BINANGONAN RURAL BANK, INC.

No. 135 Baltazar Street, Layunan,
Binangonan, Rizal

FINANCIAL AUDIT REPORT

(FAR)

December 31, 2020

BINANGONAN RURAL BANK
Binangonan Rural Bank Building
135 Baltazar Street Brgy. Layunan, Binangonan, Rizal
Telefax: (02) 8652-0102

April 30, 2021

MR. ROSILIO O. PRADO
Director
Financial Supervision Department VIII
Bangko Sentral ng Pilipinas
A. Mabini St., Malate 1004 Manila,
Philippines

Submission of Financial Audit Report (FAR) Pursuant to the Manual of Regulations for Banks (MORB 2018) Section 174 of the Bangko Sentral ng Pilipinas.

Dear Mr. Prado;

In compliance with MORB 2018 Section 174 of the Bangko Sentral ng Pilipinas, we are pleased to submit the Financial Audit Report of **BINANGONAN RURAL BANK** as at and for the year ended December 31, 2020.

In addition, as attachments to the FAR, we are also submitting the following:

i. Notarized Certification from our External Auditor as to;
   a) Date of start and termination of audit;
   b) Date of submission to the Board of Directors of FAR, and other related matters; and,
   c) The absence of any direct or indirect financial interest and other circumstances that may impair the independence of the EA.

ii. Reconciliation Statement

iii. Proposed adjusting journal entries, and our association's adjusting journal entries (if applicable)

Very truly yours,

Kenneth Tan

KENNETH SABINO TAN
President

BINANGONAN RURAL BANK
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Telefax: (02) 8652-0102

Statement of Management's Responsibility for Financial Statements

The management of **BINANGONAN RURAL BANK, INC.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation 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.

Velasco, Punzalan & Co., CPAs, the independent auditors appointed by the stockholders 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.

KENNETH SABINO TAN
President/Chairman

CHRISTOPHER SHANE ALDABA
Treasurer

Signed this 15th day of April, 2021

BINANGONAN RURAL BANK, INC.
STATEMENTS OF FINANCIAL CONDITION
AS AT DECEMBER 31, 2020 AND 2019
(All Amounts in Philippine Pesos)

	Notes		2020		2019
RESOURCES					
Cash and cash equivalents	2,3,5	₱	6,278,897	₱	6,168,379
Loans and receivables	2,3,6		486,271		829,151
Bank premises, furniture, fixtures and equipment	2,3,7		13,728,863		14,435,303
Investments - amortized cost	2,3,8		-		3,038,183
Real and other properties acquired	2,3,9		-		-
Right-of-use asset	2,3,20		269,402		1,905,579
Deferred tax assets	2,3,10,19		22,519,720		10,286,267
Other resources	2,3,11		29,701,252		14,812,859
TOTAL RESOURCES		₱	72,984,405	₱	51,475,721
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposit liabilities	2,3,12	₱	20,963,546	₱	26,278,173
Accrued taxes, interest and other liabilities	2,3,13		7,237,636		6,030,520
Lease liability	2,3,20		291,152		2,072,901
Deposit for stock subscription	2,14		11,750,000		-
Total liabilities			40,242,334		34,381,594
Shareholders' equity	2,3,15				
Share capital			100,000,000		25,000,000
Additional paid-in capital			1,398,925		1,398,925
Deposit for stock subscription	2,14		-		29,299,128
Surplus reserve			1,000		1,000
Cumulative deficit	1		(68,657,853)		(38,604,926)
Total equity			32,742,072		17,094,127
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		₱	72,984,405	₱	51,475,721

See accompanying Notes to Financial Statements

BINANGONAN RURAL BANK, INC.
STATEMENTS of OPERATION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(All Amounts in Philippine Pesos)

	Notes		2020		2019
INTEREST INCOME	2,16,24				
Loans and receivable		₱	62,225	₱	137,431
Deposit with other banks and other investments			127,914		271,613
Total interest earned			190,139		409,044
INTEREST EXPENSE	2,12,24		190,381		153,209
NET INTEREST INCOME			(242)		255,835
MISCELLANEOUS INCOME	2,17,24		1,095,246		970,163
GROSS INCOME			1,095,004		1,225,998
OTHER EXPENSES	2,18,19,24				
Compensation and employees benefits			15,269,934		10,256,339
Taxes and licenses	19		1,056,775		232,830
Depreciation and amortization	7		3,547,628		1,817,912
Other operating expenses	18		23,491,309		22,063,700
Total other expenses			43,365,646		34,370,781
LOSS BEFORE INCOME TAXES			(42,270,642)		(33,144,783)
BENEFIT FROM INCOME TAX	2,3,19				
Current			-		-
Deferred			(12,213,056)		(7,213,725)
			(12,213,056)		(7,213,725)
NET LOSS		₱	(30,057,586)	₱	(25,931,058)
LOSS PER SHARE	2,23	₱	(30.06)	₱	(103.72)

See accompanying Notes to Financial Statements

BINANGONAN RURAL BANK, INC.
STATEMENTS of CHANGES in EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(All Amounts in Philippine Pesos)

	Notes		2020		2019
SHARE CAPITAL	2,3,15				
Common Shares					
Authorized - 900,000 shares in 2020 and 150,000 shares in 2019 at P100 par					
Fully subscribed and paid-up		₱	90,000,000	₱	15,000,000
Preferred Shares					
Authorized - 100,000 shares at Php 100 par					
Fully subscribed and paid-up			10,000,000		10,000,000
TOTAL SHARE CAPITAL			100,000,000		25,000,000
ADDITIONAL PAID-IN CAPITAL on PREFERRED SHARES	2,14		1,398,925		1,398,922
DEPOSIT FOR STOCK SUBSCRIPTION	2,14		-		29,299,128
SURPLUS RESERVE-Reserved for contingencies	2		1,000		1,000
CUMULATIVE DEFICIT	1,2				
Balance at beginning of year			(38,604,926)		(12,635,978)
Prior period adjustments			4,659		(37,890)
Net loss			(30,057,586)		(25,931,058)
Balance at end of year			(68,657,853)		(38,604,926)
TOTAL SHAREHOLDERS' EQUITY		₱	32,742,072	₱	17,094,127
BOOK VALUE PER SHARE	2,23	₱	32.74	₱	68.38

See accompanying Notes to Financial Statements

BINANGONAN RURAL BANK, INC.
STATEMENTS of CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes		2020		2019
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before income taxes	2,3,19	₱	(42,270,642)	₱	(33,144,783)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities					
Prior period adjustments	2		4,659		(37,890)
Depreciation	2,3,7		3,547,628		1,817,912
Decrease (increase) in					
Loans and receivables	2,3,6		342,880		(163,397)
Investments - amortized cost	2,3,8		3,038,183		12,119
Right-of-use asset	2,3,9		1,636,177		(1,905,579)
Other resources	2,3,11		(14,888,393)		(11,687,834)
Increase (decrease) in					
Deposit liabilities	2,3,12		(5,314,627)		2,090,662
Accrued taxes, interest, and other liabilities	2,3,13		1,221,403		5,634,258
Lease liability	2,3,20		(1,781,749)		2,072,901
Cash used in operations			(54,464,482)		(35,311,629)
Income tax benefit (paid)	2,3,19		(34,685)		(44,318)
Gain on disposal of ROPA	2,3,4,9		-		(275,000)
Net cash used in operating activities			(54,499,167)		(35,630,948)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisitions of bank premises, furniture, fixtures and equipment	2,3,7		(2,841,188)		(9,671,274)
Disposal of ROPA	2,3,4,9		-		371,568
Net cash used in investing activities			(2,841,188)		(9,299,706)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issuance of additional shares	2,3,15		75,000,000		7,000,000
Proceeds from (payments of) deposits for future stock subscripti	2,14		(17,549,128)		12,989,330
Net cash provided by financing activities			57,450,872		19,989,330
NET INCREASE (DECREASE) in CASH			110,518		(24,941,324)
CASH and CASH EQUIVALENTS	2,3,5				
Beginning			6,168,379		31,109,703
as at December 31		₱	6,278,897	₱	6,168,379

See accompanying Notes to Financial Statements

BINANGONAN RURAL BANK, INC.
NOTES TO FINANCIAL STATEMENTS
As at and For the Years Ended December 31, 2020 and 2019

1. CORPORATE INFORMATION

BINANGONAN RURAL BANK, INC. (the Bank) was incorporated in the Philippines and registered with the Securities and Exchange Commission on October 4, 1961 with SEC Registration No. 19547.

The Bank is registered with the Bangko Sentral ng Pilipinas as a Rural Bank under Republic Act No. 7353, Sections 6 & 12 with the objective and purposes for which the corporation is formed are: To carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises; to have and exercise all authority and powers, to do and perform all acts, and transact all business which may legally be had or done by Rural banks organized under and in according with the Rural Banks' Act, as it exists or may be amended; and to do all other things incident thereto and necessary and proper in connection with said purpose within such territory, and may be determined by the Monetary Board of the Central Bank of the Philippines.

On January 14, 2010, the Bank has amended its Articles of Incorporation Article IV by extending the term of its existence for another 50 years from October 4, 2011 to October 4, 2061, said amendment was approved by the Securities and Exchange Commission on August 13, 2010.

Previous Year Status of Operations

The bank launched its E-Money services on July 31, 2019 after it went live with Bancnet. Transactions launched were, however, limited to Cash-in/Loading, Cash-out/Withdrawal and Balance Inquiry. The balance of the issuer transactions like E-load, Fund Transfer/InstaPay, Bills Payment, Debit Purchase were still being developed and have been completed February 2020 and are now being launched in the Bank's agent branches like ACM at the moment.

The Cashmate Tellering System, the front-end system which allows the Bank cardholders to transact at its agent's branches via computers, tablets, android mobile devices in order to undertake all the financial transactions was also developed via Ausphil Global Technologies and is for deployment by end-February 2020 as well.

Development of Acquiring Transactions for our bank to process other banks' cards will start in March 2020 and projected to be completed by June 2020. The bank has also been approved by Union Pay International (UPI) as Issuer for UPI prepaid cash cards and the Bank project to be able to issue UPI cards by July 2020.

Clients signed up like DA5, Droidjo/IOT, etc. have been slow to deploy the cards mainly because of partial completion of Issuer Transactions and some internal issues on their end as well. Clients like LGUs and E-Jeep Transport have been developed. Clients with UPI card requirements are also in the pipeline.

With the completion of the Issuer Transactions, the projected incoming Acquirer Transactions capability and the Issuer capability for UPI cards, the bank projects to breakeven around the 3rd quarter of 2020.

Current Year Status of Operations

The year 2020 was a very trying and unique year, not only for the Bank and the Philippines, but for the entire world. The Covid-19 virus put the entire world on pause and the world learned to live in a new normal.

Despite this, 2020 was a year of verifiable progress for the Bank. It was a year where the Bank made great strides and was a year of great opportunities as well. During the year, although at times difficulties arose because of compliance, regulatory and supervisory concerns which delayed certain planned implementations in the Bank, given the steadfast focus and efforts of the initiatives executed by way of the Compliance and Risk Division, any perceived concerns surrounding AMLA, KYC, Risk, Audit, Corporate Governance, Accounting, or IT were efficiently and effectively resolved. The Bank, as of today, is in a much more solid and steadfast position than it was just a year ago. The pandemic has convinced the public to embrace digital payments and systems, confirming that the digital track taken by the Bank is the right direction. The extra time gave us the opportunity to re-evaluate the technology required and we can now confidently state that the Bank's new technology, which is about to be completed, is very robust, scalable, and strategic. The technology empowers the Bank to be an ideal EMI partner of businesses with the Bank serving as the rails enabling partnerships via APIs or other similar technology interfaces.

Subsequent to year end, 2 groups - CannaOne Technologies Inc. and the Antonio Tiu group of companies and affiliates which Greenergy Holdings Inc. (GHI) is a part of - each of which are publicly listed entities, have entered into agreements to acquire the bank and to further invest in management, operations, technology, and services. The 2 groups will assist to fill key positions in the Bank, and each has identified, secured, and will facilitate, substantial new business channels for the Bank to service. The Bank has initiated plans to enter into the Merchant Acquiring (credit card payment processing) business. This has been made possible via the strategic partnership with CannaOne Technologies who possess significant expertise in the acquiring sector, and will directly support and oversee the application, approval process and technical support necessary for the Bank to be successful and highly effective in the operation of the merchant acquiring business. The strategic partnerships of GHI, which has substantial agreements for card issuing requirements already in place, represent further high impact near-term opportunities for the Bank and are also being prioritized. The Bank and the 2 groups are confident that these cards acquiring and issuing business undertakings will provide the Bank the most expeditious pathway to increased revenues and consistent profitability.

The Bureau of Internal Revenue (BIR) Rulings No. 347-98 dated July 28, 1998 mandates that interest earnings on deposits of members with the Bank, as well as the shares of members from the net income of the Bank shall be exempt from income tax.

