

RURAL BANK OF GUINOBATAN, INC.
GUINOBATAN, ALBAY – PHILIPPINES

FINANCIAL STATEMENTS
DECEMBER 31, 2019
(With Comparative Figures for 2018)

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RURAL BANK OF GUINOBATAN, INC.

SINCE 1964

Mabini Street, Guinobatan, Albay 4503 * (052) 484-6439; 484-6510


STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

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

In this regard, the Management affirms that the attached audited financial statements for the years ended December 31, 2019 and 2018, and the accompanying Annual Income Tax Return are in accordance with the books and records of RURAL BANK OF GUINOBATAN, INC., complete and correct in all material respects. Management likewise affirms that:

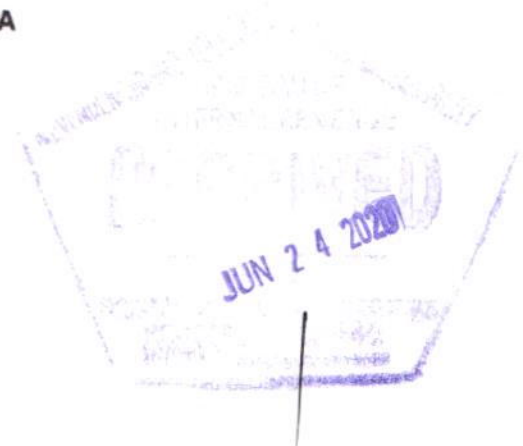
- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Bank's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (c) RURAL BANK OF GUINOBATAN, INC. has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.


ATTY. ARMI L. BALLARAN-RABELAS
Chairman of the Board


PAULO R. HONRADO
President


JOSELINE M. PALENCIA
Treasurer

Signed this 18th day of June 2020





RURAL BANK OF GUINOBATAN, INC.

SINCE 1964 Mabini Street, Guinobatan, Albay 4503 * (052) 484-6439; 484-6510

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

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

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

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

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

Alas, Oplas & Co., CPAs and **A.R. Sayson & Associates, CPAs**, the independent auditors appointed by the stockholders for the years ended December 31, 2019 and 2018, respectively, have audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

ATTY. ARMI L. BALLARAN-RABELAS
Chairman of the Board

PAULO R. HONRADO
President

MARY JOY P. LOZA
Head, Controllership dept.



Signed this 18th day of June 2020

Alas Oplas & Co., CPAs

8/F Richmond Plaza, San Miguel Avenue
corner Lourdes Drive, Ortigas Center,
Pasig City Philippines 1605
Phone No.: (02) 8535-5029
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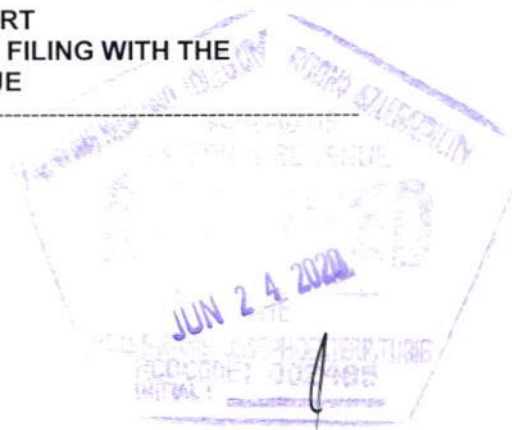
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Independent Member of

BKR International

INDEPENDENT AUDITORS' REPORT TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE BUREAU OF INTERNAL REVENUE

To the Stockholders and the Board of Directors
RURAL BANK OF GUINOBATAN, INC.
JMH Building, Mabini St.
Poblacion, Guinobatan, Albay



We have examined the financial statements of **RURAL BANK OF GUINOBATAN, INC.** for the year ended December 31, 2019 on which we have rendered the attached report dated June 18, 2020.

In compliance with Revenue Regulation V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of Bank.

ALAS, OPLAS & CO., CPAs

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

By:

DANILO T. ALAS

Partner

CPA License No. 0027120

SEC A.N. (Individual) 1529-AR-1, issued on February 7, 2019; effective until February 6, 2022

TIN 132-466-021-000

BIR A.N. 08-001026-001-2018, issued on January 25, 2018; effective until January 24, 2021

PTR No. 8117109, issued on January 2, 2020, Makati City

June 18, 2020
Makati City, Philippines

Alas Oplas & Co., CPAs

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INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
RURAL BANK OF GUINOBATAN, INC.
JMH Building, Mabini St.
Poblacion, Guinobatan, Albay

Independent Member of
BKR International

Qualified Opinion

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

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

Basis for Qualified Opinion

As disclosed in Note 3 to the financial statements, the Bank did not adopt PFRS 9, *Financial Instruments*, which provides new guidelines in the classification and measurement of financial instruments and introduces a forward-looking expected credit loss (ECL) model on impairment of debt financial assets not classified as at fair value through profit or loss and loan commitments and financial guarantee contracts. For 2019, the Bank retained the requirements based on PAS 39, *Financial Instruments: Recognition and Measurement* and as a result, any adjustments related to deferred taxes, allowance for credit losses and equity as at January 1 and December 31, 2019 and surplus free as at January 1, 2019 cannot be quantified due to certain limitations.

