for five years from date of transaction. This includes applicable transaction records in digitized format.

Trainings. Camalig Bank requires new hires to undergo AML training which forms part of the Orientation Seminar on Banking. It is also included in the Supervisory Training Program modules. The Compliance Unit ensures that training materials are regularly reviewed and updated.

CORPORATE GOVERNANCE



Guiding Principles

Camalig Bank looks at the overall corporate culture and discipline that promotes business integrity as the core value. The corporate governance process is customized to keep pace with the changing times while remaining faithful to its core values and governance principles, revolving around a system that directs and controls the Bank, ensures that it operates ethically, fairly, complies with the laws and regulations and remains relevant and sustainable.

Maintaining a healthy corporate governance culture is imperative where the retention of public confidence remains of utmost importance in Camalig Bank. This is steered by four driving principles.

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. The Bank adheres to the principle of accountability not as something that should repress talents, creativity and plain conformance to rules and regulations but as a commitment to make best use of one’s capacities and achieve excellence. Being accountable is not being in control but a balanced sharing of opportunity that is beneficial to all involved.

CORPORATE GOVERNANCE

Straightforwardness

STRAIGHTFORWARDNESS in all Bank dealings promotes transparency. The Bank views this as a gateway to earning credibility and public trust. In the age of technological advancement where numerous virtual platforms are available for free expression and disclosure of information, transparency is actually part of managing and shaping one's point of view and not the other way around or having to answer and defend against others' point of view. 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. 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.

Agility

AGILITY is the ability to think, understand, move and adopt quickly and efficiently amidst changing environment, perspectives and strategies. Agility is manifested from the governance perspective to the internal and client value proposition perspectives as a main factor in ensuring that the Bank is able to address current constraints, recalibrate, reinvent, and even cannibalize its business models to achieve sustainable competitive advantage

BOARD OF DIRECTORS

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.

COMPOSITION

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 Corporate Governance and Compensation Committee reviews and assess the structure, size and composition of the Board annually. It encourages the formal, fair and transparent selection of a mix of competent directors in accordance with its Policy on Diversity, each of whom can add value and create independent judgement as to the formulation of sound corporate strategist and policies.

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	5.5	327,164	1	15%
Geraldine P. Moraleda	Executive	5.5	231,077		11%
Martin Faustino B. Moraleda, M.D.	Non-executive	5.5	324,381		15%
Josefina B. Valer, M.D.	Non-executive	5.5	5,332		0%
Ana Maria B. Moraleda	Non-executive	5.5	324,373		15%
Atty. Ferdinand M. Casis**+**	Independent	5.5	1		0%
Atty. Andres David M. Bolinas	Non-executive	5.5	1		0%
Rogelio A. Encinas, CPA	Independent	4.25	1		0%
Fr. Jose Victor E. Lobrigo	Independent	2.67	1		0%

RESPONSIBILITY

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.

BOARD DIVERSITY

The Bank encourages having a diverse Board that would promote a healthy mix of ideas and perspectives towards the common goal of maintaining sound corporate governance.

BOARD QUALIFICATIONS

Martin Faustino B. Moraleda, MD
Filipino, 57 years old
Previous affiliation: Lourdes Hospital
Concurrent directorship/officership: Ammin Holdings, Inc.; FC Moraleda Corp.; Sacred Heart Clinic Legazpi City, Inc.; Estevez Memorial Hospital; Bicol Regional Training and Teaching Hospital

Atty. Andres David M. Bolinas
Filipino, 47 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.

Jose Misael B. Moraleda
Filipino, 55 years old
Previous affiliation: Social Action Center – Archdiocese of Legazpi; Albay Chamber of Commerce and Industry; Friedrich Naumann Stiftung, SEAFDA
Concurrent directorship/officership: Ammin Holdings, Inc.; FC Moraleda Corp.; Ayuda de Manos, Inc.; Sacred Heart Clinic Legazpi City, Inc.; Rural Bankers Research & Development Foundation, Inc.; Camalig Bank Foundation; PVLB, Inc., Albay Power Energy Corporation

Geraldine P. Moraleda
Filipino, 51 years old
Previous affiliation: Ateneo Center for Social Policy & Public Affairs; Philippine Business for Social Progress; Urban Bank
Concurrent directorship/officership: Ayuda de Manos, Inc.

Josefina B. Valer, MD
Filipino, 61 years old
Previous affiliation: JP Rizal Hospital
Concurrent directorship/officership: Lagonoy National High School

BOARD QUALIFICATIONS

Ana Maria B. Moraleda
Filipino, 53 years old
Previous affiliation: Fort Bonifacio Development Corp.; The Manor, Camp John Hay; Fil-Estate Group of Companies; Mareco Broadcasting Network
Concurrent directorship/officership: Ammin Holdings, Inc.; FC Moraleda Corp.; PVLB, Inc.; Philippine Transmarine Carriers, Inc.

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

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

Atty. Ferdinand M. Casis +
Filipino, 61 years old
Previous affiliation: NEC Multipurpose Cooperative; Department of Agrarian Reform
Concurrent directorship/officership: Sentro ng Alternatibong Lingap Panlegal; National Confederation of Cooperatives; K-Cooperative

+ Atty. Ferdinand M. Casis passed away on November 2020

Board and Senior Managerment Administration

Camalig 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. Specialized skill set and professional background are also considered to meet intricacies and challenges of the Bank's operations such as but not limited to technology-based initiatives and advancements. The Bank endeavours to comply with the fit and proper rule set forth by the Bangko Sentral ng Pilipinas.

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. Nonetheless, this does not preclude the Training Department to provide more venues for training and continuing education to the Board and senior management taking into consideration the availability of virtual or e-learning platforms which forms part of the overall training program.

Camalig 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. Term limits for independent directors is adopted as prescribed by the BSP and SEC. The average age of the current Board of Directors is only 56. 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. For senior management, the retirement age is 55 and late retirement is subject to approval of the Board.

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.

Board of Directors Meetings

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

+ November 13, 2020

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.					4	100%
4	Josefina B. Valer, M.D.						
5	Ana Maria B. Moraleda						
6	Atty. Ferdinand M. Casis			9	100%	4	83%
7	Atty. Andres David M. Bolinas	4	80%	9	100%		
8	Rogelio A. Encinas, CPA	5	100%	9	100%		
9	Fr. Jose Victor E. Lobrigo	5	100%			4	100%
Total Number of Meetings Held During the Year*		5		9		4	

*actual meeting as Board committee, the rest of the meetings were conducted in an En Banc session

Self- Assessment Function

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

A Balanced Scorecard takes into account the following perspectives aligned with the Bank's Resiliency Strategy Map:

The Balanced Scorecard framework imparts how the Bank manages, measures and implements both the high-level strategy and low-level processes to reach its goals using the framework. It helps the Bank in choosing the right things to measure to reach its goals.

Camalig 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:

Self-Assessment Function

Reward performance according to merit

This involves recognizing and rewarding personal achievement of institutional and individual goals.

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.

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.

Costs according to the Bank's budget

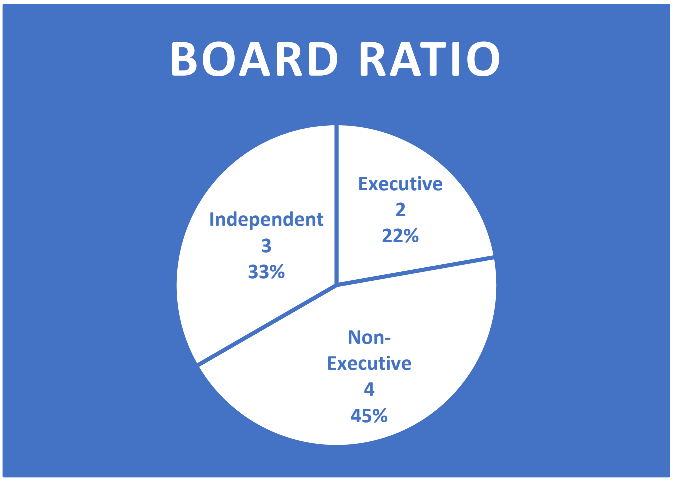
The Bank recognizes the vital role of a well-structured salary program. Individual excellence and innovation is highly encouraged. As such, basic compensation policies and procedures are implemented to ensure that Camalig Bankers are fairly and consistently rewarded according to individual performance.

All Camalig Bankers are required to submit their Performance Appraisal Report every September of each year including its senior officers. 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.

All personnel including the senior management are highly encouraged to undergo further education or attend to at least one training every year.

INDEPENDENCE

The Bank adheres to the regulatory requirement of having a minimum number of independent directors. In selecting independent directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he/she will be able to devote sufficient time to effectively carry out his/her duties and responsibilities. Independence of a director shall also mean being able to exercise impartiality and sound judgment which are independent from the views of senior management.



BOD AUDIT COMMITTEE

The Bank had three (3) non-executive independent directors towards the beginning of 2020 but ended at two (2) in December of the same year due to the untimely demise of one of the Independent Directors. They are selected based on their ability to exercise impartiality and sound judgment which are independent from the views of senior management.

The selection and appointment of the Audit Committee members including its Chairman rest with the Board in accordance with existing rules and regulations.

The Audit Committee chairman and members are knowledgeable in accounting, auditing and financial management expertise and experience commensurate to the Bank's size, complexity of operations and risk profile. Among the duties and responsibilities of the Audit Committee are: oversight of the financial reporting and disclosures, oversight of the internal audit function including monitoring and evaluation of the adequacy and effectiveness of the internal control system and oversight of the external audit function.

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

The Bank's Compliance Unit designs and implements the Bank's Compliance System and spearheads the implementation of the Bank's AML Program. It reports directly to the Corporate Governance and Compensation Committee and Risk Management Committee and, whenever necessary, to the Audit Committee and the Board en banc.

Independent of the business activities of the Bank, the compliance function includes: evaluation of risk factors relative to the Bank's compliance obligations, identifying laws and regulations including analysis and assessment of risks for non-compliance, adopting controls in achieving regulatory requirements such as engaging and maintaining constructive relationships with regulators to ensure that relevant issues are addressed, ensure a clear and open communication process within the Bank to disseminate and address compliance matters, monitoring and testing compliance and reporting compliance issues and concerns to the appropriate Board-level committee and senior management.

Camalig Bank's Resiliency Strategy Map's key areas and action points for compliance, risk, audit and crisis preparedness focus on control structure, risk assessment standards and controls, training and communications, monitoring, auditing and response.

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 2020, no dividends were declared for the common shares. However, dividends were distributed for the preferred shares.

DATA PRIVACY

Camalig Bank's Data Privacy Officer / Information Security Officer oversees and manages 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). The Bank actively conducts Risk Awareness Campaign on data privacy and information security to heighten risk consciousness as a matter of responsibility of each personnel and prevent incidences posing risk to data privacy and information security.

Related Party Transactions

All transactions that give rise to credit, counterparty risks and those that could pose material risks or potential abuse to the Bank and its stakeholders are considered and covered by the Bank's Related Party Transaction (RPT) Policy.

Camalig Bank strictly implements its RPT Policy to avoid or mitigate risks of conflict of interest and abuse that are disadvantageous to the Bank and its depositors, creditors and stakeholders. Bank officers or employees who are related to the transacting party are required to abstain from the discussion, approval, and management of the transaction. Directors and officers with personal interest or control in the transaction abstain from the discussion, approval, and management of the transaction, to include physically stepping out from the discussion in case of physical set-up of meetings. Board meeting minutes of the discussion and approval of the transaction expressly indicate that a related party who is a director or officer of the Bank has not participated in the discussion and approval of the related party transaction. Levels of approval are established for related party transactions covering the nature and scope of the transaction and the amount involved.

There is no material related party transaction for the year ending 2020.

CONSUMER PROTECTION

Designed in support of the Bank's risk management structure and compliance program, Camalig Bank adheres to the highest standards of customer protection using its program as the right arm in bolstering relationship with the stakeholders. Clients are provided with the following entitlements as consumers:

a. **Right to information.** Information on the Bank's products and services shall be clear and honest. This shall include features, terms and conditions, benefits that can be derived and even disadvantages to help a client make an informed decision.

b. **Right to choose.** Choices, if any, shall be laid out to clients.