The Bank's registered office address and primary place of business is located at 135 Baltazar St., Layunan, Binangonan, Rizal.

The financial statements of the Bank for the year ended December 31, 2020 was approved and authorized for issue by the Bank's Board of Directors (BOD) on April 15, 2021. The Board of Directors is still empowered to make amendments even after the date of issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

Basis of Preparation

The accompanying financial statements have been prepared on a going concern basis, which contemplate the realization of assets and settlement of liabilities in the normal course of business.

Statement of Compliance

The financial statements of the Company were prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

I. Standards, Amendments and Interpretations Issued and Effective as at Reporting Period

The following are new and revised standards, amendments to PFRS and interpretations which became effective for the comparative reporting period.

- **Definition of a Business (Amendments to PFRS 3)**

The amendment to PFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Bank.

These amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. The management believes that the application of the said revisions to PFRS has no material impact on its financial statements.

- **Interest Rate Benchmark Reform (Amendments to PFRS 9, PAS 39 and PFRS 7)**

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.

The amendments are to be effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. The management believes that the application of the said revisions to PFRS has no material impact on its financial statements.

- **Definition of Material (Amendments to PAS 1 and PAS 8)**

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

These amendments are applicable to annual reporting periods beginning on or after January 1, 2020. The amendments must be applied prospectively. The management believes that the application of the said revisions to PFRS has no material impact on its financial statements.

- **Conceptual Framework for Financial Reporting Issued on March 29, 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 IASB 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 are applicable to annual reporting periods beginning on or after January 1, 2020. The amendments must be applied prospectively. The management believes that the application of the said revisions to PFRS has no material impact on its financial statements.

- **Covid-19 Related Rent Concessions (Amendments to PFRS 16)**

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to PFRS 16 Leases The amendments provide relief to lessees from applying PFRS 16 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 PFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. The management believes that the application of the said revisions to PFRS has no material impact on its financial statements.

II. Standards, Amendments and Interpretations Issued But Not Yet Effective as at Reporting Period

The following are new and revised standards, amendments to PFRS and interpretations which have been issued but not yet effective as of reporting period.

- **PFRS 17 Insurance Contracts**

PFRS 17 was issued in May 2017 as replacement for PFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss 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. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

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.

In June 2020, the IASB issued Amendments to PFRS 17 to address concerns and implementation challenges that were identified after PFRS 17 was published. The amendments defer the date of initial application of PFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after January 1, 2023. At the same time, the IASB issued Extension of the Temporary Exemption from Applying PFRS 9 (Amendments to PFRS 4) that extends the fixed expiry date of the temporary exemption from applying PFRS 9 in PFRS 4 to annual reporting periods beginning on or after January 1, 2023.

PFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. The management believes that the application in the future of the said revisions to PFRS will have no material impact on its financial statements.

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28)**

The IASB has made limited scope amendments to PFRS 10 Consolidated financial statements and PAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in PFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognize the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognized by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalized its research project on the equity method. The management believes that the application in the future of the said revisions to PFRS will have no material impact on its financial statements.

- **Classification of Liabilities as Current or Non-current (Amendments to PAS 1)**

The narrow-scope amendments to PAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to January 1, 2023. The management believes that the application in the future of the said revisions to PFRS will have no material impact on its financial statements.

- **Reference to the Conceptual Framework (Amendments to PFRS 3)**

Minor amendments were made to PFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of PAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier. The management believes that the application in the future of the said revisions to PFRS will have no material impact on its financial statements.

- **Property, Plant and Equipment: Proceeds before Intended Use (Amendments to PAS 16)**

The amendment to PAS 16 Property, Plant and Equipment (PPE) prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted. The management believes that the application in the future of the said revisions to PFRS will have no material impact on its financial statements.

- **Onerous Contracts: Cost of Fulfilling a Contract (Amendments to PAS 37)**

The amendment to PAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted. The management believes that the application in the future of the said revisions to PFRS will have no material impact on its financial statements.

- **Annual Improvements to PFRS Standards 2018–2020**

The following improvements were finalized in May 2020:

  - PFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  - PFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
  - PFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same PFRS 1 exemption.
  - PAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under PAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Summary of Significant Accounting Policies

The significant accounting policies and practices of the Bank are set forth to facilitate the understanding of the financial statements.

Financial Instruments

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

Financial Assets

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

Financial Assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient, the Bank initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient are measured at the transaction price determined under PFRS 15. Refer to the accounting policies in section (e) Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI (FVOCI), it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

Subsequent measurement

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

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

Financial assets at amortized cost (debt instruments) –The Bank measures financial assets at amortized cost if both of the following conditions are met:

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

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

The Bank's loans and receivable and investments-amortized cost are classified under this category.

Financial assets at fair value through OCI (debt instruments) – The Bank measures debt instruments at fair value through OCI if both of the following conditions are met:

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

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

The Bank has no financial assets under this category.

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

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

The Bank has no financial assets under this category.

Financial assets at fair value through profit or loss – include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets 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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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

The amendments defer the effective date of the September 2014 amendments to these standards indefinitely until the research project on the equity method has been concluded.

The Bank's cash and cash equivalents is classified under this category.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Bank's statement of financial position) when:

• The rights to receive cash flows from the asset have expired; or
• The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank 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 rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

Impairment of financial assets

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

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

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

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

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

Financial Assets

This category includes cash and cash equivalents, loans receivable and investments – amortized cost.

Cash and Cash Equivalents

This account includes cash on hand, checks and other cash items, due from BSP, due from other banks and petty cash fund. Cash on hand represents cash collections and other cash items awaiting deposit and cash inside the Bank's vault. Check and other cash items represent checks collected waiting for deposit. Due from BSP account represents savings account by the Bangko Sentral ng Pilipinas which earns interest at the respective deposit rates and these deposits are held at call with the BSP. Due from other banks account represents savings and checking accounts by the Bank in various commercial banks. These earn interest at the respective banks' deposit rates. These deposits are held at call with the bank. Petty cash fund is used as a working fund for small expenses being disbursed on a daily basis.

Loans and Receivables

Loans and receivable account include loans extended to clients classified as other agricultural credit loans, commercial small-scale enterprises loan, commercial medium scale enterprises loan and loans to individuals for other purposes. These are recognized initially at fair value plus transaction costs that are directly attributable to the receivable. These are subsequently measured at amortized costs using effective interest method less provision for impairment.

Section 305 of MORB (2018) provides method of computing interest. Banks may only charge interest based on the outstanding balance of the loan at the beginning of an interest period. For a loan where principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

A provision for impairment of receivables is established when there is objective evidence that the Bank will not be able to collect amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statements of income within operating expenses. When a receivable remains uncollectible after the Bank has exerted all legal remedies, it is written-off against the allowance account for receivables. The Bank first assesses whether there is objective evidence of impairment that exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant of not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. Subsequent recoveries of amounts previously written-off are credited against operating expenses in the statements of income. Reversals of previously recorded impairment provision are credited in the statements of income based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period.

Due to the effect of the COVID-19 Pandemic, included in the government issued Implementing Rules and Regulations under Section (aa) of RA No. 11469, Otherwise Known as the "Bayanihan to Heal As

One Act", under Rule III Mandatory Grace Period Section 3.01 states that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest falling due within the ECQ Period without incurring interest on interest, penalties, fees and other charges. The initial 30-day grace period shall automatically be extended if the ECQ period extended by the President of the Republic of the Philippines pursuant to his emergency powers under the Bayanihan to Heal As One Act.

The Bank did not avail the regulatory relief under Bayanihan Act 1. However, loan accounts who failed to settled its periodic amortization were not subjected to any interest or penalties in compliance to the requirement promulgated under Bayanihan Act 1.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss – include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Bank that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of financial performance.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Bank has not designated any financial liability as at fair value through profit or loss.

The Bank's has no financial liabilities under this category.

Financial liabilities at amortized cost –After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of financial performance.

The Bank's deposit liabilities, portion of accrued taxes, interest and other liabilities and lease liability are classified under this category.

Derecognition of financial liabilities

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

Financial Liabilities

This category includes deposit liabilities and portion of accrued taxes, interest and other liabilities, and lease liability.

Deposit Liabilities

Deposit liabilities represents the Bank's time and savings deposit account from its various depositors which are interest-bearing that can be withdrawn through the issue order of withdrawal. Deposits are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These are measured initially at their fair values and subsequently recognized at amortized costs less settlement payments.

Regular savings deposits refer to those which earn a lower interest rate while special saving deposits earn a higher interest rate and are both withdrawable either upon presentation of a properly accomplished withdrawal slips together with the corresponding passbook or thru the automated tellering machines. Lastly, time certificates of deposits refer to interest-bearing deposits with specific maturity dates and evidenced by certificates issued by the bank.

Accrued Taxes, Interest and Other Liabilities

This includes accrued interest payable, other accrued expenses and accounts payable

Accrued Interest Payable

Accrued interest payable refers to accrued interest expense on Certificate of Time Deposit (CTD) for the period based on the Bank's amortization schedule. Accrued expenses are recognized in the period in which the money or services are received or when a legally enforceable claim against the Bank is established or when the corresponding assets and expenses are recognized/incurred.

Other Accrued Expenses

Accrued expenses are recognized in the period in which the money or services are received or when a legally enforceable claim against the Bank is established or when the corresponding assets and expenses are recognized/incurred.

Accounts Payable

This represents employees' Pag-ibig loan withheld from their respective salaries and is payable to Pag-ibig every 10th of the succeeding month. These also, represents unpaid balances for POS terminals and cash card development cost.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Non-Financial Assets

This category includes bank premises, furniture fixture and equipment, investment property (ROPA) and portion of other assets.

Bank Premises, Furniture, Fixtures and Equipment

Property and equipment include various equipment such as building, furniture, fixtures and equipments and leasehold improvements.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable cost of bringing the asset to the location and condition for its intended use.

Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Company. The costs of day-to-day servicing of an asset are recognized as expenses in the period in which they are incurred.

Depreciation is recognized in the statements of comprehensive income on a straight-line basis over the estimated useful lives of the each part of an item of property and equipment. Leasehold improvements are amortized over the estimated useful lives of the improvements or the term of the lease, whichever is shorter.

The useful lives and depreciation and amortization method are reviewed at each financial reporting date to ensure that such useful lives and depreciation and amortization method are consistent with the expected pattern of economic benefits from those assets. When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in the statements of operation.

The cost of maintenance and minor repairs is charged to operations as incurred; significant renewals and betterments are capitalized when it is probable that future economic benefits in excess of the original assessed standards of performance of the existing asset will flow to the Company. Major renovations are depreciated over the remaining useful life of the related asset.

Real and Other Property Acquired (ROPA)

Investment property shall be recognized as an asset when and only when: (a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and (b) the cost of the investment property can be measured reliably.

Investment property includes Real and Other Properties Acquired (ROPA) acquired by the Bank from defaulting borrowers in settlement of their loans and receivable through foreclosure or dacion en pago as payment and shall be booked under ROPA account as follows: a) on the date of the entry of judgment in case of judicial foreclosure b) on the date of notarization of the Sheriffs Certificate in case of extra-judicial foreclosure c) and the date of notarization of the Deed of Dacion in case of dation in payment (dacion en pago). ROPA acquired shall be booked initially at the carrying amount of the loan (i.e. outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses which take into account the fair value of the collateral determined based on BSP provisioning requirement) plus booked accrued interest less allowance for credit losses plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property). Investment properties except land are depreciated over a period of ten years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of financial performance in 'Profit from assets sold' in the year of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred. Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Subsequently, ROPA shall be accounted for as follows:
(a) Land and buildings shall be accounted for using the cost model under PAS 40 "Investment Property";
(b) Other non-financial assets shall be accounted for using the cost model under PAS 16 "Property Plant and Equipment";
(c) Buildings and other non-financial assets shall be depreciated over a period not exceeding ten years and three years, respectively;
(d) Land, buildings and other non-financial assets shall be subject to the impairment provisions of PAS 36 "Impairment";
(e) Financial assets shall be initially booked and classified according to intention (i.e., Amortized cost, FVPL, FVOCI, Unquoted Debt Securities Classified as Loans or Loans and Receivable) and accounted for in accordance with the provisions of PFRS 9; and
(f) ROPAs that comply with the provisions of PFRS 5 "Non-Current Assets Held for Sale" shall be reclassified and accounted for as such.

Financial institutions that accept non-cash payments for interest on their borrowers' loans shall book the acquired assets as ROPA. The amount to be booked as ROPA shall be the booked accrued interest less allowance for probable losses: Provided, That where the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up: Provided, further, that if the carrying amount of ROPA exceeds ₱5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP. The carrying amount of ROPA shall be allocated in accordance with Item (c) and shall be subsequently accounted for in accordance with item (c) of this Section.