Also, as discussed in Note 3 to the financial statements, the Bank did not adopt PFRS 16, *Leases*, which is effective starting January 1, 2019 and still continued to apply PAS 17, *Leases* in accounting for its lease transactions. The new standard introduces a single lessee accounting model that requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases, unless the underlying asset is of low value and the lease is short-term. Had the Bank adopted the provisions of the new standard, ₱2,312,239 and ₱2,427,119 would have been recognized for the right-of use assets and lease liabilities, respectively, as of December 31, 2019. Total equity and profit would have decreased by ₱80,416 as of and for the year ended December 31, 2019, respectively.

Also, as discussed in Note 4 to the financial statements, the Bank recognizes retirement benefit obligation using the accrual approach. Under this approach, the accrued monthly benefit that will be recognized is equivalent to a percentage of monthly basic compensation fixed by the Board of Directors.

Under PAS 19R, *Employee Benefits*, retirement benefit obligations shall be recognized using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods. This method also involves making estimates about demographic and financial variables (actuarial assumptions), and discounting the benefit in order to determine the present value of the defined benefit obligation and the related service costs, both of which were not considered in the approach adopted by the Bank. The effect of the difference in the methods in recognizing retirement benefit obligations has not been determined due to certain limitations.

Alas Oplas & Co., CPAs

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Alas Oplas & Co., CPAs

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

Other Matter

The financial statements of the Bank as of December 31, 2018 were audited by another auditor whose report dated April 16, 2019 expressed an unqualified opinion on those statements.

As part of our audit of the December 31, 2019 financial statements, we also audited the reclassification and restatement of comparative amounts described in Notes 26 and 27 to the financial statements, respectively, that were applied to amend the December 31, 2018 financial statements. In our opinion, such reclassifications and restatements are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the December 31, 2018 financial statements of the Bank other than with respect to the reclassifications and restatements and, accordingly, we do not express an opinion or any other form of assurance on the December 31, 2018 financial statements.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary Information required under BSP Circular No. 1074 in Note 34, and Revenue Regulations Nos. 15-2010 and 19-2011 on taxes, duties and license fees paid or accrued during the taxable year, taxable income, and deductions in Notes 32 and 33 to the financial statements, are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of **RURAL BANK OF GUINOBATAN, INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ALAS, OPLAS & CO., CPAs

BOA Registration No. 0190, valid from September 4, 2019 to October 30, 2022

SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022

TIN 002-013-406-000

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By:



DANILO T. ALAS

Partner

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PTR No. 8117109, issued on January 2, 2020, Makati City

RURAL BANK OF GUINOBATAN, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019
(With Comparative Figures for 2018)
In Philippine Peso



	Notes	2019	2018 As restated
ASSETS			
Cash and other cash items	8	11,184,723	11,460,839
Due from Bangko Sentral ng Pilipinas	8	68,651,792	11,877,930
Due from other banks	8	167,905,929	73,360,476
Held-to-maturity financial assets	9	35,866,881	35,866,881
Loans receivables – net	10	488,008,961	438,072,637
Bank premises, furniture, fixtures and equipment – net	11	36,963,063	25,221,453
Assets held for sale – net	12	1,272,637	8,276,147
Deferred tax assets	23	856,414	–
Other assets	13	7,093,845	6,230,536
TOTAL ASSETS		817,804,245	610,366,899
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	14	422,631,515	360,587,221
Bills payable	15	217,194,657	116,333,284
Accrued taxes, interest and other expenses	16	8,191,606	5,870,722
Income tax payable		4,702,289	2,397,448
Retirement benefit obligation	17	3,929,717	2,858,452
Other liabilities	18	43,727,155	22,365,170
Total Liabilities		700,376,939	510,412,297
Equity			
Capital stock – common	19	95,429,800	69,429,800
Surplus reserves	20	1,000	1,000
Surplus free	20	21,996,506	30,523,802
Total Equity		117,427,306	99,954,602
TOTAL LIABILITIES AND EQUITY		817,804,245	610,366,899

See Notes to Financial Statements.



RURAL BANK OF GUINOBATAN, INC.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures for 2018)
In Philippine Peso

	Notes	2019	2018 As restated
INTEREST INCOME			
Loans receivables	10	101,724,641	91,299,406
Due from other banks	8	314,758	294,128
Held-to-maturity financial assets	9	1,175,837	916,946
		103,215,236	92,510,480
INTEREST EXPENSE			
Deposit liabilities	14	(6,090,454)	(5,185,385)
Bills payable	15	(5,483,060)	(3,920,232)
		(11,573,514)	(9,105,617)
NET INTEREST INCOME		91,641,722	83,404,863
OTHER OPERATING INCOME	21	30,395,601	26,798,331
TOTAL OPERATING INCOME		122,037,323	110,203,194
OPERATING EXPENSES	22	(86,757,931)	(79,604,007)
NET OPERATING INCOME BEFORE PROVISIONS		35,279,392	30,599,187
PROVISION FOR CREDIT LOSSES	10	(6,405,803)	(7,558,286)
PROFIT BEFORE TAX		28,873,589	23,040,901
INCOME TAX EXPENSE	23	(8,400,885)	(4,830,799)
PROFIT		20,472,704	18,210,102
OTHER COMPREHENSIVE INCOME		—	—
TOTAL COMPREHENSIVE INCOME		20,472,704	18,210,102

See Notes to Financial Statements.