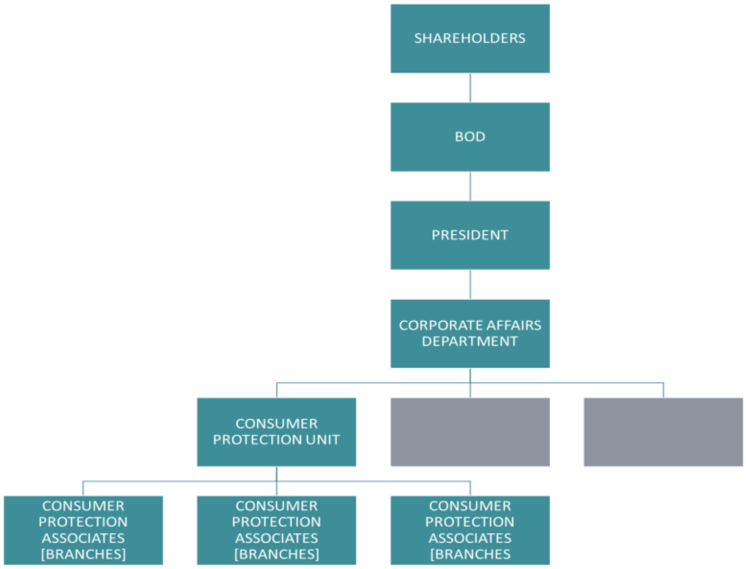
c. **Right to redress.** The Bank shall rectify and apologize to errors or mistakes committed by its personnel and whenever necessary, shall reverse, pay, reimburse any erroneous charges that may have occurred.

d. **Right to education.** The Bank shall ensure proper and adequate education of its clients when it comes to their responsibilities, features, terms, systems, procedures and inherent risks of its Bank products and services.

With the primary objective of reducing regulatory violations while protecting consumers from non-compliance and associated harms or loss, the Bank strictly follows the defined roles and responsibilities in the organization. The Consumer Protection Unit which is positioned under the Corporate Affairs Department, is responsible for addressing and managing the Bank's customer protection compliance.

The effectivity of the Bank's risk management program encapsulated in the financial consumer protection program is tested at the onset of the identified risk before it morphs into a serious offense. Through the Bank's risk grid, reporting and handling of concerns are guided accordingly based on the corresponding risk rating.

Consumer Protection Organizational Structure



Consumer Protection's Thrusts

Transparent

Sending of acknowledgment to client complaints thru a letter, email, chat reply (FB messenger). Providing our clients timeline of resolution and disclosure/updates on the status of complaints.

Accessible

Clients can send complaints thru the Bank website, official email of the Consumer Protection Unit, social media account, hotline number, or by visiting the concerned branch (walk-in).

Prompt

Attending to Client complaints to resolve the concern. The Bank has a specific process timeline in complaints handling and resolution depending on the nature of complaints.

Summary of Complaints for the Year 2020

38
POS-RELATED COMPLAINTS
* Third party provider

13
ATM-RELATED COMPLAINTS
* Third party provider

1
OTHER COMPLAINTS RECEIVED

CORPORATE SOCIAL RESPONSIBILITY

The Camalig Bank Foundation has actively spearheaded the following activities/programs:

- Camalig Bank Foundation has a total of 28 current scholars from the different state colleges in Bicol under its scholarship program.

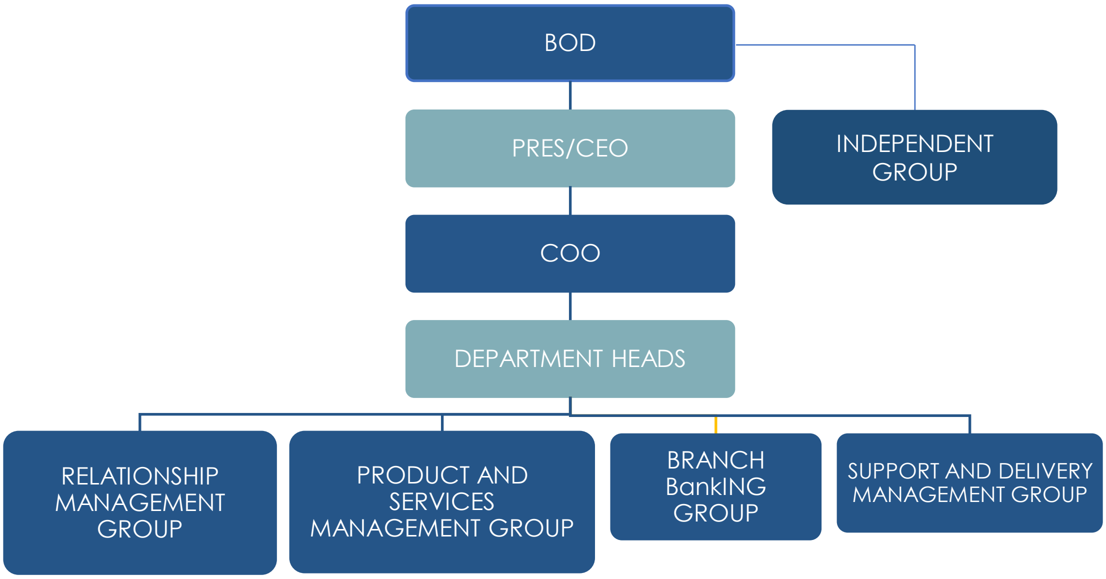
- These scholars were provided with desktop computers and laptops to supplement their learning necessities in the new normal system especially that the educational system has shifted into distance learning methods.

- Donated reading materials and educational toys for the barangay library project initiated by the Pag-Asa National High School.

- Conducted 2 waves of relief operations in selected barangays of the 1st and 3rd Districts of Albay who were greatly affected by the consecutive typhoons that hit the region. A total of 580 beneficiaries have received donated items from the relief efforts of the foundation.

Donated four (4) inkjet printers to four public schools as support for the implemented distance learning approach.

CORPORATE INFORMATION



Organizational Structure

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

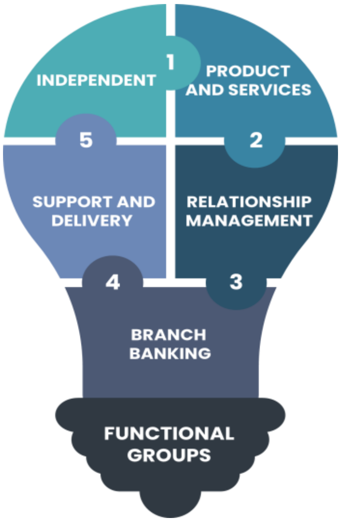
The Bank's present organizational structure shall remain flexible to accommodate any adjustments to enhance the Bank's chances of achieving its established goals and objectives.

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.

COMPANY INFORMATION

Functional Groups



Camalig Bank's organizational structure is constantly reviewed to be responsive to challenges and opportunities and to support the Bank's size with due consideration of its strategic direction while upholding its principles of good corporate governance.

The functional groups are composed of business units led by Unit / Department Heads directly reporting to the Chief Operating Officer, the latter to the President.

PHYSICAL LOCATION

PROVINCE	NO.
ALBAY	6
CATANDUANES	3
SORSOGON	4
MASBATE	2
CAMARINES SUR	5
CAMARINES NORTE	1

Officers and Officers-in-charge

Name	Position
Jose Misael B. Moraleda	President/Chief Executive Officer
Geraldine P. Moraleda	Chief Operations Officer
Rosemarie O. Dado	Head – Remedial and Assets Management Department
Josephine V. Dino	Head – Information Technology Department
Johanna B. Monis	Corporate Secretary / Head – Human Resource Management Department
Jo-Ann T. Pontanes	Head – Compliance and Risk Management Department
Michael T. Fernandez	Head – Finance Department
Ma. Celeste B. Moraleda	Head – Corporate Affairs Department
Ma. Rosewin B. Napay	Branch Manager – Tabaco City Office
Lhea R. Adra	Head – Credit Department
Francis Y. Egar	Branch Manager – Masbate City Office
Clarice M. Aragon	Head – Internal Audit Department
Dominic A. Adra	Assistant Manager – Head Office
Michelle G. Alvarez	Branch Manager – Camalig Office
Kristian R. Belaguin	Head - CCSU
Remedios D. Domo	Manager – Head Office
Agnes M. De la Cruz	Head – Training Development and Recruitment Unit
Cristopher A. Manalo	Data Privacy Officer / Information Security Officer
Jonalyn L. Mirafuentes	MRBN Special Assignment - Manager
Kathleen T. Muñoz	Branch Manager – Virac Office
Ferdinand B. Baliuag	Head- General Services Department

Officers and officers-in-charge

Name	Position
Mary Grace G. Laciste	Branch Manager – Sorsogon City Office
Ma. Vithany T. Molet	Branch Manager – San Andres Office
Majel Joy B. Oriarte	Head - Marketing and Business Development Departments
Leizel M. Patacsil	Executive Assistant to the CEO / Consumer Protection Officer
Djohanna T. Alcaide	Branch Manager – Ocampo Office
Jannen E. Asaldo	Branch Manager – Daraga Office Office
Michelle A. Colaway	Branch Manager – Ragay Office
Marygem T. Cristobal	Branch Manager – Legazpi Office
Hennan R. Huab	Branch Manager – Bulan Office
Ann G. Loretcha	HR Officer
Sheryl E. Macasinag	Branch Manager – Irosin Office
Sheryll L. Navarro	Cataingan Branch Lite Team Leader
Mary Ann A. Pante	Branch Manager – Milaor Office
Ritzel N. Quitasol	Head – Risk Management Unit
Marco Antonio C. Rivera	Branch Manager – Daet Office
Joanne Beda A. Rosacay	Branch Manager – Iriga City Office
Sheila M. Sesno	Head - FPCU
Jeffrey F. Zamora	Head - FIU
Jose M. Amaranto	Security Officer / Consultant

Major Stockholders

Name	Nationality	Percentage of Stockholdings	Voting Status
Jose Misael B. Moraleda	Filipino	15%	Current
Martin Faustino B. Moraleda	Filipino	15%	Current
Ma. Celeste B. Moraleda	Filipino	15%	Current
Ana Maria B. Moraleda	Filipino	15%	Current
Geraldine P. Moraleda	Filipino	11%	Current

Deposit Products

RED ACCOUNT	Basic Deposit Account
BB ACCOUNT	OFW Account
BLUE ACCOUNT	Regular Savings
LITTLE RAINBOW	Kiddie Savings
YELLOW ACCOUNT	Pensioners Account
ORANGE ACCOUNT	Special Savings
GOLD ACCOUNT	Time Deposit
UV ACCOUNT	Checking Account

Loan Products

REGULAR LOANS	SPECIAL LOANS
AGRI LOAN	LOANadan (vehicles)
GINTONG PUHUNAN	TeknoLOAN (gadget, equipment)
ANGAT NEGOSYO	AppLOAN (appliance)
BAYANING BAYANIHAN LOAN	PowerLOAN (genset, solar)
GROUP SALARY LOANS	Jewelry Loan
HOUSING LOAN	PureIT Loan (water purifier financing)

Other Products and Services

CB Kalinga (Micro Insurance)	Philhealth Accredited Collecting Agent
ATM (powered by DBP)	PesoNET
XenPay (APEC payment)	Point-of-Sale Terminal (BDO, LBP)
Western Union	

AUDITED FINANCIAL STATEMENTS

CAMALIG BANK

Let's Redefine Banking

AUDITED FINANCIAL STATEMENTS 2020

www.camaligbank.com.ph
Camalig Bank Building, Rizal Street, Ilawod East
Legazpi City 4500

CAMALIG BANK 1969
A RURAL BANK

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 28 2021

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, 2020 and 2019, 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, 2020 and 2019, 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 / Chief Executive Officer

MICHAEL T. FERNANDEZ
Head- Finance Department / Treasurer

Signed this 17th day of April, 2021.

CORPORATE OFFICE: Rizal Street, Ilawod East, 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

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

10/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

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

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, 2020 and 2019, 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, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs), and as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by Securities and Exchange Commission (SEC), as described in Note 2 to the financial statements.

Basis for Opinion

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.

Emphasis of Matter

We draw attention to Note 2.01 to the financial statements, which indicates that the financial statements have been prepared in accordance with PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by SEC in response to the COVID-19 pandemic. The reliefs cover only current year transactions/events and do not impact the comparative period/s. The impact of the application of the financial reporting reliefs on the 2020 financial statements are discussed in detail in Note 2.01. Our opinion is not modified in respect of this matter.

Alas Oplas & Co., CPAs

Other Matter

As discussed in Note 3 to the financial statements, during the year, the Bank already adopted PFRS 16, *Leases*. The 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. The Bank did not adopt the standard in 2019, which became one of the bases for qualified opinion for the year ended December 31, 2019. Adoption of PFRS 16 resulted to an increase in total assets and liabilities of ₱28,369,320 and ₱28,947,760, respectively, as of December 31, 2020. Equity and net income decreased by ₱578,440 as of and for the year ended December 31, 2020.