Any real property acquired in settlement of loans which is classified as "Loss" shall be written-off by the Bank following the same procedures on the write-off of loans under Circular No. 358 or a 100% allowance for probable losses shall be set up therefore. Provided, that a nominal value of one peso (₱1.00) shall be retained in the books for each asset account.

Other Resources

This account includes inventories, prepaid expenses, miscellaneous assets, other intangible assets and stationery and supplies on hand.

Inventories

This represents POS terminals for internal use/sale and capitalized development cost and acquired right-to-use software licenses for software tools and applications during the year. In the normal course of the Bank's operations, and in adapting the Bank's software assets to various business applications for different industries and new cloud technologies, management realized that by combining specific functionalities, the results were more effective tools.

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value (NRV). Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to all their present location and condition. Since inventory items are not interchangeable, specific cost are attributable to the specific individual item of inventory. NRV represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distributing the goods. When the NRV of the inventories is lower than the cost, the Bank provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in the statement of comprehensive income.

A new assessment of NRV is made in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised NRV.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

Prepaid Expenses

Prepaid expenses refer to amounts paid by the Bank in advance for future expenses.

Other Assets

This represents BancNet fees, refundable deposit for copier rental, rental deposit, and Electronic Financial Transaction Switch (EFT) System.

Other intangible assets

Other intangible assets refer to software licenses of the Bank as an electronic money provider.

Stationery and Supplies on hand

These are items used to carry out tasks in bank's departments. The cost is recorded as an asset until such time as the underlying goods are consumed; at that point, the cost is charged to expense.

Prepaid cash cards

These represents DA5 cash cards that was used in bank's operation.

Impairment of Non-financial Assets

At each reporting date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating units) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

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

Non-Financial Liabilities

This category includes portion of accrued taxes, interest and other liabilities.

Withholding Taxes Payable

These represent taxes withheld by the Bank from employees' salaries, payments to suppliers and provider of services subject to expanded creditable withholding taxes which are remitted 10 days following the end of the month. These are interest-bearing if not paid on time.

SSS/ECC, HDMF and PHIC Premium Payable

These represent employer's and employees' share on social security and other contributions which are mandated by law. These are interest-bearing if not paid on time.

Borrowings and Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the year, less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalizable rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during the year shall not exceed the amount of borrowing costs incurred during that year.

Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred in the year in which they occur.

Employee Benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management. These includes: short-term employee benefits, which are employee benefits (other than termination benefits) that are wholly due within twelve months after the end of the period in which the employees render the related service; post-employment benefits, which are employee benefits (other than termination benefits) that are payable after the completion of employment; other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service; and termination benefits, which are employee benefits payable as a result of either the Bank's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The Bank shall recognize the cost of all employee benefits as a liability, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund; or as an expense, unless it is required that the costs are to be recognized as part of costs of an asset such as inventories or property, plant and equipment.

Short-Term Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Short-term benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and other non-monetary benefits.

Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

Post-Employment Benefits

The Bank did not provide for non-contributory retirement benefits to its qualified regular employees in compliance with RA No. 7641.

As at reporting date, the Bank has not recognized a long-term benefits expenses and the management believes that it has no material effect on its financial statements.

The details pertaining to the post-employment benefit are shown below.

Type of Establishment	Rural Bank
No. of Employees for the Year	Twenty-nine (29) employees
Maximum No. of Years Served	More than eight (8) years
Estimated Amount of Benefits	₱2,085,524

Equity

Paid-in Capital

The bank has issued par value capital stock that is classified as equity. Incremental costs directly attributable to the issuance of new capital stock are shown in equity as a deduction, net of tax, from the proceeds.

When the bank issues its par value shares, the proceeds shall be credited to the "Share capital" account in the statement of financial position to the extent of the par value, with any excess being reflected as "Share premium" in the statement of financial position.

Retained Earnings (Deficit)

This account represents the cumulative balance of periodic net income or loss, dividend distribution, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When retained earnings account has a debit balance, it is called "deficit", and presented as deduction from equity.

Deposit for Future Subscriptions

Deposit for future subscription refer to the payments made by stockholders of the Bank on subscription to the increase in the authorized capital which cannot directly credited to capital stock issued due to insufficiency of the Companies' unissued authorized capital stock pending application by the Securities and Exchange Commission (SEC). Under Financial Reporting Bulletin 006 issued in 2012, an entity should not consider a deposit for future subscription as an equity instrument unless all of the following elements are present:

- There is a lack or insufficiency of authorized unissued shares of stocks to cover the deposit:
- The Entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and
- An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC.

If any of the foregoing elements are not presented, the transaction should be recognized as a liability.

Basic and Diluted Earnings (Loss) per Share

Basic earnings (loss) per share is calculated by dividing the income (loss) attributable to equity holders of the Bank for the year over weighted average number of common shares outstanding during the period.

Diluted EPS amounts are computed in the same manner, adjusted for the dilutive effect of any potential common shares. As the Bank has no dilutive potential common shares outstanding, basic and diluted EPS are stated at the same amount.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and that revenue can be reliably measured. The following specific recognition criteria of income and expenses must also be met before revenue is recognized:

(a) *Interest* – Interest income and expenses are recognized in the statements of financial performance for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Under BSP MORB 2018 Section 305, it states that banks may only charge interest based on the outstanding balance of a loan at the beginning of an interest period. For a loan where principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period. Towards this end, all loan-related documents shall show repayment schedules in a manner consistent with this provision. Marketing materials and presentations shall likewise be consistent with this provision.

To enhance loan transaction transparency, Effective Interest Rate (EIR) calculation models illustrative of common loan features were also presented as an Appendix to the said MORB 2018 for the Bank's guidance. It is understood, however, that an EIR calculation model, founded on established principles of discounted cash flow analysis, for a loan should be based on the actual features thereof. A bank shall be solely responsible for the propriety and accuracy of its EIR calculation model. However, for purposes of determining compliance with this Section, the Bangko Sentral's determination of the reasonableness and accuracy of an EIR calculation model prevails.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Service charges, fees and commissions – Service charges, fees and commissions are generally recognized when the service has been provided. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on the completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(c) Profit from assets sold or exchanged – Profits from assets sold or exchanged are 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 in the other income account in the statements of comprehensive income.

(d) Miscellaneous income – Miscellaneous income are recognized when earned.

Cost and Expenses Recognition

Cost of services and general and administrative expenses, including borrowing costs, are recognized in the period in which they are incurred.

Cost and expenses are recognized in the statement of operations 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 the statement of financial performance: 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 statement of financial position as an asset.

Costs and expenses in the statement of operations are presented using the function of expense method. Cost of sales and services are expenses incurred that are associated with the goods sold and services rendered. General and administrative expenses are costs attributable to the administrative, marketing and other business activities of the Bank.

Leases

At inception of a contract, the Company assesses whether a 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.

Company as a lessee

The Company recognizes a right□of□use asset and a lease liability at the lease commencement date. The right□of□use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right□of□use asset is subsequently depreciated using the straight□line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right□of□use asset reflects that the Company will exercise a purchase option. In that case the right□of□use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right□of□use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. The discount rate applied was 6.0%, based on Circular No. 799 of the BSP.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in□substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in□substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right□of□use asset, or is recorded in profit or loss if the carrying amount of the right□of□use asset has been reduced to zero.

Transition Method and Practical Expedients Utilized

The Bank adopted PFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application, January 1, 2019, without restatement of comparative figures. The Bank elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under PAS 17 and PFRIC 4 were not reassessed. The definition of a lease under PFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

PFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Bank applied the following practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17:

• Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
• Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;
• Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and
• Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under PFRS 16, the Bank recognizes right-of-use assets and lease liabilities for most leases. However, the Bank has elected not to recognize right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

On adoption of PFRS 16, the Bank recognized right-of-use assets and lease liabilities in relation to leases of office space, land and building, which had previously been classified as operating leases.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as at January 1, 2019. The Bank's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The discount rate applied was 6.0%, based on Circular No. 799 of the Bangko Sentral ng Pilipinas.

The right-of-use assets were measured as follows:

(a) Office space: Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.
(b) All other leases: the carrying value that would have resulted from PFRS 16 being applied from the commencement date of the leases, subject to the practical expedients noted above.

Significant Accounting Policies subsequent to Transition

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:
• Leases of low value assets; and
• Leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Bank's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:
• amounts expected to be payable under any residual value guarantee;
• the exercise price of any purchase option granted in favor of the Bank if it is reasonable certain to assess that option;
• any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognized where the Bank is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or when there is a change in the assessment of the term of any lease.

Comprehensive Income

Comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with members in their capacity as owners.

Related Party Transactions and Relationships

Two or more parties are related parties when at any time during the financial period: (a) one party has direct or indirect control of the other party; or (b) the parties are subject to common control from the same source; or (c) one party has influence over the financial and operating policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or the parties, in entering a transaction, are subject to influence from the same sources to such an extent that one of the parties to the transaction has subordinated its own separate interests.

BSP MORB 2018 Section 136, recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institutions and to the entire group where said institutions belong. In this regard, related party transactions are generally allowed: Provided, That these are done on an arm's length basis. The Bangko Sentral expects banks, including their non-bank financial subsidiaries and affiliates, to exercise appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the bank and its depositors, creditors, fiduciary clients, and other stakeholders.

RPT policies/roles of senior management and self-assessment functions.

a.) The RPT policies shall include, but not be limited to the following:

Definition of related parties. The policy shall clearly define "related parties". It shall identify persons and companies that are considered the BSFI's related parties. The policy shall require management to periodically review and update the inventory of related parties to capture organizational and structural changes in the BSFI and its related parties.

Coverage of RPT policy. The coverage of the RPT policy shall capture a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose material/special risk or potential abuse to the BSFI and its stakeholders.

Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of the policy. The prospective treatment should, however, be without prejudice to supervisory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

Guidelines in ensuring arm's length terms. The policy shall have clear guidelines in ensuring that RPTs are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. This shall include guidance for an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the BSFI and its stakeholders. The price discovery mechanism may include, but not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

Conflicts of interest. The policy shall cover the identification and prevention or management of potential or actual conflicts of interest which may arise. The members of the board of directors, stockholders, and management shall disclose to the board of directors whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the BSFI. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the BSFI.

Materiality thresholds and excluded transactions. The policy shall include materiality thresholds for RPTs, which shall be set at a level where omission or misstatement of the transaction could pose significant risk to the BSFI and could influence the economic decisions of its board of directors.

Materiality threshold may be set for each type of transaction and for each related party group, depending on the nature of the transaction and risks involved. The RPT policy may also identify transactions excluded from the materiality threshold requirement, such as transactions concerning deposit operations, regular trade transactions involving purchases and sales of debt securities traded in an active market, and those granted under Bangko Sentral approved fringe benefit programs. Materiality threshold levels will vary from one BSFI to another depending on the nature, scope, frequency, value of, and risks associated with the RPT. The BSFI shall document the justifications for the materiality thresholds and exclusions set.

The Bangko Sentral may direct a BSFI to reduce its materiality threshold or amend excluded transactions if the Bangko Sentral deems that the threshold or exclusion is inappropriate considering the BSFI's size, risk profile, and risk management systems.

Internal limits for individual and aggregate exposures. To ensure that RPTs are within prudent levels, the policy shall, in addition to existing prudential limits which shall be complied with at all times, include internal limits or sub-limits for individual and aggregate exposures to a related party and for aggregate exposures to all related parties that are consistent with the BSFI's risk appetite, risk profile, and capital strength. The internally-set limits shall be tied in with the BSFI's internal definition of capital. Breaches in limits shall be reported to the board of directors with the decision of the board of directors to accept the exposure or to take steps to address the breaches, as may be necessary, duly documented in the minutes of meetings.

Whistleblowing mechanisms. The policy shall include effective whistleblowing mechanisms consistent with the corporate values and codes of conduct set by the board of directors. The policy shall encourage employees to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable RPTs. It shall include guidance on how and by whom legitimate material concerns should be reported, investigated and addressed by an objective independent internal or external body, senior management and/or the board of directors itself.

Restitution of losses and other remedies for abusive RPTs. The policy shall include measures that would cut losses and allow recovery of losses or opportunity costs incurred by the BSFI arising from RPTs that are not engaged on arm's length terms. The policy shall also include the manner of handling personnel, officers or directors, who have been remiss in their duties in handling RPTs.
The overarching policy will consolidate all existing policies that address the above requirements or may make reference to already existing policies.

b.) *Roles of senior management and self-assessment functions.* Senior management shall implement appropriate controls to effectively manage and monitor RPTs on a per transaction and aggregate basis.

Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the BSFI's policy and Bangko Sentral's regulations.

Income Taxes

Current Taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxing authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted during the reporting period.

Deferred Taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rates expected in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the statements of comprehensive income. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authorities.