RURAL BANK OF GUINOBATAN, INC.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures for 2018)
In Philippine Peso

	Common Stock (Note 19)	Surplus Reserves (Note 20)	Surplus Free (Note 20)	Total
Balance at December 31, 2017	67,500,000	1,000	14,267,064	81,768,064
Transaction with owners				
Issuance of common stock	1,929,800	-	-	1,929,800
Cash dividends declared (Note 20)	-	-	(2,000,000)	(2,000,000)
Total	1,929,800	-	(2,000,000)	(70,200)
Profit, as previously reported	-	-	18,135,321	18,135,321
Prior period error (Note 27)	-	-	74,781	74,781
Profit, as restated	-	-	18,210,102	18,210,102
Adjustments	-	-	46,636	46,636
Balance at December 31, 2018, as restated	69,429,800	1,000	30,523,802	99,954,602
Transaction with owners				
Stock dividends declared (Note 20)	26,000,000	-	(26,000,000)	-
Cash dividends declared (Note 20)	-	-	(3,000,000)	(3,000,000)
Total	26,000,000	-	(29,000,000)	(3,000,000)
Profit	-	-	20,472,704	20,472,704
Balance at December 31, 2019	95,429,800	1,000	21,996,506	117,427,306

See Notes to Financial Statements.

RURAL BANK OF GUINOBATAN, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures for 2018)
In Philippine Peso

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		28,873,589	23,040,901
Adjustments for:			
Provision for credit losses	10	6,405,803	7,555,286
Depreciation	22	6,078,429	7,553,388
Interest income on bank deposits and investments	8,9	(1,490,595)	(1,211,074)
Retirement benefit expense	17	1,071,265	505,289
Gain on sale of non-financial assets	21	(581,231)	(361,649)
Operating income before working capital changes		40,357,260	37,082,141
Decrease (increase) in operating assets:			
Loans and other receivables		(56,342,127)	(163,266,025)
Other assets		(1,576,965)	517,029
Increase in operating liabilities:			
Deposit liabilities		62,044,294	44,674,280
Accrued taxes, interest and other expenses		2,320,884	2,731,799
Other liabilities		21,357,984	15,533,242
Cash generated from (used in) operations		68,161,330	(62,727,534)
Income tax paid		(6,601,303)	(2,378,749)
Interest received	8,9	1,490,595	1,211,074
Net cash generated from (used in) operating activities		63,050,622	(63,895,209)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of bank premises, furniture, fixtures and equipment	11	(17,850,316)	(11,920,846)
Proceeds from disposal of assets held for sale	12	7,914,125	1,370,478
Proceeds from sale of bank premises, furniture, fixtures and equipment	11	63,393	—
Proceeds from redemption of held-to-maturity financial assets	9	—	23,000,000
Acquisition of held-to-maturity financial assets	9	—	(17,866,881)
Net cash used in investing activities		(9,872,798)	(5,417,249)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bills payable	15	218,951,803	121,226,986
Payments of bills payable	15	(118,090,430)	(47,825,871)
Dividends paid	18	(2,995,998)	(2,000,000)
Proceeds from issuance of share capital	19	—	1,929,800
Net cash generated from financing activities		97,865,375	73,330,915
NET INCREASE IN CASH AND CASH EQUIVALENTS		151,043,199	4,018,457
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		11,460,839	6,601,371
Due from Bangko Sentral ng Pilipinas		11,877,930	10,410,079
Due from other banks		73,360,476	75,669,338
		96,699,245	92,680,788
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		11,184,723	11,460,839
Due from Bangko Sentral ng Pilipinas		68,651,792	11,877,930
Due from other banks		167,905,929	73,360,476
	8	247,742,444	96,699,245

See Notes to Financial Statements.

JUN 24 2020

1. CORPORATE INFORMATION

RURAL BANK OF GUINOBATAN, INC. (the "Bank") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 25, 1964 with Registration No. 24827.

The Bank was formed to carry and engage in the business of extending rural credits to small farmers and tenants and to deserving rural industries or enterprises; to sell, solicit or market insurance products and services as an insurance agent especially for microinsurance products issued by life and non-life insurance companies, authorized by the Insurance Commission, in accordance with Bangko Sentral ng Pilipinas (BSP) rules and regulations; to have and exercise all authorities and powers; to do and perform all acts; to transact all business which may legally be had or done by rural banks organized under and in accordance 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 purposes within such territory, as may be determined by the Monetary Board of the BSP.

The Bank's product and services are traditional deposits such as regular and special savings deposits. The Bank also offers various types of loans such as commercial, agricultural, and various consumer loans and microfinance loans.

The Bank's registered office address and principal place of business is located at JMH Building, Mabini St., Poblacion, Guinobatan, Albay. The Bank is domiciled in the Philippines.