Also, as disclosed in Note 25 to the financial statements, the Bank already recognized the result of its actuarial valuation report for the year ended December 31, 2020. The Bank did not recognize the results of its actuarial valuation report in 2019, which became one of the bases for qualified opinion for the year ended December 31, 2019.

Such recognition resulted to an increase in total assets and liabilities of ₱2,478,379 and ₱16,650,264, respectively, as of December 31, 2020. Equity and net income decreased by ₱14,171,885 and ₱584,205 as of and for the year ended December 31, 2020, respectively.

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, as modified by the application of the financial reporting reliefs issued by the BSP and approved by SEC, as described in Note 2 to the financial statements, 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.

Alas Oplas & Co., CPAs

- 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.

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 36, 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 34 and 35 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. 08-001026-000-2021, issued on January 11, 2021; effective until January 10, 2024

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. 08-001026-001-2021, issued on January 11, 2021; effective until January 10, 2024
PTR No. 8533764, issued on January 4, 2021, Makati City

April 17, 2021
Makati City, Philippines

CAMALIG BANK, INC. (A RURAL BANK)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 and 2019
In Philippine Peso

	Notes	2020	2019 As restated
ASSETS			
Cash and other cash items	8	**15,444,021**	16,936,611
Due from Bangko Sentral ng Pilipinas	8	**61,980,380**	35,950,966
Due from other banks	8	**298,059,359**	327,571,303
Loans and receivables – net	10	**1,042,304,774**	1,051,339,522
Bank premises, furniture, fixtures and equipment – net	11	**125,509,128**	134,146,692
Right-of-use assets – net	26	**28,121,417**	–
Intangible assets – net	12	**9,387,431**	9,406,869
Assets held for sale	13	**726,919**	1,315,019
Deferred tax assets	28	**15,777,977**	8,712,304
Other assets	14	**106,284,338**	121,630,174
TOTAL ASSETS		**1,703,595,744**	1,707,009,460
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	15	**1,184,953,908**	1,085,999,254
Due to the Treasurer of the Philippines	16	**512,175**	512,175
Bills payable	17	**119,089,360**	255,046,950
Accrued taxes, interest and other expenses	18	**11,505,856**	7,971,713
Retirement benefit obligation	25	**17,479,945**	–
Income tax payable		**1,159,747**	1,153,212
Deferred tax liability	28	–	829,682
Other liabilities	19	**78,585,175**	54,513,748
Total Liabilities		**1,413,286,166**	1,406,026,734
EQUITY			
Capital stock	21	**217,552,200**	217,552,200
Additional paid-in capital	21	**90,914**	90,914
Surplus free	22	**46,795,037**	33,880,505
Surplus reserve	22	**38,119,439**	48,119,439
Actuarial gain (loss) on defined benefit obligation – net	25	**(12,248,012)**	1,339,668
Total Equity		**290,309,578**	300,982,726
TOTAL LIABILITIES AND EQUITY		**1,703,595,744**	1,707,009,460

See Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
DATE APR 2 8 2021

Statements of Comprehensive Income

Camalig Bank, Inc. (A Rural Bank)
For the years ended December 31, 2020 & 2019
In Philippine Peso

	Notes	2020	2019 As restated
INTEREST INCOME			
Deposits with banks	8	**586,653**	617,724
Investments	9,14	**601,893**	1,730,176
Loans and receivables	10	**182,323,939**	160,893,998
		183,512,485	163,241,898
INTEREST EXPENSE			
Deposit liabilities	15	**(15,641,330)**	(13,495,398)
Bills payable	17	**(12,758,987)**	(6,208,344)
Lease liability		**(1,389,001)**	–
		(29,789,318)	(19,703,742)
NET INTEREST INCOME		**153,723,167**	143,538,156
PROVISION FOR CREDIT LOSSES	10,14	**(5,245,957)**	–
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**148,477,210**	143,538,156
OTHER OPERATING INCOME	23	**15,494,224**	26,998,164
OTHER OPERATING EXPENSES	24	**(153,231,703)**	(147,072,853)
PROFIT BEFORE TAX		**10,739,731**	23,463,467
INCOME TAX EXPENSE	27	**(3,018,949)**	(6,755,265)
PROFIT		**7,720,782**	16,708,202
OTHER COMPREHENSIVE LOSS			
Item that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit obligation – net of tax	25	**(13,587,680)**	–
TOTAL COMPREHENSIVE INCOME (LOSS)		**(5,866,898)**	16,708,202

See Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 2 8 2021

Statements of Changes in Equity

Camalig Bank, Inc. (A Rural Bank)
For the years ended December 31, 2020 & 2019
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 (loss) (Note 25)	Total
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, as previously reported	–	–	–	17,130,922	–	–	17,130,922
Prior period error (Note 29)	–	–	–	(422,720)	–	–	(422,720)
Profit, as restated	–	–	–	16,708,202	–	–	16,708,202
Actuarial gain on defined benefit obligation – net	–	–	–	–	–	–	–
Total comprehensive income, as restated	–	–	–	16,708,202	–	–	16,708,202
Transactions with owners							
Dividends declared	–	–	–	(6,750,000)	–	–	(6,750,000)
Transfer to surplus reserves	–	–	–	(9,000,000)	9,000,000	–	–
Total transaction with owners	–	–	–	(15,750,000)	9,000,000	–	(6,750,000)
Balance at December 31, 2019	**172,552,200**	**45,000,000**	**90,914**	**33,880,505**	**48,119,439**	**1,339,668**	**300,982,726**
Comprehensive income							
Profit	–	–	–	7,720,782	–	–	7,720,782
Actuarial loss on defined benefit obligation – net	–	–	–	–	–	(13,587,680)	(13,587,680)
Total comprehensive income	–	–	–	7,720,782	–	(13,587,680)	(5,866,898)
Transactions with owners							
Dividends declared	–	–	–	(4,806,250)	–	–	(4,806,250)
Conversion of redeemable preference shares to common shares	10,000,000	(10,000,000)	–	–	–	–	–
Reversal of appropriation	–	–	–	45,000,000	(45,000,000)	–	–
Transfer to surplus reserve	–	–	–	(35,000,000)	35,000,000	–	–
Total transactions with owners	10,000,000	(10,000,000)	–	5,193,750	(10,000,000)	–	(4,806,250)
Balance at December 31, 2020	**182,552,200**	**35,000,000**	**90,914**	**46,795,037**	**38,119,439**	**(12,248,012)**	**290,309,578**

See Notes to Financial Statements.

Statements of Cash Flows

Camalig Bank, Inc. (A Rural Bank)
For the years ended December 31, 2020 & 2019
In Philippine Peso

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**10,739,731**	23,886,187
Adjustments for:			
Depreciation	24	**20,981,517**	13,804,798
Interest expense from bills payable	17	**12,758,987**	6,208,344
Provision for credit losses	10	**5,245,957**	–
Retirement benefit expense	24,25	**4,080,693**	–
Interest expense on lease liability	19	**1,389,001**	–
Amortization	12,24	**1,344,813**	1,094,263
Interest income from due from other banks and investments	8,9,14	**(1,188,546)**	(2,347,900)
Gain on sale of non-financial assets	23	**(32,755)**	(280,206)
Operating cash flows before working capital changes		**55,319,398**	42,365,486
Decrease (increase) in operating assets:			
Loans and receivables		**4,308,790**	(208,468,662)
Other assets		**12,566,091**	(35,731,320)
Increase (Decrease) in operating liabilities:			
Deposit liabilities		**98,954,654**	191,499,379
Accrued interest, taxes and other liabilities		**3,086,021**	(5,004,943)
Other liabilities		**(4,995,083)**	(5,791,017)
Cash generated from (used in) operations		**169,239,871**	(21,131,077)
Interest paid		**(12,310,865)**	2,347,900
Income tax paid		**(5,052,197)**	(5,820,633)
Contributions to retirement fund	25	**(2,917,747)**	–
Interest received		**1,170,405**	(5,724,082)
Benefits paid	25	**(328,367)**	–
Net cash generated from (used in) operating activities		**149,801,100**	(30,327,892)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of bank premises, furniture and fixtures, and equipment	11	**(6,678,489)**	(18,341,117)
Acquisitions of intangible assets	12	**(1,325,375)**	(4,716,170)
Proceeds from disposal of ROPA	13	**68,100**	734,581
Proceeds from disposal of bank premises, furniture, fixtures and equipment	11	**75,580**	–
Proceeds from redemption of held-to-maturity investments	9	**–**	15,225,283
Net cash used in investing activities		**(7,860,184)**	(7,097,423)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of bills payable	17	**(285,425,390)**	(145,390,470)
Proceeds from availment of bills payable	17	**149,467,800**	270,046,900
Payment of lease liabilities	19	**(6,270,946)**	–
Payment of dividends	22	**(4,687,500)**	(6,750,000)
Net cash generated from (used in) financing activities		**(146,916,036)**	117,906,430
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(4,975,120)**	80,481,115
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**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
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	8	**15,444,021**	16,936,611
Due from Bangko Sentral ng Pilipinas	8	**61,980,380**	35,950,966
Due from other banks	8	**298,059,359**	327,571,303
		375,483,760	380,458,880

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	Tara Street, 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), as modified by the application of the following financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC) in response to the COVID-19 pandemic:

a. Staggered booking of allowance for credit losses over maximum period of five years

The reliefs cover only current-year transactions/events and do not impact the comparative period/s.

The impact on the affected financial statement line items is as follows:

	Amount with relief Dr (Cr)	Impact of relief Dr (Cr)	Amount without relief Dr (Cr)
Loans and receivables – net	₱ 1,042,304,774	₱ (29,834,519)	₱ 1,012,470,255
Deferred tax asset	15,977,977	8,950,356	24,928,333
Surplus free	(46,795,037)	20,884,163	(25,910,874)
Provision for credit losses	5,245,957	29,834,519	35,080,746
Income tax expense (benefit)	3,018,949	(8,950,356)	(5,931,407)
Loss (Profit)	(7,720,782)	20,884,163	13,163,381

Balance of allowance recognized or amortized for the period and balance of unrecognized allowance:

	Total unrecognized allowance	Amortized for the period	Balance of unrecognized allowance
Allowance for credit losses	₱ 29,834,519	₱ –	₱ 29,834,519

PFRSs includes 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.

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

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

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 for-ward 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.

The Bank has adopted PFRS 16, 'Leases' effective January 1, 2020. 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.

The adoption of PFRS 16 resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Bank did not early adopt any provisions of PFRS 16 in previous periods.

As permitted by the transitional provisions of PFRS 16, the Bank elected not to restate comparative figures and adopt the modified retrospective approach with simplified right-of-use asset to transition to the new leases standard.

The Bank recognized lease liabilities and right-of-use assets in relation to leases which had previously been classified as 'operating leases' under the principles of PAS 17.

- The lease liabilities were measured at the present value of the remaining lease payments, discounted using the appropriate incremental borrowing rates as of January 1, 2020
- The associated right-of-use assets for leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to certain leases recognized in the statement of financial position as at December 31, 2019.

In Philippine Peso

In applying PFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

(a) For all contracts entered into before January 1, 2020 and that were previously identified a leases under PAS 17, Leases, and IFRIC 4, 'Determining whether an arrangement contain a Lease', the Bank has not reassessed if such contracts contain leases under PFRS 16; an
(b) On a lease-by-lease basis, the Bank has:
- applied a single discount rate to a portfolio of leases with reasonably simila characteristics;
- relied on previous assessments on whether leases are onerous as an alternative t performing an impairment review;
- excluded initial direct costs for the measurement of the right-of-use asset at the date c initial application; and
- used hindsight in determining the lease term where the contract contains options t extend or terminate the lease.

Set out below are disclosures relating to the impact of the adoption of PFRS 16 on the Bank.

(a) Amounts recognized in the statement of financial position

		December 31, 2020		January 1, 2020
Right-of-use assets	₱	**28,121,417**	₱	33,829,706
Lease liabilities:				
Current	₱	**4,411,164**	₱	4,881,945
Non-current		**24,536,597**		28,947,761
	₱	**28,947,761**	₱	33,829,706

(b) Amounts recognized in the statement of comprehensive income

		2020
Depreciation expense	₱	**5,708,289**
Interest expense		**1,389,001**
	₱	**7,097,290**

When measuring lease liabilities for leases that have been classified as operating leases, the Bank discounted lease payments using the incremental borrowing rate at January 1, 2020. The Bank has applied incremental borrowing rate ranging from 3.53% to 4.90%, depending on the remaining lease term.