Documentary Stamp Tax

Documentary stamp taxes are imposed on the following:
a. Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;
b. Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;
c. Acceptance of bills of exchange and letters of credit; and
d. Bills of lading or receipt.

Gross Receipts Tax (GRT)

RA 7353 Section 15 states that all rural banks created and organized under 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.

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 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 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.

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.

Prior Period Adjustments

Prior period adjustments cover those adjustments pertaining to the omissions and misstatements in the entity's financial statements for one or more periods arising from a failure to use or misuse of reliable information that were available when the financial statements for these periods were authorized for issue or could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

The bank shall correct material period errors retrospectively in the first set of financial statements authorized for issue after discovery by:

a. Restating the comparative amounts for prior period presented in which the error occurred.
b. Restating the opening balances of assets, liabilities and equity for the earliest prior period presented if the error or adjustment occurred before earliest period presented.

The correction of prior period error is excluded from profit or loss for the period in which the error is discovered but it is an adjustment of the beginning balance of retained earnings of the earliest period presented.

Total prior period adjustments as at December 31, 2020 and 2019 amounted to ₱4,659 (cr) and ₱37,891 (dr), respectively.

Events after End of Reporting Period

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. Two types of events can be identified:

a) those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*); and

b) those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the reporting period*).

Post year-end event that provides additional information about the Bank's position at each reporting date (adjusting events) are reflected in the financial statements. Post year-end adjustments that are not adjusting events are disclosed in the notes to financial statements.

Comparative Information

Where necessary, certain accounts in prior years have been reclassified and comparative figures have been adjusted to conform to current year's financial statements presentation.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Bank's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the succeeding pages.

(a) Impairment Losses on Financial Assets (Loans and Receivables and Investments-Amortized Cost)

The Bank reviews its loan and receivables and financial assets portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio.

The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditioned that correlate with defaults on assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates.

However, the amount of changes in fair value would differ if the Bank utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

As at December 31, 2020 and 2019, the allowance for impairment and credit losses of the Bank amounted to ₱8,671 and ₱13,329, respectively. Moreover, loans receivable of the Bank are carried at ₱512,503 and ₱829,151 as at December 31, 2020 and 2019, respectively (Note 6).

(b) Fair Value of Financial Assets and Liabilities

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities as at December 31, 2020 and 2019, as presented in the statements of financial position at their fair value:

	2020				2019			
	Carrying value		Fair Value		Carrying value		Fair Value	
Financial assets								
Checks and other cash items	₱	10,000	₱	10,000	₱	28,578	₱	28,578
Due from Bangko Sentral ng Pilipinas		1,170,117		1,170,117		957,533		957,533
Due from other banks		4,143,857		4,143,857		4,529,679		4,529,679
Loans and receivable - net		486,271		486,271		829,151		829,151
Investments - amortized cost		-		-		3,038,183		3,038,183
Total financial assets	₱	5,810,245	₱	5,810,245	₱	9,383,125	₱	9,383,125
Financial liabilities								
Deposit liabilities	₱	20,963,546	₱	20,963,546	₱	26,278,173	₱	24,187,511
Accounts payable		4,444,124		4,444,124		3,971,796		3,971,796
Accrued interest payable		6,871		6,871		2,890		2,890
Accrued other expenses		2,273,067		2,273,067		1,829,841		1,829,841
Lease liability		291,152		291,152		2,072,901		2,072,901
Total financial liabilities	₱	27,978,759	₱	27,978,759	₱	34,155,601	₱	32,064,938

(c) Useful Life of Bank Premises, Furniture and Equipment

The Bank estimates the useful lives of bank premises, furniture fixture and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture and equipment 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 bank premises, furniture fixture and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of 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 bank premises, furniture fixture and equipment would increase recorded operating expenses and decrease non-current assets.

Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The range of estimated useful life of the Bank's property and equipment follow:

Categories	Estimated Useful Life in Years
Building	50 years
Furniture, fixtures and equipment	1-20 years
Leasehold improvements	5-20 years

The useful lives and depreciation and amortization method are reviewed at each financial reporting date to ensure that such useful lives and depreciation and amortization method are consistent with the expected pattern of economic benefits from those assets. When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in the statements of operations.

As at December 31, 2020 and 2019, Bank premises, furniture, fixture and equipment net of accumulated depreciation amounted to ₱13,728,863 and ₱14,435,303, respectively (Note 7).

(d) Realizable Amount of Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which these losses can be utilized. Management's discretion is required to determine the amount of deferred tax assets that can be recognized based on the forecasted level of future taxable profits and the related future tax planning strategies.

As at December 31, 2020 and 2019 deferred tax assets amounted to ₱22,519,720 and ₱10,286,267, respectively (Note 10).

(e) Impairment of 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. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.

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 the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Critical Accounting Judgments

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

(a) Functional Currency

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

(b) Distinction between Investment Properties and Owner-Managed Properties

The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generated cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes.

If these portions can be sold separately (or leased out separately under finance lease), the bank also accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services of for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(c) Classification of Acquired Properties and fair Value Determination of Non-current Assets Held for Sale and Investment Property

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Non-current Assets Held-for-sale if the Bank expects that the properties will be recovered through sale rather than use, as Investment Property if the Bank intends to hold the properties for capital appreciation or as Financial Assets in accordance with PFRS 9.

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

(d) Provisions and Contingents

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 2 and relevant disclosures are presented in Note 6.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk Management

Managing operational risk is an important feature of sound risk management practice for financial institutions. The significant increase in the volume of transactions and integration of multiple and complex support systems has led to increasing operational risk exposures of financial institutions.

Risk identification is the first step in the proactive risk management process. It is a continuous process that involves all personnel in all levels in the Bank to ensure that all significant possible transaction-related risks are considered. It is the initial step in the risk management process and is critical for the subsequent development of appropriate risk control. The risk identification process involves categorization, documentation and listing of risks and events that could possibly affect the Bank. With increased reliance on technology, it is important for the Bank to understand how specific technologies operate and how their use or failure may expose the Bank to risk.

Market Risk

This type of risk arises from the possible decline in the value of acquired assets and investments in equities and debt instruments.

Areas of market risk may include the following:

1. Risk of decline in value of trading accounts and investments due to fluctuations in market prices
2. Risk that issuer may not be able to meet its obligations promptly
3. Risk of decline in value of investment decisions which fail to take into account:
   - Marketability of investment instrument (If the Bank cannot wait to hold on investment until maturity, there must be many buyers in the market willing to pay at a price that is close to Bank's acquisition cost so that the Bank will not incur a loss).
   - Diversification of investment outlets
   - Maturity and rate of return
   - Type of issuer (to ensure payment on maturity)
   - BSP regulations on limits and ceiling

Liquidity Risk

Liquidity arises from the bank's failure to meet maturing obligations due to mismatch in cash flows and incidence of high past due loans which may put pressure on the bank's liquidity position. This also arises from un-forecasted pre-termination of substantial Term Deposit and substantial cash withdrawal of deposit accounts with the bank. It may also be an effect of the public's panic withdrawals (bank runs) that leads from loss of thrust and confidence of the public due to reputational risk.

Mitigating Liquidity Risk

1. Board of Directors and Senior Management should establish credit lines from major financial institutions, such as from the BSP and other government banks through their rediscounting facilities;
2. The Management should not be totally reliant on deposit liabilities but also on the establishment of credit lines with financial institutions offering lower interest rates;
3. Accounting together with the Bank Management should always and monitor the following:

    a. List of maturing obligations such as time deposits, bills payable, etc.
    b. Should require bank branch management to submit a weekly report on required and available reserves (WRAR) if properly complied with

4. Promoting CASA deposit products rather than Time/Term deposit products in order to limit the exposure to large withdrawals from big/large time depositors;
5. Strong internal control should be maintained to allow the flow of collections from credit exposures and strong marketing strategies and clientele relationship in order to maintain the funds from investment and bank depositors;
6. Bank Management should maintain, monitor and stress test its cash flow projection
7. MIS reports should be accurate so that forecasting is close to reality i.e. Maturity Matching Report should be provided on a weekly basis so that Management can planned its following week cash position.

The table below summarizes the maturity profile of the Bank's financial assets and liabilities as at December 31, 2020 and 2019.

December 31, 2020

	Maturing in 30 days	Maturing in 31-60 days	Maturing in 61-90 days	Maturing in 91-180 days	Maturing in 181-365 days	Maturing in over 365 days	Total
Assets							
Checks and other cash items	₱ 10,000	₱ -	₱ -	₱ -	₱ -	₱ -	₱ 10,000
Due from BSP	1,170,117	-	-	-	-	-	1,170,117
Due from banks	4,143,857	-	-	-	-	-	4,143,857
Loans and receivable	-	-	-	-	-	521,174	521,174
Total financial assets	5,323,974	-	-	-	-	521,174	5,845,148
Liabilities							
Deposit liabilities	18,039,982	36,382	875,173	1,360,593	651,416	-	20,963,546
Accounts payable	4,444,124	-	-	-	-	-	4,444,124
Accrued interest payable	6,871	-	-	-	-	-	6,871
Accrued other expenses	2,273,067	-	-	-	-	-	2,273,067
Lease liability	-	-	-	-	291,152	-	291,152
Total financial liabilities	24,764,044	36,382	875,173	1,360,593	942,568	-	27,978,759
Net liquidity gap	₱ (19,440,070)	₱ (36,382)	₱ (875,173)	₱ (1,360,593)	₱ (942,568)	₱ 521,174	₱ (22,133,612)

December 31, 2019

	Maturing in 30 days	Maturing in 31-60 days	Maturing in 61-90 days	Maturing in 91-180 days	Maturing in 181-365 days	Maturing in over 365 days	Total
Assets							
Checks and other cash items	₱ 28,578	₱ -	₱ -	₱ -	₱ -	₱ -	₱ 28,578
Due from BSP	957,533	-	-	-	-	-	957,533
Due from banks	4,529,679	-	-	-	-	-	4,529,679
Loans and receivable	-	-	-	-	-	842,480	842,480
Investments - amortized costs	-	-	-	-	-	3,038,183	3,038,183
Total financial assets	5,515,791	-	-	-	-	3,880,663	9,396,454
Liabilities							
Deposit liabilities	22,859,788	835,542	603,074	687,566	1,292,203	-	26,278,173
Accounts payable	3,971,796	-	-	-	-	-	3,971,796
Accrued interest payable	2,890	-	-	-	-	-	2,890
Accrued other expenses	1,829,841	-	-	-	-	-	1,829,841
Lease liability	-	-	-	-	-	2,072,901	2,072,901
Total financial liabilities	28,664,314	835,542	603,074	687,566	1,292,203	2,072,901	34,155,601
Net liquidity gap	₱ (23,148,523)	₱ (835,542)	₱ (603,074)	₱ (687,566)	₱ (1,292,203)	₱ 1,807,762	₱ (24,759,146)

The above contractual maturities reflect the gross cash flows at the end of the reporting period.

Credit Risk

The Bank's may encounter risks in its lending activities that may be caused by the following:

1. Borrower's failure to pay the interest and/or loan principal at maturity date.
2. The appraised value of the collateral property being pledged under-valued versus the amount of loan availed.
3. The automotive vehicle under chattel mortgage being pledged during the tenure of the loan becomes defective. The borrower may opt to not pay the remaining balance of the loan.
4. The bank personnel lack expertise, training and knowledge on lending activities.
5. Deficient loan documents including the verification of the collateral property and acceptability submitted to the bank.
6. Deficient evaluation of the capacity to pay of the borrower, its business cash flows, etc.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statements of financial position (or in the detailed analysis provided in the notes to the financial statements), as summarized below:

	Gross Maximum Exposure	
	2020	2019
Due from BSP	₱ 1,170,117	₱ 957,533
Due from banks	4,143,857	4,529,679
Loans receivable - net	486,271	829,151
Investments-amortized cost	-	3,038,183
Total	₱ 5,800,245	₱ 9,354,547

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank reviews the loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibition on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

In respect of loans receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Loans receivables consist of a large number of customers in various geographical areas. Based on historical information about customer default rates management consider the credit quality of loans receivables that are not past due or impaired to be good. The table below shows the credit quality of the Bank's loans receivable for the years 2020 and 2019.