In addition to its Main Branch, the Bank currently has four (4) branches, two (2) micro-banking offices (MBOs) and five (5) branch-lite units (BLUs) located as follows:

Offices	Address
Castilla Branch	Sampaguita Street, Cumadcad, Castilla, Sorsogon
Gubat Branch	Ferreras Bldg., Manook St., Pinontingan (Pob.), Gubat, Sorsogon
Ligao Branch	Ground Flr., Open Heaven, San Jose St., Dunao, City of Ligao, Albay
Tiwi Branch	Purok 8-A, Tigbi (Pob.), Tiwi, Albay
Bacacay MBO	#6 Mora St., Barangay 13 (Pob.), Bacacay, Albay
Tabaco MBO	Bocalbos St., Basud (Pob.), City of Tabaco, Albay
Daraga BLU	Ground Flr., Manzhing Bldg, Arboleda St., Ilawod Area Pob. (Dist. 2), Daraga, Albay
Gubat BLU	2nd Flr., GMEMCO Bldg., Manook St., Pinontingan (Pob.), Gubat, Sorsogon
Guinobatan BLU	3rd Flr., JMH Building, Mabini Street, Poblacion, Guinobatan, Albay
Irosin BLU	J.P. Corner C.M. Recto St., San Julian (Pob.), Irosin, Sorsogon
Legazpi BLU	3rd Flr., Tyler Bldg., Brgy. 17, Rizal Street, Ilawod (Pob.), Legazpi, Albay

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.01 Statement of Compliance

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

PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC, except for the requirements of the following standards:

- PFRS 9 Financial Instruments – For classification and measurement, the Bank retained the requirements set under PAS 39, Financial Instruments: Recognition and Measurement while for impairment, the Bank adopted Appendix 15 of Manual of Regulations for Banks (MORB) that provides arbitrary rates for provisioning based on number of days past due, collaterals, and type of loan, which are inconsistent with the requirements of the new standard
- PFRS 16 Leases – The Bank has not yet adopted the provisions of PFRS 16 and continues to apply PAS 17 in accounting for its lease transactions.

- c. PAS 19R Employee Benefits – The Bank has not adopted the provisions of PAS 19R for the current reporting period and continues to measure and accrue the retirement benefit obligation based on Republic Act No. 7641, otherwise known as *The Philippine Retirement Pay Law*.

2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except where a Financial Reporting Standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements.

2.03 Presentation and Functional Currency

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

2.04 Use of Judgments and Estimates

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

Judgments are made by management in the development, selection and disclosure of the Bank's significant accounting policies and estimates and the application of these policies and estimates.

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

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

2.05 Going Concern Assumption

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

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

3.01 New and Amended Standards, and Philippine Interpretation Adopted

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

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

New Standard Adopted by the Bank

Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments

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

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

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

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

Amendments Adopted by the Bank

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

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

Annual Improvements to PFRS 2015 to 2017 Cycle

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

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

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

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

PAS 23, Borrowing Costs - Borrowing Costs Eligible for Capitalization

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

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

3.02 New Standard already Effective but not yet Adopted

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

PFRS 16, Leases

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

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

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

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

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

	December 31, 2019	January 1, 2019
Right-of-use assets	P 2,312,239	P 3,995,878
Lease liabilities:		
Current	P 920,758	P 1,568,759
Non-current	1,506,361	2,427,119
	P 2,427,119	P 3,995,878

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

	2019
Depreciation expense	P 1,683,639
Interest expense	227,476
	P 1,911,115

The reconciliation of operating lease commitments as at December 31, 2018 discounted using the incremental borrowing rate as at January 1, 2019 and the lease liabilities not recognized as at January 1, 2019 follows:

Operating lease commitments as at December 31, 2018 as disclosed under PAS 17	P 4,569,391
Discounted using the incremental borrowing rate at January 1, 2019	(573,513)
Lease liabilities not recognized as at January 1, 2019	P 3,995,878

PFRS 9, Financial Instruments

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

Classification and measurement of financial assets and financial liabilities

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

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

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

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

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

As of December 31, 2019, the Bank continued to classify its financial assets based on the classification and measurement requirements per PAS 39. All financial assets that were classified as loans and receivables and measured as amortized cost under PAS 39 continue to be carried at amortized cost. The Bank is still assessing the impact of adopting PFRS 9.

Impairment methodology

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

As of December 31, 2019, the Bank continued to apply the requirements on impairment methodology based on Appendix 15 of the MORB, which provides arbitrary rates based on days past due, collaterals, and type of loan. The Bank is still assessing the impact of adopting PFRS 9 on its debt investment securities.

Hedge accounting

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

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

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

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

3.03 Standards Issued but not yet Effective

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

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

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

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

Amendments to PFRS 3 – Definition of a Business

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

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

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

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

Deferred Effectivity

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.01 Financial Assets

The Bank recognizes financial assets when the Bank becomes a party to the contractual provision of the financial instruments.

4.01.01 Classification of Financial Assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets, held-to-maturity (HTM) financial assets and 'loans and receivables'. The classification depends on the nature and purpose for which the financial assets were acquired and is determined at the time of initial recognition.

As of December 31, 2019 and 2018, the Bank has not designated any financial asset as at FVTPL or AFS financial assets.

- **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank's loans and receivables comprise cash and other cash items, due from BSP, due from other banks, loans and other receivables, and other financial assets such as petty cash fund and other investments in the statement of financial position.

a) Cash and Cash Equivalents

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

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

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

b) Loans and Other Receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes loans receivable and sales contract receivable.

Loans receivable

Loans and receivable are recognized when cash is advanced to the borrowers. These are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, 'Loans receivables' are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in statement of comprehensive income.

Unamortized discount is amortized using the effective interest method of amortization and any unamortized loan discount is deducted from the outstanding balance to arrive at the amortized cost of the account. Interest income on non-discounted loans is accrued monthly as earned, except in the case of non-accruing loans.

Loans are classified as non-accruing when the principal becomes past due, or when, in the opinion of management, collection of interest and principal is already doubtful. Interest income on these loans is recognized only to the extent of actual collections. Loans are not classified as accruing until interest and principal payments are brought to current status or the loan is restructured in accordance with existing BSP regulations and future collections appear assured.