The reconciliation of operating lease commitments as at December 31, 2019 discounted using the incremental borrowing rate as at January 1, 2020 and the lease liabilities recognized as at January 1, 2020 follows.

Operating lease commitments as at December 31, 2019 as disclosed under PAS 17	₱	**42,027,352**
Discounted using the incremental borrowing rate at January 1, 2020		**(8,197,646)**
Lease liabilities recognized as at January 1, 2020	₱	**33,829,706**

Amendment to PFRS 3, Definition of a Business

The amendments to PFRS 3 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 also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. These amendments will apply on future business combinations of the Bank.

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 judgment.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments are not expected to have a significant impact on the Bank.

Amendments to PFRS 7, PFRS 9 and PAS 39 Interest Rate Benchmark Reform

The amendments to PFRS 9 and PAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the International Accounting Standards Board in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

Amendments to PFRS 16 Covid-19 Related Rent Concessions

The amendments provide relief to lessees from applying the standard's guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under the standard, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Bank.

3.02 Standards Issued but not yet Effective

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.

The Bank does not expect any effect on its financial statements upon adoption.

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

In January 2020, amendments were issued to paragraphs 69 to 76 of the Standard to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively The Bank does not expect any effect on its financial statements upon adoption.

Reference to the Conceptual Framework – Amendments to PFRS 3

The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. An exception to the recognition principle of PFRS 3 was added to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the existing guidance in PFRS 3 for contingent assets that would not be affected was clarified by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to PAS 16

In May 2020, Property, Plant and Equipment — Proceeds before Intended Use was issued, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Bank.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to PAS 37

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

PFRS 1 First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

PFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Bank.

PAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Bank.

3.03 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.

The Bank does not expect any effect on its financial statements upon adoption.

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

4.01.01 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).

4.01.02 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, 2020 and 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, 2020 and 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, 2020 and 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, 2020 and 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, 2020 and 2019, the Bank does not have equity securities at FVPL.

4.01.03 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.

4.01.04 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.

4.01.05 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.

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, 2020 and 2019, 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

Policies applicable starting January 1, 2020 (PFRS 16)

4.09.01 The Bank as Lessee
For any new contracts entered into on or after 1 January 2020, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Bank assesses whether the contract meets three (3) key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank.
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

4.09.02 Recognition and Initial Measurement
At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.
The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

4.09.03 Subsequent Measurement
The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

Useful life considered in depreciating the right-of-use assets is the life of the asset or remaining term of the lease, whichever is shorter.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

Policies applicable prior to January 1, 2020 (PAS 17)

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.

4.09.04 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.

4.09.05 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 Determining Whether or Not a Contract Contains a Lease (Effective January 1, 2020)
At inception of a contract, the Bank assesses whether the contract is, or contains, a lease. 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.

Identified Asset
An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

Substantive Substitution Rights
Even if the asset is specified, the Bank does not have the right to use an identified asset, if, at inception of the contract, a supplier has the substantive right to a substitute the asset throughout the period of use (i.e., the total period of time that an asset is used to fulfill a contract with the Bank, including the sum of any non-consecutive periods of time). A supplier's right to substitute an asset is substantive when both of the following conditions are met:

- The supplier has the practical ability to substitute alternative assets throughout the period of use (e.g., the Bank cannot prevent the supplier from substituting an asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and
- The supplier would benefit economically from the exercise of its right to substitute the asset (i.e., the economic benefits associated with substituting the asset is expected to exceed the costs associated with substituting the asset).

The Bank's evaluation of whether a supplier's substitution right is substantive is based on facts and circumstances at inception of the contract. At inception of the contract, the Bank does not consider future events that are not likely to occur.

Right to Obtain Substantially all of the Economic Benefits from Use of the Identified Asset
To control the use of an identified asset, the Bank is required to have the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use (e.g., by having exclusive use of the asset throughout that period).

When assessing whether the Bank has the right to obtain substantially all of the economic benefits from the use of an asset, the Bank considers the economic benefits that result from use of the asset within the defined scope of the customer's right to use the asset. A right that solely protects the supplier's interest in the underlying asset (e.g., limits on the number of miles a customer can drive a supplier's vehicle) does not, in and of itself, prevent the Bank from obtaining substantially all of the economic benefits from use of the asset and, therefore, are not considered when assessing whether the Bank has the right to obtain substantially all of the economic benefits.

If a contract requires the Bank to pay the supplier or another party a portion of the cash flows derived from the use of an asset as consideration (e.g., a percentage of sales from the use of retail space), those cash flows are considered to be economic benefits that the Bank derives from the use of the asset.

Right to Direct the Use of the Identified Asset
The Bank has the right to direct the use of an identified asset throughout the period of use when either the Bank has the right to direct how and for what purpose the asset is used throughout the period of use. The Bank has the right to direct the use of an identified asset whenever it has the right to direct how and for what purpose the asset is used throughout the period of use (i.e., it can change how and for what purpose the asset is used throughout the period of use). When evaluating whether the Bank has the right to change how and for what purpose the asset is used throughout the period of use, its focus is on whether the Bank has the decision-making rights that will most affect the economic benefits that will be derived from the use of the asset. The decision-making rights that are most relevant are likely to depend on the nature of the asset and the terms and conditions of the contract.

5.01.03 Classifying Between Operating and Finance Lease (Effective Prior to January 1, 2020)
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 year ended December 31, 2019 amounted to ₱6,587,421, as disclosed in Notes 24 and 26.

5.01.04 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.

5.01.05 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.

5.01.06 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 under PFRS 9 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.

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, 2020 and 2019, loans and receivables amounted to ₱1,042,304,774 and ₱1,051,339,522, respectively, net of allowance for credit losses amounting to ₱32,942,112 and ₱27,696,155, respectively, 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 ₱125,509,128 and ₱134,146,692 as of December 31, 2020 and 2019, respectively, as disclosed in Note 11. The carrying amount of assets held for sale amounted to ₱726,919 and ₱1,315,019 as of December 31, 2020 and 2019, respectively, as disclosed in Note 13.

In Philippine Peso

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 ₱15,777,977 and ₱8,712,304 as of December 31, 2020 and 2019, 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 Department also undertake both regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to the Risk Management/Audit Committee and/or the board.

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		2020		2019
Financial Assets					
Cash and other cash items	8	₱	**15,444,021**	₱	16,936,611
Due from BSP	8		**61,980,380**		35,950,966
Due from other banks	8		**298,059,359**		327,571,303
Investment securities at amortized cost	9		**–**		–
Loans and receivables – net	10		**1,042,304,774**		1,051,339,522
Other assets*	14		**96,048,376**		71,386,239
		₱	**1,513,836,910**	₱	1,503,184,641

**except non-financial assets amounting to ₱10,235,962 and ₱50,243,935 as of December 31, 2020 and 2019, respectively.*

In Philippine Peso

	Notes		2020		2019
Financial Liabilities					
Deposit liabilities	15	₱	**1,184,953,908**	₱	1,085,999,254
Bills payable	17		**119,089,360**		255,046,950
Accrued interest expense	18		**3,033,705**		4,391,152
Other liabilities**	19		**77,290,364**		53,036,244
		₱	**1,384,367,337**	₱	1,398,473,600

***excluding government-related payables and non-financial liabilities amounting to ₱1,294,811 and ₱1,477,504 as of December 31, 2020 and 2019, 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, 2020 and 2019, without considering the effects of credit risk mitigation techniques.

	Notes		2020		2019
Financial Assets					
Checks and other cash items	8	₱	**559,223**	₱	4,653,954
Due from Bangko Sentral ng Pilipinas	8		**61,980,380**		35,950,966
Due from other banks	8		**298,059,359**		327,571,303
Loans and receivables*	10		**1,075,246,886**		1,079,035,677
Other assets**	14		**96,048,376**		71,386,239
		₱	**1,531,894,224**	₱	1,518,598,139

**gross of allowance amounting to ₱32,942,112 and ₱27,696,155 for the year ended December 31, 2020 and 2019, respectively.*

**except non-financial assets amounting to ₱10,235,962 and ₱50,243,935 as of December 31, 2020 and 2019, 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 Compliance and 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 following the General Authorities and Operating Exceptions Guidelines.
- 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 meetings.

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

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

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 expected credit 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.

In Philippine Peso

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.

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, 2020 and 2019.

2020

	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Past due but not impaired	Impaired	Total
Cash and other cash items	15,444,021	–	–	–	–	15,444,021
Due from BSP	61,980,380	–	–	–	–	61,980,380
Due from other banks	298,059,359	–	–	–	–	298,059,359
Investment securities at amortized cost	–	–	–	–	–	–
Other assets*	96,048,376	–	–	–	–	96,048,376
	471,532,136	–	–	–	–	**471,532,136**

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 ₱10,235,962 and ₱50,243,935 as of December 31, 2020 and 2019, respectively.*

In Philippine Peso

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):

2020	Stage 1	Stage 2	Stage 3	Total
Consumption loans				
High grade	₱ 613,146,696	₱ –	₱ –	₱ 613,146,696
Standard grade	–	–	–	–
Substandard grade	–	–	–	–
Past due but not impaired	–	223,562	–	223,562
Non-performing individually impaired	–	–	14,439,018	14,439,018
Subtotal	**613,146,696**	**223,562**	**14,439,018**	**627,809,276**
Commercial loans				
High grade	163,553,973	–	–	163,553,973
Standard grade	–	–	–	–
Substandard grade	–	–	–	–
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	592,816	592,816
Subtotal	**163,553,973**	**–**	**592,816**	**164,146,789**
Agri-agra loans				
High grade	223,044,868	–	–	223,044,868
Standard grade	–	–	–	–
Substandard grade	–	1,031,870	–	1,031,870
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	24,132,674	24,132,674
Subtotal	**223,044,868**	**1,031,870**	**24,132,674**	**248,209,412**
Micro-finance loans				
High grade	28,044,546	–	–	28,044,546
Standard grade	–	–	–	–
Substandard grade	–	–	–	–
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	6,477,863	6,477,863
Subtotal	**28,044,546**	**–**	**6,477,863**	**34,522,409**
Total	**₱ 1,027,790,083**	**₱ 1,255,432**	**₱ 45,642,371**	**₱ 1,074,687,886**

In Philippine Peso

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

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.

In Philippine Peso

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.

6.02.05 Aging Analysis

An aging analysis of the Bank's loans and receivables as of December 31, 2020 and 2019 is as follows:

	2020	2019
Outstanding loans and receivables:*		
Current accounts	₱ **1,027,790,083**	₱ 1,028,258,461
Past due accounts:		
1 – 30 days past due	**27,522**	255,547
31 – 60 days past due	**885,179**	2,355,197
61 – 90 days past due	**–**	1,248,797
over 90 days past due	**45,985,102**	46,917,675
	₱ **1,074,687,886**	₱ 1,079,035,677

**receivables at gross amount of allowance for credit losses amounting to ₱32,942,112 and ₱27,696,155 for the years ended December 31, 2020 and 2019, 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.

In Philippine Peso

6.03 Liquidity Risk

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

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, 2020 and 2019, minimum liquidity ratio of the Bank is 39.76% and 45.35%, 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, 2020 and 2019:

2020	Within 1 Year	1 – 5 Years	Over 5 Years	Total
Financial Assets:				
Cash and other cash items	₱ 15,444,021	₱ –	₱ –	₱ 15,444,021
Due from Bangko Sentral ng Pilipinas	61,980,380	–	–	61,980,380
Due from other banks	298,059,359	–	–	298,059,359
Held-to-maturity investment	–			–
Loans and receivables*	166,632,980	774,285,915	133,768,991	1,074,687,886
Other assets**	96,048,376	–	–	96,048,376
	₱ 638,165,116	₱ 774,285,915	₱ 133,768,991	₱ 1,546,220,022

**gross of allowance amounting to ₱32,942,112.*
***except non-financial assets amounting to ₱10,235,962.*

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 ₱50,243,935*

In Philippine Peso

2020	Within 1 Year	1 – 5 Years	Over 5 Years	Total
Financial Liabilities:				
Deposit liabilities	₱ 1,173,923,382	₱ 11,030,527	₱ –	₱ 1,184,953,909
Bills payable	119,089,360	–	–	119,089,360
Accrued interest payable	5,419,285	570,974	–	5,990,259
Other liabilities*	52,753,766	12,462,969	12,073,629	77,290,364
	₱ 1,351,185,793	₱ 24,064,470	₱ 12,073,629	₱ 1,387,323,892

**excluding government-related payables and non-financial liabilities amounting to ₱1,294,811.*

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*

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.