	2020		2019	
Current	₱	258,794	₱	802,232
Past due		262,321		40,189
Items in litigation		59		59
Total	₱	521,174	₱	842,480

The past due accounts of the above loans receivable are aged as follows:

2020

Type	1 to 90 days	91 to 365 days	more than 365 days	Total	Percentage
Agricultural, forestry, fishing	₱ -	₱ -	₱ -	₱ -	0.00%
Wholesale and retail trade			0	-	0.00%
Transportation, storage and communication		-	262,321	262,321	100.00%
Activities of household as employer and undifferentiated goods and services		-	-	-	0.00%
Total	₱ -	₱ -	₱ 262,321	₱ 262,321	
Percentage	0.00%	0.00%	100.00%		0.00%

2019

Type	1 to 90 days	91 to 365 days	more than 365 days	Total	Percentage
Agricultural, forestry, fishing	₱ -	₱ -	₱ 40,189	₱ 40,189	100.00%
Wholesale and retail trade			-	-	0.00%
Activities of household as employer and undifferentiated goods and services		-	-	-	0.00%
Total	₱ -	₱ -	₱ 40,189	₱ 40,189	
Percentage	0.00%	0.00%	100.00%		100.00%

Past due (including items in litigation) loans increased by ₱222,132 from ₱40,189 on December 31, 2019 to ₱262,321 as at December 31, 2020. Moreover, the Bank's past due ratio to total loan portfolio of 50.33% in 2020 is increased by 45.56% as compared to 4.77% in 2019 (Note 6).

The Bank's management considers that all the above financial assets that are not impaired or past due for each reporting dates are of good credit quality.

(a) Loans and accounts receivable

The Bank's loans and accounts receivable are being monitored on a periodic basis to ensure timely execution of necessary intervention efforts. As of reporting date, there are no significant concentrations of credit risk.

(b) Due from BSP and other banks

The credit risk for due from BSP and other banks are considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Under BSP MORB 2018 Section 362, it states that loans and other credit accommodations and usual guarantees by a bank to any other bank, whether locally or abroad, shall be subject to limits as prescribed by MORB, provided that the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

Computation of required single borrowers' limit (SBL) is shown below:

Bank's Net Worth		
Paid up Capital	₱	100,000,000
Additional paid- in capital		1,398,925
Deficit		(38,599,267)
Undivided loss		(30,057,586)
Total Bank's net worth		32,742,072
SBL Rate per BSP		25%
Single Borrower's Limit	₱	8,185,518

The Bank has no loan releases which exceed the single borrowers' limit, hence the Bank is compliant with this requirement.

Interest Rate Risk

Interest rate now a days is very volatile, sudden changes may occur anytime which may affect your projected annual interest revenues for the year. Once there is a sudden decline in the interest rate, net revenue interest projection as well as, the projected expenses are affected which may also lead to a distortion in the annual budget projection.

Operational Risk

- Deficiencies in system design, implementation, or on-going maintenance of system or equipment
- Incompatible internal and external systems
- Incompatible equipment and software
- Product designs, services, delivery channels and processes of vendors do not fit with the bank's system or customer demands
- Inadequate controls to monitor vendor/service provider activities when the Bank avails their services to perform core bank functions
- Failure to establish adequate security measures, contingency plans, testing and auditing standards
- Combined computer systems in case of merger may produce inaccurate or incomplete information or otherwise the merger may fail to work properly

Strategic Risk

- Failure of management to adequately plan for, manage, and monitor the performance of technology-related products, services, processes and delivery channels

- Failure of management to understand, support, or use technology essential for the Bank to compete or continued dependence on a technology that is not reliable

Reputation Risk

- Flawed security systems that significantly compromise customer privacy
- Inadequate contingency and business resumption plans that affect the Bank's ability to maintain or resume operations
- Inability to provide customer services following system failures
- System-enabled fraud that fundamentally undermines public trust
- Large-scale litigation resulting from flawed systems that exposes the Bank to significant liability and results to severe damage to the Bank's reputation

Compliance Risk

- No system in place to ensure compliance with mandatory reporting and disclosure requirements
- Unreliable system wherein confidential information are disclosed to outside party
- Flawed program or program design on the credit scoring models used to automate lending transactions
- Program component that allows unsafe distribution of sensitive data

Risk to IT Assets and Business Functions

Data Systems Risk

- Weak database structure, definition, and management system platform
- Poor database administration
- External-based data polluting and/or destruction through hacking, viruses or malicious attacks
- Inside-job data pilferage/theft/anomaly and purposive data file/database destruction
- Polluted source data and flawed sourcing process
- Data entry errors and validation looseness
- Data/Information File/Database pollution, corruption, and destruction

Application Systems Risk

- Poor system development and irresponsive maintenance
- Insufficient users training and unclear user's manual
- Poor or inadequate system quality testing
- Weak programmers/developers
- Lapses in contextual business process analysis and definition
- Gaps in system modeling and program specifications
- Application systems hangs and glitches

IT Project Risk

- Project/system not adequately defined
- Project outcome does not satisfy business needs
- Timing of project outcome does not satisfy business needs
- Required business changes are not managed
- Price changes
- Service provider resources not available as needed
- Service provider product or services do not meet expectations
- Unenforceable contract conditions and terms
- Funding becomes partially or totally unavailable
- Project budget proves inaccurate (i.e. shortfall, exceeded)

- IT project falls
- Weak IT project development team
- Lack of top management support
- Weak IT project manager
- Poor quality of IT project management methodology

IT Infrastructure Risk

- IT infrastructure failures and crashes
- Incompatibility of program and hardware resources
- Weak outsourced communication of Service Level Agreement
- Lapses in systems and networks administration including capacity planning
- Deficient IT infrastructure components, procurement terms of reference, and acquisition process

IT Physical Sites and Facilities Risk

- Damages to or destructions of IT physical sites and facilities
- Poor IT Physical Sites and facilities environment management
- Lapses in the performance monitoring of IT physical sites equipment and facilities
- Vulnerability of IT physical sites and facilities locations

Capital Management

The Bank's capital management refers to the implementing measures to maintain sufficient capital and that could assess its internal capital adequacy. It is extremely important to secure sufficient capital to cover risks the Bank faces, from the viewpoint of ensuring the soundness and appropriateness of the Bank's business. The management is charged with and responsible for taking the initiative in developing and establishing such.

The management sets of policies and internal rules with regard to capital management, ensures the development and implementation of capital plans, assessment of capital adequacy and capital allocation processes.

The Bank reviewed at least annually whether its policies and internal rules adopted and the tasks undertaken by the capital management group are suited to the levels of complexity and sophistication of the internal capital adequacy assessment processes used by the Bank and whether their respective capital management processes are functioning effectively.

The review should be conducted by using check items concerning internal capital adequacy assessment as part of the capital management system and those concerning the comprehensive risk management system, and any problem with regard to capital adequacy should be examined as the issue of capital management system.

The Bank ensures whether or not the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

The Bank's management appropriately determines whether there are any weaknesses or problems in the capital management system and the particulars thereof, and appropriately review their causes by precisely analyzing the status of capital management and assessing the effectiveness of capital management, based on all the information available regarding the status of capital management, such as the results of audits by Corporate auditors, and internal audits. In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees, etc.

The management may revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of capital management in a regular and timely manner or on an as needed basis. They provide a system to implement improvements in the areas of the problems and weaknesses in the capital management system identified through their analysis, assessment and review. They also provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis.

The Bank's debt-to-equity ratio is computed as follows:

		2020		2019
Total liabilities	₱	**40,242,334**	₱	34,381,594
Total equity		**32,742,072**		17,094,127
Debt-to-equity ratio		**1.23 to 1.00**		2.08 to 1.00

5. CASH AND CASH EQUIVALENTS

This account consists of the following:

		2020		2019
Cash on hand	₱	**943,924**	₱	641,588
Checks and other cash items		**10,000**		28,578
Due from BSP		**1,170,117**		957,533
Due from other banks		**4,143,857**		4,529,679
Petty cash fund		**11,000**		11,000
Total	₱	**6,278,897**	₱	6,168,379

Due from other banks represents unrestricted regular deposits with various banking institutions which earn interest at their respective bank deposit rates. Due from BSP represents the balance of the demand deposit account maintained with the BSP to meet reserve requirements (see Note 20).

6. LOANS and RECEIVABLES - NET

The account consists of the following:

		2020		2019
Current	₱		₱	
Other agricultural credit loans		**-**		-
Commercial-small scale enterprises		**258,794**		508,660
Commercial-medium scale enterprises		**262,321**		293,572
Total current loans		**521,115**		802,232
Past due loans		**-**		40,189
Items under Litigation		**59**		59
Total		**521,174**		842,480
Less: Allowance for credit losses		**(26,291)**		(4,718)
General loan loss provision (GLLP)		**(8,612)**		(8,612)
Loans and receivable - net	₱	**486,271**	₱	829,151

Interest rates depend on the term and type of loan. Total interest income earned from loans and receivables amounting to P62,225 and ₱137,431 for the period ended December 31, 2020 and 2019, respectively.

a. Classified the total loan portfolio according to status, as follows:

2020

Classification	**Current**	**Past Due**	**Items in Litigation**	**Total**	**Percentage**
Agricultural	₱ -	₱ -	₱ -	₱ -	**0.00%**
Commercial	**258,794**	-	-	**258,794**	**49.66%**
Transportation, storage and communication		**262,321**	-	**262,321**	**50.33%**
Other loans & discounts	-	-	**59**	**59**	**0.01%**
Total	₱ **258,794**	₱ **262,321**	₱ **59**	₱ **521,174**	
Percentage	**49.66%**	**50.33%**	**0.01%**		**100.00%**
Less: Loan loss provision - General				**(8,612)**	
Loan loss provision - Specific				**(26,291)**	
Loans receivable - net				₱ **486,271**	

2019

Classification	Current	Past Due	Items in Litigation	Total	Percentage
Agricultural	₱ -	₱ 40,189	P -	P 40,189	4.77%
Commercial	802,232	-	-	802,232	95.22%
Other loans & discounts	-	-	59	59	0.01%
Total	₱ 802,232	₱ 40,189	P 59	P 842,480	
Percentage	95.22%	4.77%	0.01%		100.00%
Less: Loan loss provision - General				(8,612)	
Loan loss provision - Specific				(4,718)	
Loans receivable - net				₱ 829,151	

As at December 31, 2020, highest credit exposure was attributed to commercial and transportation, storage and communication representing 49.66% and 50.33% while in 2019 highest credit exposure was attributed to commercial loans representing 95.22% of the total loan portfolio.

b. The above total loans are further classified according to security as mandated by the Bangko Sentral ng Pilipinas (BSP) in compliance to the MORB 2018 Section 143 as follows:

2020								
Classification		**Current**		**Past due**		**Items in Litigation**		**Total**
Secured	P	**258,794**	P	**262,321**	P	**-**	P	**521,115**
Unsecured		**-**		**-**		**59**		**59**
Total	P	**258,794**	P	**262,321**	P	**59**	P	**521,174**
Percentage		**49.66%**		**50.33%**		**0.01%**		

2019								
Classification		Current		Past due		Items in Litigation		Total
Secured	P	802,232	P	40,189	P	-	P	842,421
Unsecured		-		-		59		59
Total	P	802,232	P	40,189	P	59	P	842,480
Percentage		95.22%		4.77%		0.01%		

Total secured loans are broken down as to type of collateral as shown in the next table.

2020								
Collateral		**Current**		**Past due**		**Items in Litigation**		**Total**
Real Estate Mortage	P	**258,794**	P	**262,321**	P	**-**	P	**521,115**
Chattel Mortage		**-**		**-**		**-**		**-**
Total	P	**258,794**	P	**262,321**	P	**-**	P	**521,115**
Percentage		**49.66%**		**50.34%**		**0.00%**		

2019								
Collateral		Current		Past due		Items in Litigation		Total
Real Estate Mortage	P	802,232	P	40,189	P	-	P	842,421
Chattel Mortage		-		-		-		-
Total	P	802,232	P	40,189	P	-	P	842,421
Percentage		95.23%		4.77%		0.00%		

c. Also, we classified the account according to industry, as follows:

2020							
Type		Current		Past due		Total	Percentage
Agricultural, forestry, fishing	₱	-	₱	-	₱	-	0.00%
Wholesale and retail trade		258,794		-		258,794	49.66%
Transportaion, storage and communication				262,321		262,321	50.33%
Personal/consumption		-		-		-	0.00%
Activities of household as employer and undifferentiated goods and services		-		59		59	0.01%
Total	₱	258,794	₱	262,380	₱	521,174	
Percentage		49.66%		50.34%			100.00%
Less:							
Loan loss provision - specific						(26,291)	
Loan loss provision - general						(8,612)	
Loan discount						-	
Loans receivable - net					₱	486,271	

2019							
Type		Current		Past due		Total	Percentage
Agricultural, forestry, fishing	₱	-	₱	40,189	₱	40,189	4.77%
Wholesale and retail trade		802,232		-		802,232	95.22%
Transportation, storage and communication		-		-		-	0.00%
Activities of household as employer and undifferentiated goods and services		-		59		59	0.01%
Total	₱	802,232	₱	40,248	₱	842,480	
Percentage		95.22%		4.78%			100.00%
Less:							
Loan loss provision - specific						(4,718)	
Loan loss provision - general						(8,612)	
Loan discount						-	
Loans receivable - net					₱	829,151	

d. To assess the collectability of the account, we further aged total past-due loans, as follows:

2020									
Type		1 to 90 days		91 to 365 days		more than 365 days		Total	Percentage
Agricultural, forestry, fishing	₱	-	₱	-	₱	-	₱	-	0.00%
Transportation, storage and communication						262,321		262,321	99.98%
Activities of household as employer and undifferentiated goods and services				-		59		59	0.02%
Total	₱	-	₱	-	₱	262,380	₱	262,380	
Percentage		0.00%		0.00%		100.00%			100.00%

	2019				
Type	1 to 90 days	91 to 365 days	more than 365 days	Total	Percentage
Agricultural, forestry, fishing	₱ -	₱ -	₱ 40,189	₱ 40,189	99.85%
Wholesale and retail trade			-	-	0.00%
Activities of household as employer and undifferentiated goods and services		-	59	59	0.15%
Total	₱ -	₱ -	₱ 40,248	₱ 40,248	
Percentage	0.00%	0.00%	100.00%		100.00%

e. In compliance with BSP Circular 855 and MORB 2018 Section 143, the loans were classified qualitatively and appraised as follows:

		2020		
Collateral	**Current**	**Past Due**	**Total**	**Percentage**
Unclassified loans	**₱ 258,794**	**₱ -**	**₱ 258,794**	**49.66%**
Loans especially mentioned	**-**	**-**	**-**	**0.00%**
Substandard	**-**	**262,321**	**262,321**	**50.33%**
Doubtful	**-**	**-**	**-**	**0.00%**
Loss	**-**	**59**	**59**	**0.01%**
Total	**₱ 258,794**	**₱ 262,380**	**₱ 521,174**	
Percentage	**49.66%**	**50.34%**		**100.00%**

		2019		
Collateral	Current	Past Due	Total	Percentage
Unclassified loans	₱ 802,232	₱ -	₱ 802,232	95.22%
Loans especially mentioned	-	-	-	0.00%
Substandard	-	40,189	40,189	4.77%
Doubtful	-	-	-	0.00%
Loss	-	59	59	0.01%
Total	₱ 802,232	₱ 40,248	₱ 842,480	
Percentage	95.22%	4.78%		100.00%

Based on the preceding loan classification, we computed the required provision for probable loan losses, broken down as to regular loans and reconciled these against per book loan loss provision.

Our reconciliation of regular loans showed an over provision of ₱6,024 on general loan loss provision and under provision of ₱26,232 on allowance for probable losses-specific.

Classification		Amount	Rate		Required Reserve
General loan loss - unclassified	₱	258,794	1%	₱	2,588
Specific loan loss provision					
Loans especially mentioned		-	5%		-
Substandard (1)		262,321	10%		26,232
Substandard (2)		-	25%		-
Doubtful accounts		-	50%		-
Loss		59	100%		59
Total	₱	521,174		₱	26,291
Specific loan loss provision					26,291
Booked provision					59
Under provision - specific				₱	(26,232)
General loan loss provision					2,588
Booked provision					8,612
Over provision - general				₱	6,024

The foregoing assets were not used to secure any liability of the Bank.

As at December 31, 2020 and 2019, the provision for probable losses amounted to ₱26,232 and nil, respectively. No accounts written-off during the year but there were accounts that was foreclosed which were recorded in ROPA.

Additionally, movements in the Allowance for probable loan loss account are presented as follows:

		2020				
		General		Specific		Total
Beginning balance	₱	8,612	₱	59	₱	8,671
Reversal of provision		-		-		-
Additional provision		-		-		-
Ending balance	₱	8,612	₱	59	₱	8,671

7. **BANK PREMISES, FURNITURE, FIXTURE and EQUIPMENT – NET**

The account consists of the following:

	Land	Building	Furniture, fixture, and equipment	Leasehold rights and improvement	Transportation equipment	Total
Cost:						
At January 1	₱ 3,050,465	₱ 2,525,922	₱ 8,833,766	₱ 1,238,620	₱ 1,895,000	₱ 17,543,773
Acquisitions	-	-	2,841,188	-	-	2,841,188
Write off	-	-	-	-	-	-
At December 31	3,050,465	2,525,922	11,674,954	1,238,620	1,895,000	20,384,960
Acc. depreciation:						
At January 1	-	504,443	1,326,790	504,414	772,822	3,108,469
Depreciation	-	309,593	2,191,749	420,181	626,104	3,547,628
Write off	-	-	-	-	-	-
At December 31	-	814,036	3,518,539	924,595	1,398,926	6,656,097
Carrying values:						
2020	**₱ 3,050,465**	**₱ 1,711,886**	**₱ 8,156,415**	**₱ 314,025**	**₱ 496,074**	**₱ 13,728,863**

	Land	Building	Furniture, fixture, and equipment	Leasehold rights and improvement	Transportation equipment	Total
Cost:						
At January 1	₱ 3,050,465	₱ 1,016,820	₱ 1,891,676	₱ 797,702	₱ 1,195,000	₱ 7,951,663
Acquisitions	-	1,509,102	7,021,255	440,918	700,000	9,671,274
Write off	-	-	(79,165)	-	-	(79,165)
At December 31	3,050,465	2,525,922	8,833,766	1,238,620	1,895,000	17,543,772
Acc. depreciation:						
At January 1	-	373,340	567,383	176,726	252,273	1,369,722
Depreciation	-	131,103	838,573	327,688	520,549	1,817,912
Write off	-	-	(79,165)	-	-	(79,165)
At December 31	-	504,443	1,326,790	504,414	772,822	3,108,469
Carrying values:						
2019	₱ 3,050,465	₱ 2,021,479	₱ 7,506,976	₱ 734,207	₱ 1,122,178	₱ 14,435,303

During the year, the Bank made various acquisitions in IT equipment such as laptops to be used in its operations.

In 2019, the Bank made various acquisitions and leaseholds improvements including two (2) units of transportation equipment to be used in its operations.

Under Section 109 of the MORB 2018, investments in fixed assets should not exceed 50% of the Bank's net worth. As at December 31, 2020, the Bank satisfactorily complied with this requirement having a 42% ratio while in 2019 the Bank did not comply with the requirement having an 84% ratio.

The recorded impairment/disposal related to these properties during the year amounted to ₱nil. Depreciation for the years ending December 31, 2020 and 2019 amounted to ₱3,547,628 and ₱1,817,912, respectively.

8. INVESTMENTS - AMORTIZED COST

This account consists of treasury bonds, the details are shown below:

	2020	2019	Terms; Coupon Rate
Investments - amortized cost	₱ -	₱ 3,000,000	20 Years; 3.625%
Unamortized premium	-	38,183	
	₱ -	₱ 3,038,183	

This account represents Treasury bond placement purchased without recourse by the Bank from Rizal Commercial Banking Corporation (RCBC) with COS Number 12867 on March 21, 2013 at 3.625% coupon rate, with maturity date on March 21, 2033. The interest earned from this treasury bills amounted to ₱107,813 and ₱74,881 for the period ended December 31, 2020 and 2019, respectively.

During the year, the management withdraws the said investment and received interest.

9. REAL AND OTHER PROPERTIES ACQUIRED (ROPA)

This account consists of the following:

	2020	2019
ROPA - Judicial foreclosure	₱ -	₱ -
ROPA - Extrajudicial foreclosure	1,010,234	96,568
Addition	-	913,666
Disposal	-	-
Less: Allowance for probable losses	(1,010,234)	(1,010,234)
Total	₱ -	₱ -

ROPAs are presently valued at their principal balances including charges less allowance for probable losses or the lower of carrying amount, immediately prior to their classification as held for sale and their fair value less cost to sell. Appraisal of properties to determine the final value will be undertaken by the Bank. The fair value based on the appraisal by independent appraisers will be taken up in the books once certain.

In 2019, the balance of ROPA account were reclassified as additional past due loans.

10. DEFERRED TAX ASSETS

The account was arrived at as follows:

			2020
DTA, MCIT (Note 19)		₱	46,233
DTA, NOLCO (Note 19)			22,466,962
DTA, PFRS on leases			50,197
Depreciation	1,586,732		
Interest Expense	117,382		
Lease Payments	(1,849,685)		
Total	(145,572)		
Multiply by RCIT rate	30%		(43,671)
BALANCE, END		₱	**22,519,720**

			2019
DTA, MCIT (Note 19)		₱	29,366
DTA, NOLCO (Note 19)			10,206,705
DTA, PFRS on leases			
Depreciation	2,812,150		
Net effect of Lease Payments and Interest Expense	(861,656)		
Lease Payments	(1,783,172)		
Total	167,322		
Multiply by RCIT rate	30%		50,197
BALANCE, END		₱	10,286,267

The above computation was in accordance with PAS 12, Income Taxes which states that 'deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized'.

11. OTHER RESOURCES

This account consists of the following:

		2020		2019
Unused stationery and supplies	₱	313,467	₱	215,448
Prepaid cash cards		6,723,185		6,763,175
Other asset				
Security deposit		4,694,978		1,514,735
Software license		7,500,000		-
Accounts receivable		244,451		349,909
Software development		553,000		-
Other intangible asset		1,550,000		2,255,052
Inventories		6,360,000		3,252,500
Prepaid expenses		1,762,170		287,040
Sales contract receivable		-		175,000
Total	₱	29,701,252	₱	14,812,859

Prepaid expenses represent prepayments on insurance, maintenance and creditable withholding tax. None of the foregoing assets were used to secure any liability of the Bank. Unused office supplies include unused/unissued cash cards.

Security deposit is mainly for the Makati Office lease, Bancnet membership and UPI membership. Inventories account pertains to for QTPOS and system of the Bank used in its digital operations.

12. DEPOSIT LIABILITIES

This account consists of the following:

		2020		2019
Regular savings deposit	₱	**15,632,537**	₱	22,687,057
Dormant savings deposit		**651,837**		398,601
Certificate time deposit		**4,679,172**		3,192,515
Total	₱	**20,963,546**	₱	26,278,173

The classification of deposit liabilities according to interest rate is presented as follows:

	2020					
	Savings Deposit		Time Deposit		Total	
0.50 - 0.75%	₱	16,284,374	₱	-	₱	16,284,374
1.00 - 1.25%		-		1,442,750		1,442,750
1.50 - 1.75%		-		3,236,422		3,236,422
Total	₱	16,284,374	₱	4,679,172	₱	20,963,546

	2019					
	Savings Deposit		Time Deposit		Total	
0.50 - 0.75%	₱	23,085,658	₱	-	₱	23,085,658
1.00 - 1.25%		-		1,837,345		1,837,345
1.50 - 1.75%		-		1,355,170		1,355,170
Total	₱	23,085,658	₱	3,192,515	₱	26,278,173

Total interest incurred pertaining to deposit liabilities for years 2020 and 2019 amounted to ₱190,381 and ₱153,209, respectively.

13. ACCRUED TAXES, INTEREST and OTHER LIABILITIES

This account consists of the following:

		2020		2019
Accounts payable	₱	4,444,124	₱	3,971,796
Accrued interest expense		6,871		2,890
Accrued other expenses		2,273,067		1,829,841
Withholding tax payable		388,895		120,261
SSS, Philhealth and HDMF payable		117,638		84,405
Income tax payable		7,041		21,329
Total	₱	7,237,636	₱	6,030,520

Accrued taxes, expenses and other liabilities are non-interest bearing payables that are considered to be settled within the year.

14. DEPOSIT FOR STOCK SUBSCRIPTION

In 2019, the Deposit for Stock Subscription (which is under Equity account) amounting to ₱29,299,128 was approved by BSP an only awaiting the final approval by the Securities and Exchange Commission (SEC) on the Bank's increase in capital application.

As at December 31, 2020, the Deposit for Stock Subscription (which is presented under Liability account) amounting to ₱11,750,000 pertains to additional capital infusion made by shareholders. The Bank has already applied with the BSP for conversion of the same to equity, and which application remained pending.

15. EQUITY

The details of the Company's share capital as at December 31, 2020 are as follows

	Common shares	*Preferred shares**
Authorized shares	**900,000**	**100,000**
Par value per share	**P 100.00**	**P 100.00**
Issued and outstanding shares:	**90,000,000**	**10,000,000**

In 2020, the Bank's authorized capital stock amounting to ₱100,000,000 divided into 900,000 common shares and 100,000 preferred shares both with par value of ₱100 each.

The Bank's application for the increase in authorized capital stock was approved by the BSP dated September 30, 2019.

In June 11, 2020, the Bank's application for the increase in authorized capital stock was approved by Securities and Exchange Commission.

Minimum capitalization

The minimum capitalization of rural banks belonging to 1st class municipalities outside the National Capital Region with Head Office Only is ₱20Million. The Binangonan Rural Bank is compliant to this requirement. At present, specifically in 2020, the Bank's net worth amounted to ₱32,742,072.