Provision for credit losses is the estimated amount of losses in the Bank's loan portfolio, based on evaluation of the estimated future cash flows discounted at loan's original effective interest rate or the last re-pricing rate for loans issued at variable rates. It is established through an allowance account which is charged to expense. Loans and discount are written off against the allowance for credit losses when management believes that the collectability of the principal is unlikely, subject to BSP regulations.

c) *Other Assets*

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

- **Held-to-maturity (HTM) financial assets**

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

After initial measurement, these financial assets are subsequently measured at amortized cost. Gains and losses are recognized in income when the HTM financial assets are derecognized and impaired, as well as through the amortization process. Impairment loss, which is the difference between the carrying value and the present value of estimated cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. The losses arising from the impairment of such investments are recognized in statement of comprehensive income.

4.01.02 Offsetting Financial Instruments

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

4.01.03 Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis.

4.01.04 Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event), the estimated future cash flows of the financial asset that can be reliably estimated have been affected by such loss event.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

- Assets carried at amortized cost

For certain categories of financial asset, such as loans and other receivables and held-to-maturity financial assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan receivables, where the carrying amount is reduced through the use of an allowance account. When a loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in statement of comprehensive income.

4.01.05 Derecognition

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

4.02 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment (BPFPE) are measured at cost less any accumulated depreciation and impairment losses. Cost consists of purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

Subsequent expenditures relating to an item of bank premises, furniture, fixtures and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Bank. The carrying amount of replaced parts is derecognized. All other subsequent expenditures are recognized as expense in the period in which those are incurred.

Depreciation is computed on the straight-line method based on the estimated useful lives of the assets as follows:

Building	–	1 – 25 years
Furniture, fixtures and equipment	–	1 – 10 years
Transportation equipment	–	5 years

Land is not depreciated. Leasehold improvements are depreciated over the shorter between the improvements' useful life of 5 years or the lease term.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Fully depreciated assets still in use are retained in the financial statements. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the financial statements and any resulting gain or loss is credited or charged to statement of comprehensive income. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in statement of comprehensive income.

4.03 Assets Held For Sale

Assets foreclosed shown as assets held for sale in the statement of financial position include properties that the Bank intends to sell within one year from the date of classification as held for sale and are accounted for at the lower of cost and fair value less cost to sell similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan less allowance for impairment at the time of foreclosure. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell. Assets held for sale are not subject to depreciation or amortization. The gain or loss arising from the sale or revaluation of assets held for sale is recognized in profit or loss.

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

- i) Investment property – accounted for using the cost model under PAS 40; and
- ii) Bank-occupied property – accounted for using the cost model under PAS 16.

4.04 Other Assets

Other assets not classified as financial assets, bank premises, furniture, fixtures and equipment and assets held for sale include prepaid assets, deferred charges, supplies and the likes. These other assets qualifying into the definition of assets under PAS 1, Presentation of Financial Statements are resources controlled by the Bank as a result of past events and from which future economic benefits are expected to flow to the entity. Other assets are recognized on an accrual basis of accounting.

4.05 Impairment of Non-financial Assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense.

4.06 Financial Liabilities and Equity Instruments

A financial liability is any liability that is:

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

4.06.01 Classification as Financial Liability or Equity Instrument

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

4.06.02 Equity Instruments

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

- Capital stock

Capital stock represents the nominal value of shares that have been issued and are classified as equity instruments. Capital stock is classified as equity instruments.

- Surplus reserves

Surplus reserve is a portion of earnings that are appropriated for specific purposes as approved by the Board of Directors.

- Surplus free

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

Dividends on equity are recognized when they are declared and approved by BSP.

4.06.03 Financial Liabilities

Financial liabilities of the Bank include deposit liabilities, bills payable, accrued interest and other expenses, and other liabilities (excluding government-related payables and non-financial liabilities).

Financial liabilities are recognized when the Bank becomes a party to the contractual agreements of the instrument where the substance of the arrangement result in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Financial liabilities are initially recognized at fair value, except for financial liabilities at FVTPL, plus transaction costs, and subsequently measured at amortized cost less payments. Amortized cost is calculated by taking into account any discount or premium, if any, on the issue and fees that are an integral part of the effective interest rate.

4.06.04 Derecognition of Financial Liabilities

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

4.07 Related Party Relationships and Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's retirement fund.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

4.08 Revenue Recognition

4.08.01 Revenue Recognition for Revenues within the scope of PFRS 15

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

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

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

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

Income from Assets Sold or Exchanged

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

Fees, Commissions, and Other Income

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

4.08.02 Revenue Recognition for Revenues outside the scope of PFRS 15

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

Interest income on loans receivables

Interest income on loans and discount with advanced interest are recognized periodically using the effective interest method of amortization. On the other hand, interest income on loans and discount with no advanced interest are recognized on cash basis.

The Bank shall only charge interest based on the outstanding balance of a loan. For a loan where the principal is payable in installments, interest per instalment shall be calculated based on the outstanding balance of the loan.

Loan fees and service charge

The Bank earns fees from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. Service fees are collected from borrowers to cover direct and indirect expenses in processing credit applications.

Interest income on due from other banks and held-to-maturity financial assets

Interest on due from other banks and held-to-maturity financial assets are recognized in the statement of comprehensive income using the effective interest method.