In Philippine Peso

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.

2020	Amount	Average Interest rate	10% increase	Net effect
Interest income				
Due from other banks	₱ 586,653	0.19%	0.019%	₱ 111
Held-to-maturity financial assets	601,893	4.25%	0.425%	2,558
Loans receivables	182,323,939	16.97%	1.675%	3,053,925
	183,512,485			3,056,594
Interest expense				
Deposit liabilities	15,641,330	1.38%	0.138%	21,585
Bills payable	12,758,987	6.80%	0.680%	86,761
	28,400,317			108,346
Net interest income	₱ 155,112,168			₱ 2,961,087
Effect on equity				₱ 2,072,761

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

There is no material impact of changes in interest rates on equity for the years ended December 31, 2020 and 2019.

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, 2020 and 2019, 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.

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.

In Philippine Peso

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:

		2020		2019
Cash and other cash items:				
Cash in vault	₱	**14,884,798**	₱	12,282,657
Checks and other cash items		**559,223**		4,653,954
		15,444,021		16,936,611
Due from Bangko Sentral ng Pilipinas		**61,980,380**		35,950,966
Due from other banks		**298,059,359**		327,571,303
	₱	**375,483,760**	₱	380,458,880

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.

In 2020, the BSP issued Circular No. 1092, reduction in Reserve Requirements, decreasing the required reserves to 2% of the deposit level.

In 2019, the BSP issued Circular No. 1063, reduction in Reserve Requirements, decreasing the required reserves to 3% of the deposit level.

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.

As of December 31, 2020 and 2019, the Bank has been compliant with the reserve requirement as set by the BSP.

In Philippine Peso

Due from other banks comprise of savings deposits bear interest rates ranging from 0.05% to 0.25% for 2020 and 2019, and time deposits having interest rates ranging from 0.675% to 1.50% in 2020 and 0.875% to 2.50% in 2019.

Interest earned on deposits on local banks amounted to ₱586,653 and ₱617,724 for the years ended December 31, 2020 and 2019, respectively.

9. INVESTMENT SECURITIES AT AMORTIZED COST

The account amounted to nil as of December 31, 2020 and 2019.

Movements of the account are disclosed below:

	2020	2019
Balance at January 1	₱ –	₱ 15,225,283
Additions	–	–
Redemptions	–	(15,225,283)
Balance at December 31	₱ –	₱ –

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, 2020 and 2019 amounted to nil and ₱678,315, respectively.

10. LOANS AND RECEIVABLES – net

The Bank's loan and receivables consist of:

	2020	2019
Current loans	**₱ 1,054,851,605**	₱ 1,058,204,409
Past due loans	**44,577,116**	48,509,198
Items in litigation	**2,326,926**	2,326,926
Total loans and receivables	**1,101,755,647**	1,109,040,533
Sales contract receivables	**559,000**	–
	1,102,314,647	1,109,040,533
Unamortized interests and discounts	**(27,067,761)**	(30,004,856)
	1,075,246,886	1,079,035,677
Allowance for credit losses	**(32,942,112)**	(27,696,155)
	₱ 1,042,304,774	₱ 1,051,339,522

Total earned interest amounted to ₱182,323,939 and ₱160,893,998 for the years ended December 31, 2020 and 2019, respectively.

The promissory notes of loans and receivables amounting to ₱119,089,360 and ₱255,046,950 are pledged as security for the related bills payable as of December 31, 2020 and 2019, respectively, as disclosed in Note 17.

In Philippine Peso

Breakdown of loan portfolio as of December 31, 2020 and 2019:

	2020	2019
Loans and discount	₱ **791,956,065**	₱ 869,238,313
Agrarian reform/other agricultural credit	**248,209,412**	197,748,761
Microfinance loans	**34,522,409**	12,048,603
	1,074,687,886	1,079,035,677
Allowance for credit losses	**(32,942,112)**	(27,696,155)
	₱ 1,041,745,774	₱ 1,051,339,522

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

	2020	2019
Loans and discounts	**14.88**	15.27
Agrarian reform/other agricultural credit	**18.29**	22.78
Microfinance loans	**24.87**	26.89

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

	2020	2019
Within one year	₱ **166,632,980**	₱ 371,806,509
Beyond one year but within five years	**774,285,915**	628,330,942
Beyond five years	**133,768,991**	78,898,226
	₱ **1,074,687,886**	₱ 1,079,035,677

In Philippine Peso

The movements of loans receivable for 2020 and 2019 are presented as follows:

2020	Stage 1	Stage 2	Stage 3	Total
Consumer loans				
Balance at January 1, 2020	702,292,002	1,235,656	16,638,350	720,166,008
New assets originated or purchased	316,847,420	–	–	316,847,420
Assets derecognized or repaid	(390,503,087)	(440,879)	(3,680,849)	(394,624,815)
Amounts written off	–	–	–	–
Transfers to/(from) Stage 1	(914,063)	914,063	–	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	(1,485,278)	1,485,278	–
Others	–	–	–	–
Balance at December 31	**627,722,272**	**223,562**	**14,442,779**	**642,388,613**
Commercial loans				
Balance at January 1, 2020	166,962,865	135,872	2,818,504	169,917,241
New assets originated or purchased	84,911,570	–	–	84,911,570
Assets derecognized or repaid	(58,259,187)	(1,376,730)	(6,635,780)	(66,271,697)
Amounts written off	–	–	–	–
Transfers to/(from) Stage 1	(7,543,570)	7,543,570	–	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	(6,302,712)	6,302,712	–
Others	–	–	–	–
Balance at December 31	**186,071,678**	**–**	**2,485,436**	**188,557,114**
Agri-agra loans				
Balance at January 1, 2019	181,630,273	1,943,573	23,138,891	206,712,737
New assets originated or purchased	278,602,500	–	–	278,602,500
Assets derecognized or repaid	(216,610,243)	(4,843,642)	(5,101,794)	(226,555,679)
Amounts written off	–	–	–	–
Transfers to/(from) Stage 1	(10,027,517)	10,027,517	–	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	(6,095,577)	6,095,577	–
Others	–	–	–	–
Balance at December 31	**233,595,013**	**1,031,871**	**24,132,674**	**258,759,558**
Microfinance loans				
Balance at January 1, 2019	7,319,269	–	4,925,278	12,244,547
New assets originated or purchased	13,251,000	–	–	13,251,000
Assets derecognized or repaid	(12,308,636)	–	(1,136,549)	(13,445,185)
Amounts written off	–	–	–	–
Transfers to/(from) Stage 1	(798,992)	–	798,992	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	–	–	
Others	–	–	–	–
Balance at December 31	**7,462,641**	**–**	**4,587,721**	**12,050,362**
Total, December 31	**1,054,851,604**	**1,255,433**	**45,648,610**	**1,101,755,647**

CAMALIG BANK, INC. (A RURAL BANK)
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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

In Philippine Peso

The movements of allowance for credit losses on loans receivables for 2020 and 2019 are presented as follows:

2020	Stage 1	Stage 2	Stage 3	Total
Consumer loans				
Balance at January 1, 2020	6,183,625	84,408	6,282,273	12,550,306
New assets originated or purchased	441,689	466,847	1,059,227	1,967,763
Assets derecognized or repaid	–	–	–	–
Amounts written off	–	–	–	–
Transfers to/(from) Stage 1	220,068	(220,068)	–	–
Transfers to/(from) Stage 2	–	(214,230)	214,230	–
Transfers to/(from) Stage 3	–	–	–	–
Others	–	–	–	–
Balance at December 31	**6,845,382**	**116,957**	**7,555,730**	**14,518,069**
Commercial loans				
Balance at January 1, 2020	2,034,009	15,458	1,174,006	3,223,473
New assets originated or purchased	118,971	24,473	114,328	257,772
Assets derecognized or repaid	–	–	–	–
Amounts written off	–	–	–	–
Transfers to/(from) Stage 1	(309,150)	309,150	–	–
Transfers to/(from) Stage 2	–	(349,081)	349,081	–
Transfers to/(from) Stage 3	–	–	–	–
Others	–	–	–	–
Balance at December 31	**1,843,830**	**–**	**1,637,415**	**3,481,245**
Agri-agra loans				
Balance at January 1, 2020	1,773,840	126,750	8,396,307	10,296,897
New assets originated or purchased	143,917	74,571	2,265,842	2,484,330
Assets derecognized or repaid	–	–	–	–
Amounts written off	–	–	–	–
Transfers to/(from) Stage 1	312,692	231,313	(544,005)	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	–	–	–
Others	–	–	–	–
Balance at December 31	**2,230,449**	**432,634**	**10,118,144**	**12,781,227**
Microfinance loans				
Balance at January 1, 2020	341,499	–	1,283,980	1,625,479
New assets originated or purchased	4,656	–	531,436	536,092
Assets derecognized or repaid	–	–	–	–
Amounts written off	–	–	–	–
Transfers to/(from) Stage 1	(273,999)	–	273,999	–
Transfers to/(from) Stage 2	–	–	–	–
Transfers to/(from) Stage 3	–	–	–	–
Others	–	–	–	–
Balance at December 31	**72,156**	**–**	**2,089,415**	**2,161,571**
Total, December 31	**10,991,817**	**549,591**	**21,400,704**	**32,942,112**

CAMALIG BANK, INC. (A RURAL BANK)
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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

In Philippine Peso

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

2020		**Consumer**		**Commercial**		**Agri-Agra**		**Microfinance**		**Total**
Specific loan loss provision / Stage 2 & 3	₱	7,672,686	₱	1,637,416	₱	10,550,778	₱	2,089,415	₱	21,950,295
General loan loss provision / Stage 1		5,962,771		2,726,441		2,230,449		72,156		10,991,817
Total allowance for credit losses	₱	**13,635,457**	₱	**4,363,857**	₱	**12,781,227**	₱	**2,161,571**	₱	**32,942,112**

2019		Consumer		Commercial		Agri-Agra		Microfinance		Total
Specific loan loss provision / Stage 2 & 3	₱	6,511,271	₱	52,206	₱	8,674,726	₱	2,175,367	₱	17,413,570
General loan loss provision / Stage 1		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

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.

In Philippine Peso

	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 for 2019:

	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%

In Philippine Peso

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.

On March 3, 2021, the Bank applied for the availment of the regulatory relief for the staggered booking of allowance for credit losses for the period of five years.

Details of the Bank's unbooked allowance for credit losses against its own LLM and Appendix 15 of the MORB as of December 31, 2020 and 2019 are disclosed below:

2020	**Per Bank's own LLM**	**Per Appendix 15**
Required allowance	₱ 62,776,631	₱ 77,914,250
Booked allowance	(32,942,112)	(32,942,112)
Unbooked allowance	29,834,519	44,972,138
Balance of unbooked allowance covered by staggered booking	(29,834,519)	(29,834,519)
	₱ –	₱ **15,137,619**

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

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.

In Philippine Peso

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:

		2020		2019
Past due accounts:				
Less than 30 days	₱	**27,522**	₱	169,338
30 – 60 days		**7,989**		84,715
61 – 90 days		**–**		228,219
91 – 180 days		**104,515**		3,014,630
Over 180 days		**45,502,345**		43,989,254
	₱	**45,642,371**	₱	47,486,156

As of December 31, 2020 and 2019, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows (net of unamortized discounts):

		2020		2019
Total Non-performing loans	₱	**45,642,371**	₱	47,486,156
Non-performing loans covered by allowance for credit losses		**(21,870,008)**		(15,600,076)
	₱	**23,772,363**	₱	31,886,080

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 ₱150,000 and ₱261,393 as of December 31, 2020 and 2019, respectively.

In Philippine Peso

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

	2020	2019
Ratio of gross NPLs to gross TLP (%)	**4.24%**	4.40%
Ratio of net NPLs to gross TLP (%)	**2.21%**	2.95%
Ratio of total allowance for credit losses to gross NPLs (%)	**72.17%**	58.32%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	**47.92%**	36.67%

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

The carrying amounts of bank premises, furniture, fixtures and equipment for the years ended December 31, 2020 and 2019 are as follows:

2019	**Land**	**Building and Improvements**	**Furniture, Fixtures and Equipment**	**Total**
Cost:				
At January 1	₱ 21,396,053	₱ 143,003,144	₱ 79,894,033	₱ 244,293,230
Additions	–	3,163,737	3,514,752	6,678,489
Disposal	–	–	(146,262)	(146,262)
December 31	**21,396,053**	**146,166,881**	**83,262,523**	**250,825,457**
Accumulated depreciation:				
At January 1	–	45,122,261	65,024,277	110,146,538
Depreciation (Note 24)	–	8,024,404	7,248,824	15,273,228
Disposal	–	–	(103,437)	(103,437)
December 31	**–**	**53,146,665**	**72,169,664**	**125,316,329**
Carrying value	**₱ 21,396,053**	**₱ 93,020,216**	**₱ 11,092,859**	**₱ 125,509,128**

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

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, 2020 and 2019.