Qualifying capital

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

The regulatory qualifying capital of the Bank consists of Tier 1 capital, which is the sum of Core Tier 1 capital and allowable amount of Hybrid Tier 1 capital. Core Tier 1 capital consists of paid-up common stock, paid-up perpetual and non-cumulative preferred stock, surplus including current year profit, surplus reserves less required deductions such as unsecured credit accommodations to DOSRI, deferred income tax, and goodwill while Hybrid Tier 1 capital includes perpetual preferred stock and perpetual unsecured subordinated debt. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt and general loan loss provision. In addition, Risk-weighted assets is the aggregate value of assets weighted by credit risk, market risk and operational risk, based on BSP prescribed formula provided under its circulars.

The ratio of combined capital accounts against the risk assets is computed below:

A. Total Qualifying Capital		
Tier 1:		
Paid up Capital	₱	101,398,925
Additional paid in capital		-
Deficit		(68,656,853)
Sub-total		32,742,072
Deduction from core tier 1 capital		
Deferred Tax Assets		(22,519,720)
Total tier 1 capital		10,222,352
Tier 2		
Add: General Loan Loss Provision		8,612
Total qualifying capital	₱	10,230,963

B.1 Credit risk-weighted assets

		Book value	Risk rate		Amount
Cash on hand	P	943,924	0.00%	P	-
Due from BSP		1,170,117	0.00%		-
COCI		10,000	20.00%		2,000
Investments - amortized cost		-	0.00%		-
Loans to hold-out deposits		-	0.00%		-
Loans to ind. for housing purposes, secured		-	0.00%		-
NPL to individual for housing purpose secur		-	100.00%		-
Other assets*		48,349,256	100.00%		48,349,256
NPL except to individual for housing loan, secured		-	150.00%		-
ROPA		-	150.00%		-
Total credit risk-weighted assets				P	48,351,256

*Other assets		
Total assets	P	72,984,405
General loan loss provision		8,612
Items mentioned in risk weighted assets subject to its equivalent risk rate		(2,124,040)
Sub-total		70,868,976
Deferred tax assets		(22,519,720)
Net other assets	P	48,349,256

B.2. Operational risk-weighted assets

		Amount
Gross income:		
2019	P	1,225,998
2018		560,412
2017		343,521
Total		2,129,931
Divided by		3
Average gross income		709,977
Multiplied by capital charge factor		12%
Capital charge		85,197
Multiplied by adjusted capital charge factor		125%
Adjusted capital charge		106,497
Multiplier		10
Total operational risk-weighted assets	P	1,064,966

B.1 Credit risk-weighter assets		48,351,256
B.2 Operational risk-weighter assets		1,064,966
Total risk-weighted assets	P	49,416,222

Risk-Based Capital Adequacy Ratio (Qualifying Capital/Risk-Weighted Assets)	P	10,230,963	20.70%
	P	49,416,222	

The 10% risk-based capital adequacy ratio required by BSP under MORB 2018 Section 127 or Section 22 of RA NO. 337 were satisfactorily complied by the Bank having a ratio of 20.70% as at December 31, 2020.

16. REVENUES

This account consists of the following:

		2020		2019
Interest income on loans and receivables				
Other agricultural credits loans	₱	2,272	₱	15,189
Commercial small-scale enterprises		50,874		80,793
Commercial medium-scale enterprises		9,079		41,449
Interest income on deposits with other banks and other investments		127,914		271,613
Total	₱	190,139	₱	409,044

The above interest income was computed using effective interest method as prescribed by BSP and Philippine Accounting Standards. Interest rate on the loans varies based on the classification of the loans.

17. MISCELLANEOUS INCOME

The account consists of the following:

		2020		2019
Income from intermediation services	₱	5,087	₱	67,603
Miscellaneous income		-		
Transaction fees		12,114		-
Card Issuance		608,045		627,560
Sale of QPOS terminals		470,000		-
Gain from ROPA		-		275,000
Total	₱	1,095,246	₱	970,163

18. OTHER OPERATING EXPENSES

This account consists of

		2020		2019
Management/professional fees	₱	7,115,260	₱	12,381,326
Software license expense		3,538,259		-
Travelling expenses		3,316,505		1,911,507
Information technology expenses		1,940,321		1,052,531
Communication, light and water		1,731,894		1,529,506
Depreciation - Right-of-Use Asset		1,586,732		1,602,965
Insurance		742,198		706,451
System maintenance expense		700,000		-
Rental		370,609		214,496
Director's fee		242,000		132,000
Repairs and maintenance		180,568		53,530
Fines, penalties and other charges		145,800		8,068
Security, messengerial and janitorial		144,000		186,347
Membership fees and dues		143,418		118,008
Representation and entertainment		142,633		228,353
Fuel and lubricants		129,030		147,837
Interest expense		117,382		214,828
Stationery and supplies		56,386		157,877
Provision for probable losses		26,232		-
Documentary stamp tax		17,043		100,000
Advertising and publicity		10,564		11,695
Donations and charitable contributions		200		700
Litigation/assets acquired expenses		-		87,305
Supervision fees		-		2,965
Other expenses				-
Miscellaneous expense		1,094,275		1,215,406
Total	₱	23,491,309	₱	22,063,701

19. TAXATION

The Bank's income tax was arrived at as follows:

REGULAR CORPORATE INCOME TAX (RCIT) at 30%		2020		2019
Net loss for the year	₱	(42,270,642)	₱	(33,144,783)
Add (deduct) reconciling items:				
Income already subjected to tax				
Interest income - deposits with other banks		(127,914)		(271,613)
Non-deductible expenses				
Limit on interest expense		52,765		112,040
Limit on representation expense		142,010		226,978
Non-deductible expense		1,704,114		10,771,960
Provision for doubtful accounts		26,232		-
Fines and penalties		145,800		8,068
Special deductions				
Rental payments		(1,849,685)		(1,783,172)
Taxable income (loss)		(42,177,318)		(24,080,523)
RCIT Rate		30%		30%
Provision for income tax - deferred		(12,653,196)		(7,224,157)
Adjustment to reconcile with provision for income tax - deferred :				
Derecognition of expired deferred tax assets - MCIT		3,530		20,817
Derecognition of expired deferred tax assets - NOLCO		392,938		-
Deferred tax assets - RUA, Interest and lease payments, net		(43,671)		10,386
Total	₱	(12,213,056)	₱	(7,213,725)

The Bank is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax or GRT and documentary stamp taxes.

Income taxes include corporate income tax on net income earned, and final taxes paid at the rate of 20% which is a final withholding tax on gross interest income earned from deposits in banks.

Under current tax regulations, the regular corporate income tax rate was 30% starting January 1, 2009. Interest allowed as a deductible expense is reduced by an equivalent of 33% starting January 1, 2009 of interest subject to final tax.

Current tax regulation also provided for the ceiling on the amount of entertainment and representation (EAR) expense claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as deductible expense for a service bank like Binangonan Rural Bank is limited to the actual EAR paid or incurred but not exceed 1% of net revenue.

The regulation also provide for MCIT of 2% on modified gross income and allow Net Operating Loss Carry-Over (NOLCO). The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception. For the year 2020 and 2019, the Bank paid its income tax based on MCIT (See Note 13).

Deferred tax assets

1/ Net Operating Loss Carry Over (NOLCO)

The details of the Bank's NOLCO which can be claimed as deduction from future taxable income are shown below:

Year incurred	Amount	Applied in previous year	Applied in current year	Expired	Remaining balance	Year of expiration
2017	₱ 1,309,793	₱ -	₱ -	₱ 1,309,793	₱ -	2020
2018	8,632,032	-	-	-	8,632,032	2021
2019	24,080,523	-	-	-	24,080,523	2022
2020	42,177,319	-	-	-	42,177,319	2025
Total	76,199,667	-	-	1,309,793	74,889,874	
At tax rate	₱ 22,859,900	₱ -	₱ -	₱ 392,938	₱ 22,466,962	

Statutory rate at 30%

Pursuant to Section 4 (bbbb) of Bayanihan II and as implemented under RR No. 25-2020, published on October 2, 2020, the net operating loss of a business or enterprise incurred for the taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years following the year of such loss.

2/ Minimum Corporate Income Tax (MCIT)

The details of the Bank's MCIT which can be claimed as deduction from future income tax payable is shown below:

Year incurred	Amount	Applied in previous year	Applied in current year	Expired	Remaining balance	Year of expiration
2017	₱ 3,530	₱ -	₱ -	₱ 3,530	₱ -	2020
2018	4,507	-	-	-	4,507	2021
2019	21,329	-	-	-	21,329	2022
2020	20,397	-	-	-	20,397	2023
	₱ 49,763	₱ -	₱ -	₱ 3,530	₱ 46,233	

** Statutory rate is at 2%*

ADDITIONAL DISCLOSURES in COMPLIANCE with BIR RR NO. 15-2010 and RR 34-2020

In compliance with BIR Revenue Regulations No. 15-2010 (amending certain provisions of Sec. 2 of RR No. 21-2002), which requires addition to the disclosures mandated under the Philippine Financial Reporting Standard, and such other standards and convention, the Notes to Financial Statements shall include information on withholding taxes, taxes and licenses, documentary stamp tax and final taxes paid or accrued during the taxable year. The amount of taxes remitted and paid by the Bank during the year consists of the following:

a) Amount of taxes withheld on compensation and paid during the year amounted to ₱38,625.
b) Amount of expanded withholding taxes paid during the year amounted to ₱1,141,539.
c) Amount of documentary stamp taxes paid amounted to ₱753,415.
d) Amount of final withholding taxes paid on interest expense during the year amounted to ₱38,625.

e) Taxes and licenses account consist of the following:

		2020		2019
Percentage tax	₱	88,733	₱	72,839
Business/mayor's permit		214,128		127,500
Documentary stamp tax		753,415		31,491
BIR registration		500		1,000
Total	₱	1,056,775	₱	232,830

Related party transactions

In compliance with the requirements set forth by BIR Revenue Regulation No. 34-2020 dated December 18, 2020, the Bank prepared the BIR form 1709 to comply with the said requirements and procedures for related party transactions provided under Section 2 (c) of this RR. See attached RPT Form 1709.

20. LEASES

In the ordinary course of business, the Bank had entered into the following lease agreement:

- Lease agreement with Planters Product Inc. for a 171.885 sqm. and 22.1 sqm office space located in PPI Bldg 109 Esteban St. Legaspi Village, Makati used as a bank satellite office. Terms of the lease shall be three (3) and two (2) years commencing on February 20, 2018 and February 20, 2019 with a monthly rental of ₱128,914 and 16,575 payable within the twenty first (21st) day of the month and will expire on February 19, 2021. The lessee shall have the option to renew the contracts.

Details of lease liabilities are presented as follows:

January 1, 2020	₱	2,072,901
Additional lease		-
Discount on lease		(49,445)
Lease payments		(1,849,685)
Less: Finance charges		117,382
December 31, 2020	₱	**291,152**

The Bank has leases for various office and parking spaces. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Bank is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings premises the Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

The table below describes the nature of the Bank's leasing activities by type of right-of-use asset recognized on statement of financial position:

Right-of-use asset	No of right-of-use assets leased	Remaining Term (in months)	With extension options?	With options to purchase?	With variable payments linked to an	With termination options?
Office space	1	14	YES	NO	NO	YES
Office space	2	14	YES	NO	NO	YES

Details of Right-of-use asset are presented as follows:

		2020
Right-of-use Asset, January 1, 2020	₱	4,717,729
Discount		(49,445)
Right-of-use Asset, December 31, 2020	₱	4,668,284
Accumulated depreciation		
At January 1, 2020	₱	2,812,150
Depreciation		1,586,732
December 31, 2020	₱	4,398,882
Carrying values	**₱**	**269,402**

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at December 31, 2020 were as follows:

		Within 1 year		> 1 year		Total
December 31, 2020						
Lease payments	₱	275,501	₱	33,150	₱	**308,651**
Less: Finance charges		(15,622)		(1,876)		**(17,498)**
Net present values	**₱**	**259,879**	**₱**	**31,274**	**₱**	**291,152**

21. SELECTED FINANCIAL PERFORMANCE INDICATORS

The Banks' financial performance indicators are presented as follows:

	2020	2019	Increase (Decrease)	Percentage
Total revenues	₱ 1,285,385	P 1,379,207	₱ (93,822)	-7%
Total expenses	(43,556,027)	(34,523,990)	(9,032,037)	26%
Income tax benefits (expenses)	12,213,056	7,213,725	4,999,331	0%
Net loss for the year	(30,057,586)	(25,931,058)	(4,126,528)	19%
Net loss per share	₱ (30.06)	P (103.72)	P 73.67	-71%
Working capital	P 18,895,194	P 13,527,057	P 5,368,137	40%
Shareholders' equity				
Paid up capital	P 100,000,000	₱ 25,000,000	P 75,000,000	300%
Additional paid up	1,398,925	1,398,925	-	0%
Deposit for future subscription	-	29,299,128	(29,299,128)	0%
Surplus reserves	1,000	1,000	-	0%
(Deficit)	(68,657,853)	(38,604,926)	(30,052,927)	78%
Total	₱ 32,742,072	P 17,094,127	P 15,647,945	378%
Shareholders' Equity Ratio	₱ 0.45	P 0.33	₱ 0.12	36%
Amount of shareholders' equity per peso of total liabilities	₱ 0.81	P 0.50	₱ 0.31	63%

i. Other required ratios:

	2020		2019		Increase (Decrease)	Percentage
Current ratio	₱	1.24	₱	0.61	63%	104%
Acid test ratio	₱	0.24	₱	0.22	2%	8%
Return on average equity	₱	(1.21)	₱	(1.52)	31%	-21%
Return on average assets	₱	(0.48)	₱	(0.50)	2%	-4%
Net interest margin	₱	(0.00)	₱	0.01	-1%	-100%
Book value per share	₱	32.74	₱	68.38	-3563%	-52%
Aggregate amount of assets pledged as securities	₱	-	₱	-		
Aggregate amount of liabilities pledged as securities	₱	-	₱	-		

ii. Aggregate amount of secured liabilities and assets pledged as security.