4.09 Cost and Expense Recognition

Costs and expenses are recognized in profit or loss when a 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. Costs and expenses are recognized in profit or loss in the following manner:

- On the basis of a direct association between costs incurred and the earning of specific items of income;
- On the basis of a systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and 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.

4.10 Leases

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

4.10.01 The Bank as Lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

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

4.11 Employee Benefits

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

4.11.01 Short-term Employee Benefits

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

4.11.02 Retirement Benefits

The Bank has a funded, noncontributory, defined benefit retirement plan covering all qualified employees. Employees' normal retirement benefits will be computed equal to 100% of plan salary for every year of credited service. Retirement from service of the Bank shall be compulsory upon employees' attainment of the age of sixty (60) years with completion of at least five (5) years of service.

The Bank recognizes its retirement benefit obligation using the accrual approach. Under the accrual approach, the accrued monthly benefit that will be recognized is equivalent to a percentage of monthly basic compensation fixed by the Board of Directors.

4.12 Borrowing costs

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

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

4.13 Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

4.13.01 Current Income Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

4.13.02 Deferred Income Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, carry-forward of unused tax credits from excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carry-over (NOLCO), to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction that affects neither the accounting profit nor taxable profit or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

4.14 Provisions, Contingent Liabilities and Contingent Assets

4.14.01 Provisions

Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

4.14.02 Contingent Assets and Contingent Liabilities

Contingent assets and liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are disclosed only when an inflow of economic benefits is probable.

4.15 Fair Value Measurement

The Bank measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal and the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market price in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges. (For example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.);
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market prices in its valuations where possible.

Basis of fair value measurements are further discussed in Note 7.

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

4.16 Events after the Reporting Date

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

5. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS USED

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements and related disclosures. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.01 Critical Judgments in Applying Accounting Policies

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:

5.01.01 Determination of Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Bank, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the normal operations of the Bank.

5.01.02 Distinction between Operating and Finance Lease

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

Rent expense of the Bank for the years ended December 31, 2019 and 2018 amounted to ₱2,269,172 and ₱2,120,643, respectively, as shown in Notes 22 and 25.

5.01.03 Classifying Held-to-maturity Financial Assets

The Bank follows the guidance of PAS 39, *Financial Instruments: Recognition and Measurement*, in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity other than for the allowed specific circumstances – as allowed under the standards, for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class to available-for-sale securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

However, the tainting provision will not apply if the sales or reclassification of held-to-maturity investment are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank. The investments would therefore be measured at fair value and not at amortized cost.

The Bank's HTM financial assets amounted to ₱35,866,881 as of December 31, 2019 and 2018, as disclosed in Note 9.

5.01.04 Determining Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. The Bank takes into consideration its present, legal or constructive obligations, if any in accordance with its policies and management's assessment.

5.01.05 Determining Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models was taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

5.01.06 Determining Fair Value Acquired Assets Classified as Assets Held for Sale

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

5.01.07 Determining Asset Impairment

The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of BPFPE and assets held for sale, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that BPFPE and assets held for sale associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations. The preparation of the estimated future cash flows involves significant judgment and estimations. While the Bank believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under generally accepted accounting principles in the Philippines.

Management has determined that the Bank's BPFPE and assets held for sale are not impaired, hence, no additional impairment loss were recognized in both 2019 and 2018.

5.02 Key Sources of Estimation Uncertainty

5.02.01 Impairment Losses on Financial Assets (Loans Receivable and Held-to-maturity Financial Assets)

The Bank reviews its loans receivables and held-to-maturity financial assets 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. 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 of December 31, 2019 and 2018, the management believes that the allowance provided by the Bank is sufficient to cover BSP requirements.

As of December 31, 2019 and 2018, loans and other receivables amounted to ₱488,008,961 and ₱438,072,637, respectively, net of allowance for credit losses, as disclosed in Note 10. The Bank's held-to-maturity financial assets amounted to ₱35,866,881 as of December 31, 2019 and 2018, as disclosed in Note 9.

5.02.02 Estimating Useful Lives of Assets

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment (BPFPE) based on the period over which the assets are expected to be available for use. The estimate useful lives of BPFPE 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 BPFPE is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results operations could be materially affected by changes in estimates brought about by changes in factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

The Bank has BPFPE stated at carrying value of ₱36,963,063 and ₱25,221,453 as of December 31, 2019 and 2018, respectively, as disclosed in Note 11.

5.02.03 Determining Realizable Amount of Deferred Tax Assets

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

The Management believes that it is highly probable they will generate taxable profit to allow part of the deferred tax assets to be utilized. Thus, they decided to recognize deferred tax asset for temporary differences starting the year ended December 31, 2019. The Bank's deferred tax assets amounted to ₱856,414 and nil as of December 31, 2019 and 2018, respectively, as disclosed in Note 23.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

6.01 General Risk Management Principles

The Bank's financial instruments comprise cash and cash equivalents, held-to-maturity financial assets, loans and receivables, other assets, and other financial liabilities such as savings deposit liabilities, bills payable and accrued interest and expenses and other financial liabilities to finance the Bank's operations.