No bank premises, furniture, fixtures and equipment were used as collateral for liabilities as at December 31, 2020 and 2019.

In 2020, the Bank disposed certain equipment with a carrying amount of ₱42,825 for ₱75,580 resulting to a gain on sale of non-financial assets of ₱32,755, as disclosed in Note 23.

In Philippine Peso

All additions were paid in cash.

As of December 31, 2020 and 2019, the Bank has no commitment to purchase bank premises, furniture, fixtures and equipment.

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, 2020, the Bank has complied with this provision, as the Bank's investments in BPFFE account only for 45.72% of the total unimpaired capital.

12. INTANGIBLE ASSETS – net

The carrying amounts of the Bank's intangible assets for the years ended December 31, 2020 and 2019 are as follow:

	Note		2020		2019
Cost					
At January 1		₱	**15,240,822**	₱	10,524,652
Additions			**1,325,375**		4,716,170
			16,566,197		15,240,822
Accumulated amortization					
At January 1			**5,833,953**		4,739,690
Amortization	24		**1,344,813**		1,094,263
			7,178,766		5,833,953
Carrying value		₱	**9,387,431**	₱	9,406,869

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.

13. ASSETS HELD FOR SALE – net

Included in this account as of December 31, 2020 and 2019:

		2020		2019
At January 1	₱	**1,315,019**	₱	1,173,180
Reclassifications		**–**		874,030
Disposal		**(588,100)**		(732,191)
At December 31		**726,919**		1,315,019
Allowance for impairment loss		**–**		–
Carrying value	₱	**726,919**	₱	1,315,019

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 2020, the Bank disposed some of its assets held for sale, with carrying amount of ₱588,100 for ₱588,100, as disclosed in Note 24. Out of the total selling price, ₱68,100 was through cash, and the rest was through sales contract receivables.

In Philippine Peso

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, 2020 and 2019 amounted to ₱2,220,030 and ₱2,552,970, 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.

14. OTHER ASSETS

Below is the composition of the Bank's other assets as of December 31, 2020 and 2019.

	Note	2020	2019 As restated
Accounts receivable		₱ **75,894,033**	₱ 64,067,863
Accrued interest receivable		**21,470,199**	8,632,317
Prepaid expenses		**3,262,014**	4,618,333
Sinking fund redeemable preferred shares		**1,746,443**	37,688,333
Stationery and supplies on hand		**1,451,600**	1,593,544
Bond sinking fund		**152,669**	152,669
Petty cash fund		**29,000**	30,915
Retirement benefit asset	25	**–**	2,765,605
Others		**3,623,236**	3,425,451
		107,629,194	122,975,030
Allowance for credit losses – accounts receivable		**(1,344,856)**	(1,344,856)
Total		₱ **106,284,338**	₱ 121,630,174

The changes in the allowance for credit losses – accounts receivable for the years ended December 31, 2020 and 2019 are disclosed below:

	2020	2019
At January 1	₱ **1,344,856**	₱ 1,344,856
Provisions	**–**	–
At December 31	₱ **1,344,856**	₱ 1,344,856

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

In Philippine Peso

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

Interest income earned by the sinking fund redeemable preferred shares amounted to ₱601,893 and ₱1,051,861 for the years ended December 31, 2020 and 2019, respectively.

15. DEPOSIT LIABILITIES

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

	2020	2019
Savings	**₱ 1,063,059,342**	₱ 987,706,158
Demand	**102,194,530**	78,742,050
Time	**19,700,036**	19,551,046
	₱ 1,184,953,908	₱ 1,085,999,254

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.

Interest rates per annum provided to deposits as of December 31, 2020 and 2019 are as follows:

Type	Range
Savings	0.25% – 0.75% per annum
Time	1.635% – 3.00% per annum

Interest expense on deposit liabilities charged to profit or loss for the years ended December 31, 2020 and 2019 amounted to ₱15,641,330 and ₱13,495,398, respectively.

Under BSP Circular 1092, savings deposits, time deposits, and demand deposits of the Bank are subject to statutory reserve equivalent to 2.0%.

As of December 31, 2020 and 2019, the Bank's reserves are maintained in the form of Due from BSP.

Available reserves as of December 31, 2020 and 2019 are as follows:

	2020		2019	
	Rate	**Amount**	Rate	Amount
Savings	2%	**₱ 21,261,187**	3%	₱ 29,530,037
Time	2%	**394,001**	3%	586,531
Demand	2%	**2,043,891**	3%	2,515,764
Total		**23,699,079**		32,632,332
Due from BSP (Note 8)		**61,980,380**		35,950,966
Excess reserves		**₱ (38,281,301)**		₱ (3,318,634)

In Philippine Peso

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, 2020 and 2019, the Bank has due to the Treasurer of the Philippines amounting to ₱512,175.

17. BILLS PAYABLE

This account pertains to borrowings from the BSP and Land Bank of the Philippines (LBP) amounting to ₱119,089,360 and ₱255,046,950 as of December 31, 2020 and 2019, respectively.

Movements of the account are disclosed below:

	2020	2019
Balance at January 1	₱ **255,046,950**	₱ 130,390,520
Availments	**149,467,800**	270,046,900
Payments	**(285,425,390)**	(145,390,470)
Balance at December 31	₱ **119,089,360**	₱ 255,046,950

Interest rates (%) of bills payable ranges from 4.50% to 5.50% per annum in 2020 and 2019.

The average payment terms of these bills payable is one (1) year. The promissory notes of loans and receivables amounting to ₱119,089,360 and ₱255,046,950 are pledged as security for the related bills payable as of December 31, 2020 and 2019, respectively, as disclosed in Note 10.

Interest expense on bills payable charged to profit or loss for the years ended December 31, 2020 and 2019 amounted to ₱12,758,987 and ₱6,208,344, respectively.

18. ACCRUED TAXES, INTEREST AND OTHER EXPENSES

Included in this account as of December 31, 2020 and 2019 are the following:

	2020	2019
Accrued interest expense	₱ **5,990,260**	₱ 4,392,152
Accrued expenses	**5,515,596**	3,579,561
	₱ **11,505,856**	₱ 7,971,713

Accrued interest expense consists of:

	2020	2019
Savings deposits	₱ **3,033,706**	₱ 2,245,156
Time deposits	**2,024,170**	1,662,734
Bills payable	**932,384**	484,262
	₱ **5,990,260**	₱ 4,392,152

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

In Philippine Peso

19. OTHER LIABILITIES

The Bank's other liabilities consist of:

		2020		2019
Accounts payable	₱	**48,223,853**	₱	53,036,244
Lease liability		**28,947,761**		–
Withholding tax payable		**661,559**		842,570
Unearned income		**321,961**		308,023
SSS, Medicare, employer's compensation premiums and PAG-IBIG contribution payable		**219,277**		221,291
Dividends payable		**118,750**		–
SSS salary loan payable		**90,472**		86,914
PAG-IBIG loan payable		**1,542**		–
Others		–		18,706
	₱	**78,585,175**	₱	54,513,748

Accounts payable includes advance loan remittances from borrowers, retention fee for the construction of corporate site and other payables. It also includes payables to Agricultural Credit Policy Council (ACPC), wherein the Bank has entered into an agreement with ACPC to access funds granted by the latter for the implementation, as a lending conduit, 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.

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.

Details of the Bank's lease liabilities and their carrying amounts are as follows:

		2020 (PFRS 16)		2019 (PAS 17)
Balance, January 1	₱	**33,829,706**	₱	–
Additions		–		–
Interest expense		**1,389,001**		–
Payments		**(6,270,946)**		–
Balance, December 31	₱	**28,947,761**	₱	–

		Lease Payment		Finance Charges		Net Present Values
Within 1 year	₱	5,606,992	₱	1,195,829	₱	4,411,163
1 – 2 years		5,382,209		1,019,197		4,363,012
2 – 3 years		4,513,100		846,058		3,667,042
3 – 4 years		3,028,139		715,366		2,312,773
4 – 5 years		2,739,283		619,141		2,120,142
5 – 10 years		14,486,682		2,413,053		12,073,629
Total	₱	**35,756,405**	₱	**6,808,644**	₱	**28,947,761**

In Philippine Peso

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, 2020 and 2019.

For the years ended December 31, 2020 and 2019, 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 ₱16,869,586 and ₱8,656,577 as of December 31, 2020 and 2019, respectively.

20.02 DOSRI Deposits

Details of deposits from related parties as of December 31, 2020 and 2019 are shown below:

	2020	2019
Time and savings deposits	₱ **91,463,139**	₱ 30,435,222

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

20.03 Real Estate Transactions with DOSRI

The Bank is also leasing properties for its operations from its lessor, AMMIN Holdings, Inc. and FC Moraleda Corporation. Real estate transactions with DOSRI were reported to the BSP. Details of the contract are disclosed in Note 26.

20.04 Remuneration of Key Management Personnel

The key management compensation for the years ended December 31, 2020 and 2019 are composed of:

	2020	2019
Directors' fees	₱ **1,021,053**	₱ 1,157,895
Key management personnel compensation, salaries, and other short-term benefits	**17,535,777**	21,553,505
	₱ **18,556,830**	₱ 22,711,400

In Philippine Peso

20.05 Other related party transactions

Management and professional fees incurred by the Bank from its related parties amounted to ₱80,357 and ₱90,000 for the years ended December 31, 2020 and 2019.

21. CAPITAL STOCK

The issued capital of the Bank for the years ended December 31, 2020 and 2019 are as follows:

		2020		2019
Preferred stock	₱	**35,000,000**	₱	45,000,000
Common stock		**182,552,200**		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, 2020 and 2019:

	2020			2019		
	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	–		–	–		–
Conversion to common stock	**(100,000)**		**(10,000,000)**	–		–
Balance, December 31	**350,000**	₱	**35,000,000**	450,000	₱	45,000,000

Preferred stocks are redeemable at par value by the Bank after at least 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.

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.

On May 16, 2020, the Board of Directors, through Board Resolution No. 2020/76, approved the conversion of 100,000 preferred stock into common stock.

In Philippine Peso

21.02 Common Stock

Shown below are the details on the movements of common stock for the years ended December 31, 2020 and 2019:

	2020			2019		
	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	–		–	–		–
Conversion	**100,000**		**10,000,000**	–		–
Balance, December 31	**1,825,522**	**₱**	**182,552,200**	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, 2020 and 2019, 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.

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

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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, 2020 and 2019 is shown below.

		2020 **In (000,000's)**		2019 In (000,000's)
Tier 1 Capital	₱	**239.42**	₱	248.52
Tier 2 Capital		**44.25**		17.59
Net qualifying capital	₱	**283.67**	₱	266.11
Total risk-weighted assets	₱	**1,766.47**	₱	1,743.57
Tier 1 ratio		**13.55%**		14.25%
Total capital adequacy ratio		**16.06%**		15.26%

In addition, Section 127 and Appendix 62 of the MORB discusses the guidelines implementing the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks. The said framework was amended by BSP Circular No. 1079 dated March 9, 2020 and BSP Circular No. 1084 dated April 28, 2020 to strengthen the quality of capital of the covered entities by the introduction of other capital requirements such as the Common Equity Tier (CET) 1 ratio in addition to the existing minimum CAR of 10%. The CET1 ratio is calculated by dividing CET1 capital by total risk-weighted assets.

The implementation of the enhanced capital standards, which include the CET1 ratio, to the aforementioned banks will take effect on January 1, 2023.

The Bank's leverage ratio, computed as total capital over total assets, is 17.05% and 17.63%, as of December 31, 2020 and 2019, respectively.

22. SURPLUS

21.01 Surplus Reserve

For the years ended December 31, 2020 and 2019, surplus reserve has the following composition:

		2020		2019
At January 1	₱	**48,119,439**	₱	39,119,439
Appropriation of surplus free		**35,000,000**		9,000,000
Reversal of appropriation		**(45,000,000)**		–
At December 31	₱	**38,119,439**	₱	48,119,439

The Board of Directors, through Board Resolution Nos. 2020/153 and 2019/58 approved to set aside ₱35,000,000 and ₱9,000,000 from surplus free to surplus reserves for the redemption of preferred shares for the years ended December 31, 2020 and 2019, respectively.