The Bank has no secured liabilities and assets that was pledged as security.

iii. Nature and amount of contingencies and commitment arising from off-balance sheet items (include late deposit/payment received, items held for safekeeping/custody, items held as collateral, deficiency claims receivable and other contingent account).

The Bank has nothing to report.

Minimum Liquidity Ratio

To promote short-term resilience to liquidity shocks, banks shall maintain a stock of liquid assets proportionate to their on- and off-balance sheet liabilities.

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

Pursuant to Monetary Board Resolution No. 427.B dated 26 March 2020, the minimum liquidity ratio (MLR) for stand-alone thrift banks, rural banks and cooperative banks, as set out in Section 145 of the Manual of Regulations for Banks, is hereby reduced from 20 percent (20%) to 16 percent (16%) in response to the COVID-19 and is extended for an additional one year based on BSP Memorandum No. M-2020-085.

The liquidity ratio is expressed as a percentage of a bank's eligible stock of liquid assets to its total qualifying liabilities.

		2 0 2 0
Minimum Liquidity Ratio (MLR)		
A. Total stock of liquid assets	₱	6,278,897
B. Total of qualifying liabilities		40,242,334
MLR		0.16

Leverage Ratio

			2 0 2 0		2019	
Leverage Ratio	=	Tier 1 Capital / Total Assets Exposure	10,221,352 / 50,464,685	= 20%	6,807,860 / 41,189,454	= 17%
Debt to Equity Ratio	=	Total Debt / Shareholders' Equity	40,242,334 / 32,749,942	= 1.23	34,381,594 / 17,094,127	= 2.01
Debt to Capital Ratio	=	Total Debt / Total Capital (Tier 1 + Tier 2)	40,242,334 / 10,229,964	= 3.93	34,381,594 / 6,816,472	= 5.04

Reserve Requirement

The BSP Circular 1092 states the required reserves against deposit and deposit substitutes liabilities. The statutory/legal reserve requirements of peso deposit liabilities and deposit substitutes for Rural Banks on savings and time deposits is 2% effective July 31, 2020.

The Bank has satisfactory complied with the required reserves as shown below:

				2 0 2 0
Reserve Requirements				
A. Total Available Reserves, Due from BSP			₱	1,170,117
B. Required Reserve, Legal Reserves (3% x deposit liabilties)				
Total deposit liabilities	₱	20,963,546		
Multiply by:		2%		419,271
Excess			₱	750,846

22. RELATED PARTY TRANSACTIONS

During the year 2020, the Bank does not have outstanding loan balance for transactions involving certain directors, officers, stockholders and related interest (DOSRI).

In the ordinary course of business, the Bank has no loan transactions with certain directors, officers, stockholders and related interest (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70% of which must be secured, to their respective deposits. In the aggregate, loans to DOSRI, generally must not exceed the respective total capital funds or 15% of the total loan portfolio, whichever is lower, of the Bank.

Any violation of the provision of BSP Circular 423 is subject to regulatory sanctions, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular shall not be covered by such sanctions and in addition to such exception, unsecured amount shall not be deducted from the capital accounts (for regulatory purposes) for a period of two years from the effectivity of said circular, until said loan, other credit accommodations, and guarantees become past due, or extended, renewed, or restricted, whichever comes later. Total amount of DOSRI for the year 2020 and 2019 is nil.

The gross compensation of the key management personnel for the year amounted to P8,866,578. While director's fee for the year amounted to P242,000.

Total professional fee paid to key management personnel for the year amounted to ₱7,115,260.

23. EARNINGS AND BOOK VALUE PER SHARE

Earnings and book value per share were computed as follows:

Earnings per share		2020		2019
Net loss	₱	(30,057,586)	₱	(25,931,058)
Divided by shares issued and outstandiing		1,000,000		250,000
Earnings (loss) per share	₱	(30.06)	₱	(103.72)
Book value per share		**2020**		**2019**
Share capital	₱	100,000,000	₱	25,000,000
Additional paid up capital		1,398,925		1,398,925
Deposit for stock subscripition		-		29,299,128
Surplus reserve		1,000		1,000
Deficit		(68,657,853)		(38,604,926)
Total shareholders' equity		32,742,072		17,094,127
Divided by shares issued and outstandiing		1,000,000		250,000
Book value per share	₱	32.74	₱	68.38

24. OTHER SUPPLEMENTAL INFORMATION

In addition to the disclosures mandated under PFRS and such other standards and/or conventions as may heretofore be adopted, hereunder are the information on sales, cost of sales, non-operating and other taxable income, and itemized deductions (if optional standard deduction was not availed) during the taxable year.

		Taxable
REVENUES		
Sales of Services (Interest/discount earned)	₱	62,225
COST OF SERVICES		
Direct Charges - Others	₱	137,616
OTHER TAXABLE INCOME		
Miscellaneous Income	₱	1,095,246

ALLOWABLE ITEMIZED DEDUCTIONS	EXEMPT	SPECIAL RATE	TAXABLE REGULAR RATE
Advertising and promotions	₱	₱	₱ 10,564
Communication, light and water			1,731,894
Depreciation			3,547,628
Director's fee			242,000
Fuel and oil			129,030
Insurance			742,198
Janitorial and messengerial services			144,000
Miscellaneous			5,332,734
Office supplies			73,429
Professional fees			7,115,260
Rental			2,220,294
Repairs and maintenance - materials			180,568
Representation and entertainment			622
Salaries and allowance			14,654,398
SSS,PHIC and HDMF Contributions			615,535
Taxes and licenses			1,056,775
Transportation and travel			3,316,505
Others:			
Membership fees and dues			143,418
Information technology expense			1,940,321
Total			₱ 43,197,173

Information on the Bank's taxes and licenses are disclosed in Note 19.

25. SUPPLEMENTAL INFORMATION REQUIRED BY SEC

In compliance with SEC Bulletin No. 16 on January 24, 2013, a separate sheet attachment is provided containing the lists of standards and interpretations under the PFRS which the Bank had adopted, not adopted or not applicable as set forth in the aforementioned bulletin.

26. SUPPLEMENTAL INFORMATION REQUIRED BY BSP

In compliance with MORB 2018 Section 174 - Financial Audit and Appendix 55 of BSP Circular No. 1074 series of 2020 the reports submitted to BSP which is composed of the following: (1) a certification by the external auditor on the compliance with the following: (a) Confidentiality clause pertinent to read-only access to the Report of Examination; and (b) Disclosure requirements under Section L74 and other information that may be required; (2) Reconciliation statement, including copies of adjusting entries on the reconciling items, between the AFS and the prudential reports.

27. SUBSEQUENT EVENTS

1. The Bank and Ausphil (majority shareholder) and CannaOne Technologies Inc. ("CTI") executed a Memorandum of Understanding on 22nd February 2021 wherein CTI will acquire 51% of the outstanding shares of the Bank.

2. The Bank, its shareholders and Antonio L. Tiu, along with a group of his owned and affiliated group of Corporations ("the ALT group"), executed a Memorandum of Understanding on 23rd March 2021 wherein the ALT group will acquire 49% of the outstanding shares of the Bank.

3. Greenergy Holdings Inc. has agreements in place to provide financial accounts that include farmers, citizens of local government units and various group membership programs / activities with the potential to cover up to 30 million individuals that will utilize the bank's technical and compliance strength. As a part of the ALT Group this will be beneficial for the bank.

28. DISCLOSURE ON THE IMPACT OF CREATE LAW IN THE FINANCIAL STATEMENTS

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.

Under Section 6 (A) of the CREATE Law, an income tax rate of 25% effective July 1, 2020, is hereby imposed upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation, as defined in Section 22 (B) of this Code and taxable under this Title as corporation, organized in, or existing under the laws of the Philippines. Provided, that corporations with net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million, excluding land on which the particular business entity's office, plant and equipment are situated during the taxable year for which the tax is imposed, shall be taxed at 20%.

Moreover, pursuant to Section 6 (E) of the CREATE Law, the minimum corporate income tax (MCIT) is lowered from 2% to 1% effective July 2020 until June 30, 2023.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07 dated January 29, 2021, the CREATE 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 Law 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 Law, the Company would have been subjected to lower minimum corporate income tax rate of 1% effective July 1, 2020.

This will result in lower income tax payable before application of tax credits as of December 31, 2020 amounting to ₱15,298 or a reduction of ₱5,099. The reduced amounts which will be reflected in the Company's 2020 annual income tax return but will only be recognized for financial reporting purposes in its 2021 financial statements.

Also, this will result in lower deferred tax assets as of December 31, 2020 and provision for deferred tax for the year then ended by ₱2,097,530, and ₱2,092,431, respectively. These reductions will be recognized in the 2021 financial statements.

The following is the expected impact of CREATE Law in the Company's financial statements:

	Old Tax Rate (a)	New Tax Rate (b)	Changes (c = b - a)
Total assets	₱ 72,984,405	₱ 70,886,875	₱ (2,097,530)
Deferred tax assets			
NOLCO	22,466,962	20,367,253	(2,099,710)
MCIT	46,233	41,134	(5,099)
RUA	6,525	13,804	7,279
Total liabilities	40,242,334	40,237,235	(5,099)
Income tax payable	7,041	1,941	(5,099)
Total equity	32,742,072	30,649,641	(2,092,431)
Net loss	(30,057,586)	(32,150,017)	(2,092,431)
Provision for income tax			
Deferred	(12,213,056)	(10,120,625)	2,092,431

29. EVENTS AFTER THE REPORTING DATE

As a continuous measure to contain the COVID-19 pandemic and the sudden surge of COVID-19 active cases, on March 18, 2021, the Office of the President of the Philippines issued a memorandum directive to impose Enhanced Community Quarantine (ECQ) in the entire NCR Plus (or Greater Manila Area which includes the Metro Manila and surrounding provinces of Cavite, Laguna, Bulacan and Rizal) starting March 22, 2021 until April 4, 2021. Subsequently, the ECQ was further extended until April 11, 2021. On April 11, 2021, the Philippine Government announced that the whole NCR Plus will be under Modified Enhanced Community Quarantine (MECQ) from April 12 to April 30, 2021.

The Company considers the measure taken by the government as a non-adjusting event, which does not have an impact on its financial position and performance as of and for the year ended December 31, 2020. However, it could have a material impact on its 2021 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows. The Company will continue to monitor the situation.

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

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VELASCO, PUNZALAN and COMPANY
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PRC/BOA Cert. of Reg. No. 3390 | SEC Accreditation No. 0385-F | BSP Accredited | CDA Accreditation No. 0019-AF

Statement Required by Rule 68, Part 1, Section 3.f.,
Securities Regulation Code (SRC), as amended on August 19, 2019

To the Shareholders and Board of Directors
BINANGONAN RURAL BANK, INC.
135 Baltazar Street, Layunan
Binangonan, Rizal

We have audited the accompanying financial statements of **BINANGONAN RURAL BANK, INC.** for the years ended December 31, 2020 and 2019, on which we have rendered the attached report dated April 15, 2021.

In compliance with SRC Rule 68, we are stating that the said Bank has a total number of thirteen (13) shareholders owning one hundred (100) or more shares.

Velasco, Punzalan & Co., CPAs
For the Firm:

Nestor C. Velasco
Partner
CPA Cert. No. 078924
Expiry date: October 8, 2021
TIN 110-157-770
PTR No. 0008705 dated January 6, 2021
Issued at Makati City
BOA Accreditation No. 3390
Expiry date: January 10, 2024
SEC Accreditation No. 1783-A
Expiry date: September 26, 2022
BIR Accreditation No. 08-004563-001-2021
Expiry date: March 3, 2024
BSP Accreditation No. 78924-BSP
Expiry date: September 10, 2024

April 15, 2021