The following table summarizes the carrying amount of financial assets and liabilities recorded by category:

	Notes	2019	2018
Financial assets			
Cash and other cash items	8	P 11,184,723	P 11,460,839
Due from Bangko Sentral ng Pilipinas	8	68,651,792	11,877,930
Due from other banks	8	167,905,929	73,360,476
Held-to-maturity financial assets	9	35,866,881	35,866,881
Loans receivables – net	10	488,008,961	438,072,637
Other assets*	13	4,127,686	4,965,314
		P 775,745,972	P 575,604,077
Financial liabilities			
Deposit liabilities	14	422,631,515	360,587,221
Bills payable	15	217,194,657	116,333,284
Accrued taxes, interest and other expenses**	16	5,025,611	3,790,190
Other liabilities***	18	42,730,713	21,454,607
		P 687,582,496	P 502,165,302

*excluding non-financial assets amounting to P2,966,159 and P1,265,222 in 2019 and 2018, respectively, as disclosed in Note 13.

**excluding accrued taxes amounting to P3,165,995 and P2,080,532 in 2019 and 2018, respectively, as disclosed in Note 16.

***excluding non-financial liabilities amounting to P996,442 and P910,563 in 2019 and 2018, respectively, as disclosed in Note 18.

6.01.01 Credit Risk and Concentration of Assets and Liabilities and Off-balance Sheet Items

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Bank only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Bank uses other publicly available financial information and its own trading records to rate its major customers. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Bank enforces credit risk management fundamentally via its Credit Policy Manual (CPM), the provisions of which are regularly reviewed and updated to reflect changing risk conditions. The CPM defined, among others, the following:

- the Bank's credit structure;
- target market;
- credit evaluation, administration, monitoring, and collection guidelines; and
- remedial management.

The Bank likewise manages risk by setting limits such as:

- approving authority limits;
- individuals and borrower group limits; and
- concentration limits as to facility and industry segments.

Moreover, the Bank monitors credit exposures, and continually assesses the creditworthiness of counterparties. It also obtains security where appropriate, enters into collateral arrangement with counterparties and financial decision making.

The Bank has an internal credit risk rating system for the purpose of measuring, in a consistent manner, credit risk for every exposure. The risk information derived is then used for business and financial decision making.

6.01.02 Maximum Exposure to Credit Risk before Collateral Held or Other Credit Enhancements

An analysis of the maximum exposure to credit risk relating to on-balance sheet assets without taking into account of any collateral held or other credit enhancements is shown below:

	Notes	2019	2018
Checks and other cash items	8	P 7,232,830	P 6,129,489
Due from BSP	8	68,651,792	11,877,930
Due from other banks	8	167,905,929	73,360,476
Held-to-maturity financial assets	9	35,866,881	35,866,881
Loans receivables*	10	524,288,403	471,555,561
Other assets**	13	4,127,686	4,965,314
		P 808,073,521	P 603,755,651

*gross of allowance for credit losses and unamortized discount amounting to P36,279,442 and P33,482,924 in 2019 and 2018, respectively, as disclosed in Note 10.

**excluding non-financial assets amounting to P2,966,159 and P1,265,222 in 2019 and 2018, respectively, as disclosed in Note 13.

Where financial instruments are recorded at fair value, the amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

6.01.03 Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets as of December 31, 2019 and 2018.

	Neither past due nor impaired				Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Past due but not impaired		
Cash and other cash items	11,184,723	—	—	—	—	11,184,723
Due from BSP	68,651,792	—	—	—	—	68,651,792
Due from other banks	167,905,929	—	—	—	—	167,905,929
HTM financial assets	35,866,881	—	—	—	—	35,866,881
Loans receivables*	451,720,964	38,179,044	—	14,520,757	19,867,638	524,288,403
Other assets**	4,127,686	—	—	—	—	4,127,686
	739,457,975	38,179,044	—	14,520,757	19,867,638	812,025,414

2018	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High Grade	Standard Grade	Substandard Grade			
Cash and other cash items	11,460,839	—	—	—	—	11,460,839
Due from BSP	11,877,930	—	—	—	—	11,877,930
Due from other banks	73,360,476	—	—	—	—	73,360,476
HTM financial assets	35,866,881	—	—	—	—	35,866,881
Loans receivables*	327,514,940	118,593,455	—	11,224,740	14,222,426	471,555,561
Other assets**	4,965,314	—	—	—	—	4,965,314
	465,046,380	118,593,455	—	11,224,740	14,222,426	609,087,001

*gross of allowance for credit losses and unamortized discount amounting to ₱36,279,442 and ₱33,482,924 in 2019 and 2018, respectively, as disclosed in Note 10.

**excluding non-financial assets amounting to ₱2,966,159 and ₱1,265,222 in 2019 and 2018, respectively, as disclosed in Note 13.

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

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

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

Past due but not impaired Loans and receivables and Investment securities are loans and receivables and investment securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available or status of collection of amounts owed to the Bank.

Loans with negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. In respect of some of these loans, the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

Impaired loans and receivables and investment securities are loans and receivables and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory notes and securities agreements. Loans and receivables that have been provided with 100% allowance for credit losses and those under litigation are considered impaired.

6.01.04 Aging Analysis

An aging analysis of the Bank's loans receivables, gross of allowance for credit losses and unamortized discount, as of December 31, 2019 and 2018 are as follows:

	2019	2018
Outstanding receivables:		
Current accounts	₱ 484,900,008	₱ 441,108,395
Past due accounts:		
1 – 30 days past due	319,408	203,224
31 – 60 days past due	2,076,461	6,950,240
61 – 90 days past due	6,294,781	806,317
over 90 days past due	25,697,745	17,487,385
	₱ 519,288,403	₱ 466,555,561

6.01.05 Collateral and Other Credit Enhancements

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

6.02 Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short-, medium- and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Bank seeks to manage its liquidity profile to be able to finance its capital expenditures and cover its operating costs. The Bank's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information.