In Philippine Peso

21.02 Surplus Free

The table below shows the surplus free for the years ended December 31, 2020 and 2019.

	2020	2019 As restated
At January 1	₱ **33,880,505**	₱ 32,922,303
Appropriation of surplus free	**(35,000,000)**	(9,000,000)
Redemption of sinking fund	**45,000,000**	–
Profit	**7,720,782**	16,708,202
Dividends declared	**(4,806,250)**	(6,750,000)
At December 31	₱ **46,795,037**	₱ 33,880,505

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 2020, the Board of Directors approved the declaration of dividends totaling ₱4,806,250 with the following details:

Date	Board Resolution No.	Amount
February 22, 2020	2020/30	₱ 4,500,000
July 25, 2020	2020/106	187,500
September 26, 2020	2020/136	118,750
		₱ **4,806,250**

Dividends paid during 2020 amounted to ₱4,687,500.

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:

	2020	2019
Loan penalty income	₱ **5,850,506**	₱ 3,415,280
Service charges	**5,291,867**	5,407,497
Commissions	**1,281,658**	12,205,693
Recovery of charged-off assets	**1,093,449**	2,179,109
Gain on sale of non-financial assets	**32,755**	280,206
Miscellaneous income	**1,943,989**	3,510,379
	₱ **15,494,224**	₱ 26,998,164

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

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

	Notes	2020	2019
Bank premises, furniture, fixtures and equipment	11	₱ **32,755**	₱ –
Assets held for sale	13	–	280,206
		₱ **32,755**	₱ 280,206

In Philippine Peso

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

24. OTHER OPERATING EXPENSES

The account is composed of the following other operating expenses:

	Notes	2020	2019 As restated
Compensation and benefits		₱ **75,741,650**	₱ 70,949,457
Depreciation		**20,981,517**	13,804,798
Security and janitorial		**12,112,887**	10,867,639
Taxes and licenses		**6,837,574**	2,094,060
Postage, telephone, cables		**4,084,419**	3,652,456
Power, light and water		**3,854,627**	4,268,071
Insurance		**3,741,167**	3,197,024
Fuel and lubricants		**3,700,519**	3,438,603
Travelling expense		**2,929,135**	4,890,363
Management and other professional fee		**2,027,240**	2,666,263
Repairs and maintenance		**1,983,647**	1,722,889
Representation and entertainment		**1,785,141**	1,312,444
Information technology expense		**1,762,610**	499,367
Stationery and supplies used		**1,539,513**	1,776,400
Amortization	12	**1,344,813**	1,094,263
Documentary stamps tax		**1,080,978**	2,039,848
Membership fees		**956,468**	83,580
Rent		**792,701**	6,587,421
Advertising and publicity		**619,783**	770,715
Staff development		**331,978**	1,765,445
Supervision fees		**292,266**	247,187
Litigation expenses on assets acquired		**25,928**	65,825
Periodicals and magazines		**12,634**	27,477
Miscellaneous expenses		**4,692,508**	9,251,258
		₱ **153,231,703**	₱ 147,072,853

Compensation and benefits include:

	Note	2020	2019
Salaries and allowances		₱ **66,375,244**	₱ 65,747,784
SSS, Medicare & employees' compensation premium and PAG-IBIG contributions		**4,264,660**	4,043,778
Retirement benefit expense	25	**4,080,693**	–
Directors' and committee member's fees		**1,021,053**	1,157,895
		₱ **75,741,650**	₱ 70,949,457

Depreciation consists of:

	Notes	2020	2019
Bank premises, furniture, fixtures and equipment	11	₱ **15,273,228**	₱ 13,804,798
Right-of-use assets	26	**5,708,289**	–
		₱ **20,981,517**	₱ 13,804,798

In Philippine Peso

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, 2020 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.

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

	2020	2019
Present value of defined benefit obligation	₱ 38,982,509	₱ 18,413,084
Fair value of the plan assets	(21,502,564)	(21,379,050)
Funding status – Deficit (surplus)	17,479,945	(2,965,966)
Effect of asset ceiling	–	200,361
Net retirement benefit liability (asset)	₱ 17,479,945	₱ (2,765,605)

Details of the present value of defined benefit obligation are disclosed below:

	2020	2019
Balance, January 1	₱ 18,413,084	₱ 18,413,084
Current service cost	4,307,477	–
Interest cost	1,049,546	–
Benefits paid from the fund	(491,609)	–
Benefits paid directly from book reserve	(328,367)	–
Loss arising from:		
Changes in financial assumptions	9,342,854	–
Deviations of experience from assumptions	6,689,524	–
Balance, December 31	₱ 38,982,509	₱ 18,413,084

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.

Details of the fair value of plan assets are disclosed below:

	2020	2019
Balance, January 1	₱ 21,379,050	₱ 21,379,050
Interest income	1,287,751	–
Employer contribution	2,917,747	–
Benefits paid from the fund	(491,609)	–
Gain (loss) on plan asset	(3,590,375)	–
Balance, December 31	₱ 21,502,564	₱ 21,379,050

In Philippine Peso

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

	2020		2019	
	%	Amount	%	Amount
Cash and cash equivalents	**0.02**	**₱ 4,301**	1.28	₱ 273,652
Equity instruments	**27.71**	**5,958,360**	46.74	9,992,568
Debt instruments – government bonds	**46.03**	**9,897,630**	17.18	3,672,921
Debt instruments – other bonds	**14.95**	**3,214,633**	25.73	5,500,830
Unit investments trust funds	**9.14**	**1,965,334**	6.87	1,468,741
Others	**2.15**	**462,306**	2.20	470,338
Total	**100.00**	**₱ 21,502,564**	100.00	₱ 21,379,050

Amounts recognized in statement of comprehensive income in respect of these defined benefit plans are as follows:

	2020	2019
Current service cost	**₱ 4,307,477**	₱ –
Interest cost	**1,049,546**	–
Interest income	**(1,287,751)**	–
Effect of asset ceiling	**11,421**	
	₱ 4,080,693	₱ –

The movement in other comprehensive income (loss), net of tax, for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Balance, January 1	**₱ 1,339,668**	₱ 1,339,668
Remeasurements of the net defined benefit liability	**(13,587,680)**	–
Balance, December 31	**₱ (12,248,012)**	₱ 1,339,668

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

	2020	2019
Discount rate	**3.78%**	–
Salary rate increase	**5.00%**	–

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 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		
2020	**Change in Assumption**	**Increase in Assumption**	**Decrease in Assumption**
Discount rate	+/- 1.0%	**(5,547,499)**	**6,900,039**
Salary growth rate	+/- 1.0%	**6,745,668**	**(5,541,279)**

In Philippine Peso

	Impact on Retirement Benefit Obligation		
2019	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		
2021	₱	**690,909**
2022		**1,343,993**
2023		**850,629**
2024		**943,104**
2025		**6,611,404**
2026 – 2030		**14,247,169**

26. RIGHT-OF-USE ASSETS – net

During 2020, the Bank adopted PFRS 16 in accounting for its leases.

The carrying amounts of the Bank's right-of-use assets for the years ended December 31, 2020 and 2019 are as follow:

	Note		2020
Cost			
At January 1		₱	**33,829,706**
Additions			–
At December 31			**33,829,706**
Accumulated depreciation			
At January 1			–
Depreciation	24		**5,708,289**
At December 31			**5,708,289**
Carrying value		₱	**28,121,417**

The Bank has several lease agreements which are renewable under certain terms and conditions.

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. This contract was not renewed.

The Bank leased a new building for its Masbate City Office from Sps. Michael Jerome L. Po and Mary Jane D. Po located at Tara Street, Masbate City, containing an area of 162 square meters for a period of 20 years commencing on September 10, 2020 to September 10, 2039. Monthly rental is ₱51,840, inclusive of taxes and subject to increase by 5% on the 4th year and every 2 years thereafter. The increase will be applied on the base rent of ₱51,840.

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.

In Philippine Peso

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.

Also, 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.

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:

		2020		2019
Income tax expense – current	₱	**5,091,014**	₱	4,829,145
Income tax expense (benefit) – deferred		**(2,072,065)**		1,926,120
	₱	**3,018,949**	₱	6,755,265

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, 2020 and 2019 is as follows:

	2020	2019 As restated
Accounting profit	₱ 10,739,731	₱ 23,463,467
Tax expense at 30%	3,221,919	7,039,040
Tax effect of:		
Interest income subject to final tax	(356,564)	(704,370)
Non-deductible interest expense	147,082	290,553
Non-deductible expense	6,512	130,042
	₱ 3,018,949	₱ 6,755,265

27.02 Revenue Regulations (RR) No. 34-2020 – Related Party Transaction (RPT) Form and Transfer Pricing Documentation

The Bureau of Internal Revenue, in its Revenue Regulation No. 34-2020, requires taxpayers to submit BIR Form No. 1709 (RPT Form) to allow the BIR to verify that taxpayers are reporting their related party transactions at arm's length prices. It is also intended to improve and strengthen the Bureau's transfer pricing risk assessment and audit functions. Most importantly, the information that will be gathered from the RPT Form and its attachments will be used by the BIR during the transfer pricing risk assessment to determine whether or not to conduct a thorough review/audit of a particular entity or transaction.

Under the said RR, the following are required to file and submit the RPT Form, together with the Annual Income Tax Return (AITR):

1. Large taxpayers
2. Taxpayers enjoying tax incentives, i.e. Board of Investments (BOI)-registered and economic zone enterprises, those enjoying Income Tax Holiday (ITH) or subject to preferential income tax rate;
3. Taxpayers reporting net operating losses for the current taxable year and the immediately preceding two (2) consecutive taxable years; and
4. A related party, as defined under Section 3 of RR No. 19-2020, which has transactions with (1), (2) or (3) above. For this purpose, key management personnel (KMP), as defined under Section 3(7) of RR No. 19-2020, shall no longer be required to file and submit the RPT Form, nor shall there be any requirement to report any transaction between KMP and the reporting entity/parent company of the latter in the RPT Form.

In addition, the preparation and submission of Transfer Pricing Documentation (TPD) under RR No. 02-2013, otherwise known as "Transfer Pricing Guidelines" and all other relevant issuances, shall be mandatory for taxpayers enumerated above who meet the following materiality thresholds:

a. Annual gross sales/revenue for the subject taxable period exceeds ₱150 million and the total amount of related party transactions with foreign and domestic related parties exceeds ₱90 million; OR
b. Related party transactions meeting the following materiality threshold:
   i. If it involves sale of tangible goods in the aggregate amount exceeding ₱60 million within the taxable year;
   ii. If it involves service transaction, payment of interest, utilization of intangible goods or other related party transaction in the aggregate amount exceeding ₱15 million within the taxable year
   iii. If TPD was required to be prepared during the immediately preceding taxable period for exceeding either (a) or (b) above.

As it does not belong to taxpayers who are required to file and submit the RPT Form under Section 2 of RR 34-2020, the Bank is not covered by the requirements and procedures for related party transactions under the said RR.

27.03 Republic Act No. 11534, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE)" Act

On February 03, 2021, the final provisions of Senate Bill No. 1357 and House Bill No. 4157 or the CREATE Bill, which seeks to reform corporate income taxes and incentives in the country, had been ratified by the Senate and the House of Representatives of the Philippines.

Under the bill, the regular corporate income tax (RCIT) will be reduced from the current 30% to 20% for domestic corporations with total assets not exceeding ₱100 million, excluding land, and total net taxable income of not more than ₱5 million. The corporate income tax of all other corporations, meanwhile, will be lowered to 25%. The bill would also lower the minimum corporate income tax from 2% to 1% effective July 1, 2020 until June 30, 2023.

Other key provisions of the CREATE bill include:

- Effective January 1, 2021, income tax rate for nonresident foreign corporation is reduced from 30% to 25%.
- Preferential income tax rate for proprietary educational institutions and hospitals which are nonprofit is reduced from 10% to 1% effective July 1, 2020 to June 30, 2023.
- Effective January 1, 2022, regional operating headquarters (ROHQ) currently enjoying 10% preferential income tax rate shall be subject to RCIT.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.
- Foreign-sourced dividends received by domestic corporations are exempt from income tax subject to the following conditions:
    - The funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received;
    - Shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure project; and
    - The domestic corporation holds directly at least 20% of the outstanding shares of the foreign corporation and has held the shareholdings for a minimum of 2 years at the time of the dividend distribution.
- Qualified export enterprises shall be entitled to 4 to 7 years income tax holiday (ITH) to be followed by 10 years 5% special corporate income tax (SCIT) or enhanced deductions (ED).
- Qualified domestic market enterprises shall be entitled to 4 to 7 years ITH to be followed by 5 years ED.
- For investments prior to effectivity of CREATE:
    - Registered business enterprises (RBEs) granted only an ITH – can continue with the availment of the ITH for the remaining period of the ITH.
    - RBEs granted an ITH followed 5% GIT or are currently enjoying 5% GIT – allowed to avail of the 5% GIT for 10 years.

The said bill was signed into law on March 26, 2021, except for certain provisions that were vetoed, by the President of the Philippines.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Bank would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.

In Philippine Peso

This will result in lower provision for current income tax for the year ended December 31, 2020 and income tax payable as of December 31, 2020, amounting to ₱4,640,206 and ₱707,939, respectively, or a reduction of ₱450,808 for both provision for current income tax and prepaid income tax. Such amounts will be reflected in the Bank's 2020 annual income tax return but will only be recognized for financial reporting purposes in its 2021 financial statements.

The following is the expected impact of CREATE Act in the Bank's financial statements:

	Old tax rate Dr (Cr)	New tax rate Dr (Cr)	Change Dr (Cr)
Statement of financial position			
Total assets	**₱ 1,703,595,744**	**₱ 1,700,966,081**	**₱ (2,629,663)**
Deferred tax assets	15,777,977	13,148,314	(2,629,663)
Total liabilities	**(1,413,286,166)**	**(1,412,835,358)**	**450,808**
Income tax payable	(1,159,747)	(708,939)	450,808
Total equity	**(290,309,578)**	**(288,130,723)**	**2,178,855**
Surplus free	(46,795,037)	(45,491,039)	1,303,998
Other comprehensive loss	12,248,012	13,122,869	875,857
Statement of comprehensive income			
Profit	**(7,720,782)**	**(6,416,785)**	**1,303,998**
Income tax expense – current	5,091,014	4,640,206	(450,808)
Income tax benefit – deferred	(2,072,065)	(317,259)	1,754,806
Other comprehensive loss	**13,587,680**	**14,463,537**	**875,857**
Actuarial loss on defined benefit obligation – net of tax	13,587,680	14,463,537	875,857

In Philippine Peso

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, 2020 and 2019 are as follow:

	Allowance for credit losses		Retirement benefit obligation	Excess of ROU asset over lease liability	Total
	Loans receivable	Accounts receivable			
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
Recognition in profit or loss					
Origination	1,573,787	–	1,224,209	2,129,187	4,927,183
Reversal	–	–	(973,834)	(1,881,284)	(2,855,118)
Recognition in other comprehensive income					
Origination	–	–	5,823,290	–	5,823,290
Reversal	–	–	–	–	–
Reversal of deferred tax liability	–	–	(829,682)	–	(829,682)
Balance, December 31, 2020	**₱ 9,882,634**	**₱ 403,457**	**₱ 5,243,983**	**₱ 247,903**	**₱ 15,777,977**

28.02 Deferred Tax Liability

The Bank's deferred tax liability as of December 31, 2020 and 2019, amounted to nil and ₱829,682, respectively.

In Philippine Peso

29. RESTATEMENT OF PRIOR PERIOD ERRORS

In 2020, the Bank restated its financial statements as of and for the year ended December 31, 2019 to reflect certain prior period adjustments unamortized prepaid expenses in prior year. These adjustments other assets, surplus free, and operating expenses.

The analysis of the affected line items in the statement of financial position of the Bank as of December 31, 2019 is shown below:

		As previously reported Dr (Cr)		Adjustments Dr (Cr)		As restated Dr (Cr)
Changes in assets:						
Other assets[a]	₱	122,052,894	₱	**(422,720)**	₱	121,630,174
Change in equity:						
Surplus free[b]	₱	(34,303,225)	₱	**422,720**	₱	(33,880,505)

The analysis of the affected line items in the statement of comprehensive income of the Bank for the year ended December 31, 2019 is shown below:

		As previously reported Dr (Cr)		Adjustments Dr (Cr)		As restated Dr (Cr)
Operating expenses[c]	₱	146,650,133	₱	**422,720**	₱	147,072,853

a. Restatement on other assets pertains to amortization of previously unamortized prepaid expenses in 2019.
b. Restatement on surplus free pertains to the effect of restatement on operating expenses in 2019.
c. Restatement on operating expenses pertains to additional rent expense and taxes and licenses due to amortization of previously unamortized prepaid expenses in 2019.

30. 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, 2020 and 2019:

	2019	Cash Inflow	Cash Outflow	Non-cash changes	2020
Bills payable	255,046,950	149,467,800	(285,425,390)	–	119,089,360
Lease liability*	33,829,706	–	(6,270,946)	1,389,001	28,947,761
Dividends payable	–	–	(4,687,500)	4,806,250	118,750
	288,876,656	**149,467,800**	**(296,383,836)**	**6,195,251**	**148,155,871**

**amount of cash outflow pertains to payment of principal portion amounting to ₱4,881,945 and interest portion amounting to ₱1,389,001*

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

31. 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.

In Philippine Peso

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill was signed into law by President Rodrigo Duterte. The said law will take effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation.

The CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes. Full discussion of the law and its impact to the financial statements are disclosed in Note 27.

Aside from the above, no other 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).

33. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Board of Directors on April 17, 2021.

34. 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.

34.01 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.

Gross receipts tax paid and accrued for the year 2020 and 2019 are as follows:

		2020		2019
Gross receipts tax paid	₱	2,384,943	₱	–
Gross receipts tax accrued		2,582,346		–
	₱	4,967,289	₱	–

In Philippine Peso

34.02 Withholding Taxes

Withholding taxes paid and accrued for the year 2020 and 2019 are as follows:

2020		**Paid**		**Accrued**		**Total**
Expanded withholding tax	₱	878,243	₱	58,688	₱	936,931
Withholding tax on compensation		1,637,175		323,120		1,960,295
Final withholding tax		2,751,045		279,751		3,030,796
	₱	**5,266,463**	₱	**661,559**	₱	**5,928,022**

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

34.03 Taxes and Licenses

Other taxes and licenses paid and accrued for the year 2020 and 2019 are as follows:

		2020		2019
Gross receipts tax	₱	**4,967,289**	₱	–
Permit fees		**1,082,501**		1,175,726
Others		**787,784**		568,114
	₱	**6,837,574**	₱	1,743,840

34.04 Tax Cases

The Bank has no outstanding tax cases in any other court or bodies outside of the BIR as of December 31, 2020 and 2019.

35. 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

The following are the schedules prescribed under existing revenue issuances applicable to the Bank for the year ended December 31, 2020:

35.01 Interest Income

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

		Per financial statements		**Per income tax return**
Interest income on loans	₱	182,323,939	₱	182,323,939
Interest on investments		601,893		–
Interest on bank deposits		586,653		–
	₱	**183,512,485**	₱	**182,323,939**

In Philippine Peso

35.02 Cost of Services

The breakdown of deductible cost of services consists of:

	Per financial statements	Per income tax return
Interest expense	29,789,318	27,910,042
Insurance – PDIC	2,265,572	2,265,572
Supervision fees	292,266	292,266
	₱ 32,347,156	₱ 30,467,880

35.03 Other Operating Income

Details of operating and taxable other income consists of:

	Per financial statements	Per income tax return
Loan penalty income	₱ 5,850,506	₱ 5,850,506
Service charges	5,291,867	5,291,867
Commissions	1,281,658	1,281,658
Recovery of charged-off assets	1,093,449	1,093,449
Gain on sale of non-financial assets	32,755	32,755
Miscellaneous income	1,943,989	1,943,989
	₱ 15,494,224	₱ 15,494,224

In Philippine Peso

35.04 Allowable Deductions

Deductible costs and expenses consist of:

	Per financial statements	Per income tax return
Compensation and benefits	₱ 75,741,650	₱ 71,660,957
Depreciation	20,981,517	15,273,228
Security and janitorial	12,112,887	12,112,887
Taxes and licenses	6,837,574	6,837,574
Postage, telephone, cables	4,084,419	4,084,419
Power, light and water	3,854,627	3,854,627
Fuel and lubricants	3,700,519	3,700,519
Travelling expense	2,929,135	2,929,135
Management and other professional fees	2,027,240	2,027,240
Repairs and maintenance	1,983,647	1,983,647
Representation and entertainment	1,785,141	1,785,141
Information technology expense	1,762,610	1,762,610
Stationery and supplies used	1,539,513	1,539,513
Insurance – others	1,475,595	1,475,595
Amortization	1,344,813	1,344,813
Documentary stamps tax	1,080,978	1,080,978
Membership fees	956,468	956,468
Rent	792,701	792,701
Advertising and publicity	619,783	619,783
Staff development	331,978	331,978
Litigation expenses on assets acquired	25,928	25,928
Periodicals and magazines	12,634	12,634
Miscellaneous expenses	4,692,508	4,670,802
	150,673,865	140,863,177
Provision for credit losses	5,245,957	–
Payment of lease liabilities	–	6,270,946
Benefits paid	–	328,367
Contribution to retirement fund	–	2,917,747
	₱ 155,919,822	**₱ 150,380,237**

36. 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:

36.01 Basic Quantitative Indicators of Financial Performance

	2020	2019
Return on average equity	**2.61%**	5.78%
Return on average assets	**0.45%**	1.11%
Net interest margin	**13.09%**	13.21%
Debt-to-equity ratio	**486.82%**	467.15%

36.02 Description of Capital Instruments Issued

Description of capital instruments issued are disclosed in Note 21.

In Philippine Peso

36.03 Significant Credit Exposures

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

	2020		2019	
	Amount	**%**	Amount	%
Household consumption	₱ **598,523,826**	**55.69%**	₱ 427,965,314	39.66%
Agriculture, forestry, and fishing	**248,688,921**	**23.14%**	198,391,113	18.39%
Human health and social work activities	**52,595,168**	**4.89%**	57,805,928	5.36%
Wholesale and retail trade repair of motor vehicles, motorcycles	**65,438,248**	**6.09%**	50,678,143	4.70%
Education	**3,767,872**	**0.35%**	5,016,925	0.46%
Others service activities	**105,673,851**	**9.83%**	339,178,254	31.43%
	₱ **1,074,687,886**	**100%**	₱ 1,079,035,677	100%

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 2020, the Bank is exposed to household consumption 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 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.

36.04 Breakdown of Total Loans

36.04.01 As to Security

Breakdown of loans as to secured and unsecured, and secured loan as to type security as of December 31, 2020 and 2019 are as follows: (net of unamortized discounts):

	2020	2019
Secured by real estate mortgage	₱ **70,913,953**	₱ 67,761,740
Secured by chattel mortgage	**107,522,786**	113,545,865
Secured by other collateral	**72,255,067**	114,709,319
Secured	**250,691,806**	296,016,924
Unsecured	**823,996,080**	783,018,753
	₱ **1,074,687,886**	₱ 1,079,035,677

In Philippine Peso

36.04.02 As to Status per Product Line

Breakdown of loan receivables (gross of unamortized discounts), as to status are disclosed below:

	2020				
Loan Product	**Performing**		**Non-performing**		**Total**
	Current	**Past Due**	**Past Due**	**Under Litigation**	
TUBO	513,422,818	–	2,891,768	–	516,314,586
Agriculture	63,180,690	1,031,870	17,864,206	–	82,076,766
LGU	130,245,776	–	6,567,215	–	136,812,991
SME	183,324,765	–	2,485,418	–	185,810,183
APDS	6,739,063	–	236,772	–	6,975,835
Autonomous	24,149,404	–	2,943,451	–	27,092,855
BB	4,317,854	214,435	973,089	–	5,505,378
Government	14,988,445	–	2,588,003	–	17,576,448
GP	6,877,641	–	4,555,439	–	11,433,080
Individual	83,458,433	–	1,865,900	2,326,926	87,651,259
Private Office	21,286,783	9,127	350,423	–	21,646,333
Private School	2,859,933	–	–	–	2,859,933
Total	**1,054,851,605**	**1,255,432**	**43,321,684**	**2,326,926**	**1,101,755,647**

	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	3,315,101	45,194,097	2,326,926	1,109,040,533

36.05 Information on Related Party Loans

As of December 31, 2020 and 2019, the Bank has no related party loans, as disclosed in Note 20.

36.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2020 and 2019, bills payable amounting to ₱119,089,360 and ₱255,046,950, respectively, are secured by a pledge of certain asset as follows:

	2020	2019
Loans receivables	₱ **119,089,360**	₱ 255,046,950

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, 2020 and 2019, 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, 2020 and 2019:

	2020	2019
Items held as collateral	**326**	440
Items held for safekeeping	**5**	4
	331	444