As of December 31, 2019 and 2018, the Bank's minimum liquidity ratio are 39.94% and 24.77%, respectively.

The table below summarizes maturity profile of the Bank's financial assets and liabilities as of December 31, 2019 and 2018 based on undiscounted contractual cash flows.

2019	On Demand	Due Within 1 Year	Due Beyond 1 Year but Not More Than 5 Years	Due Beyond 5 Years but Not More Than 15 Years	Total
Financial Assets:					
Cash and other cash items	11,184,723	-	-	-	11,184,723
Due from BSP	68,651,792	-	-	-	68,651,792
Due from other banks	153,905,929	14,000,000	-	-	167,905,929
Held-to-maturity financial assets	-	-	35,866,881	-	35,866,881
Loans and other receivables*	9,180,303	137,294,783	319,412,959	58,400,358	524,288,403
Other assets**	4,127,686	-	-	-	4,127,686
	247,050,433	151,294,783	355,279,840	58,400,358	812,025,414
Financial Liabilities:					
Deposit liabilities	331,317,339	87,107,376	4,206,800	-	422,631,515
Bills payable	25,000,000	81,021,449	108,316,065	2,857,143	217,194,657
Accrued taxes, interest and other expenses***	5,028,611	-	-	-	5,028,611
Other liabilities****	42,730,713	-	-	-	42,730,713
	404,076,663	168,128,825	112,522,865	2,857,143	687,585,496

2018	On Demand	Due Within 1 Year	Due Beyond 1 Year but Not More Than 5 Years	Due Beyond 5 Years	Total
Financial Assets:					
Cash and other cash items	11,460,839	—	—	—	11,460,839
Due from BSP	11,877,930	—	—	—	11,877,930
Due from other banks	53,360,476	20,000,000	—	—	73,360,476
Held-to-maturity financial assets	—	—	15,866,881	20,000,000	35,866,881
Loans and other receivables*	5,191,230	151,563,978	244,825,717	69,974,636	471,555,561
Other assets**	4,965,314	—	—	—	4,965,314
	86,855,789	171,563,978	260,692,598	89,974,636	609,087,001
Financial Liabilities:					
Deposit liabilities	273,405,273	82,856,408	4,325,540	—	360,587,221
Bills payable	—	93,155,396	23,177,888	—	116,333,284
Accrued taxes, interest and other expenses***	3,790,190	—	—	—	3,790,190
Other liabilities****	21,454,607	—	—	—	21,454,607
	298,650,070	176,011,804	27,503,428	—	502,165,302

*gross of allowance for credit losses and unamortized discount amounting to ₱36,279,442 and ₱33,482,924 in 2019 and 2018, respectively, as disclosed in Note 10.

**excluding non-financial assets amounting to ₱2,966,159 and ₱1,265,222 in 2019 and 2018, respectively, as disclosed in Note 13.

***excluding accrued taxes amounting to ₱3,165,995 and ₱2,080,532 in 2019 and 2018, respectively, as disclosed in Note 16.

****excluding non-financial liabilities amounting to ₱996,442 and ₱910,563 in 2019 and 2018, respectively, as disclosed in Note 18.

6.03 Interest Rate Risk

Interest rate risk is the risk to the earning or capital resulting from adverse movements in the interest rates. The Bank closely monitors the movements of interest rates in the market and reviews its asset and liability structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits. The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The Bank is exposed to interest rate risk since its financial assets and financial liabilities have fixed and variable rates.

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

2019	Amount	Average Interest rate	10% increase	Net effect
Interest income				
Due from other banks	P 314,758	0.27%	0.027%	P 85
Held-to-maturity financial assets	1,175,837	3.02%	0.302%	3,551
Loans receivables	101,724,641	23.26%	2.326%	2,366,115
	103,215,236			2,369,751
Interest expense				
Deposit liabilities	6,090,454	1.61%	0.161%	9,806
Bills payable	5,483,060	5.63%	0.563%	30,870
	11,573,514			40,676
Net interest income	P 91,641,722			2,329,075
Effect on equity				P 1,630,353
2018	Amount	Average Interest rate	10% increase	Net effect
Interest income				
Due from other banks	P 294,128	0.34%	0.034%	P 100
Held-to-maturity financial assets	916,946	2.41%	0.241%	2,209
Loans receivables	91,299,406	23.22%	2.322%	2,119,972
	92,510,480			2,122,281
Interest expense				
Deposit liabilities	5,185,385	1.50%	0.150%	7,778
Bills payable	3,920,232	4.73%	0.473%	18,543
	9,105,617			26,321
Net interest income	P 83,404,863			2,095,960
Effect on equity				P 1,467,172

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

6.04 Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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

- a) Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- b) Requirements for the reconciliation and monitoring of transactions;
- c) Compliance with regulatory and other legal requirements;
- d) Documentation of controls and procedures;
- e) Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- f) Requirements for the reporting of operational losses and proposed remedial action;
- g) Development of contingency plans;
- h) Training and professional development;
- i) Ethical and business standards; and
- j) Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

7.01 Fair Value Hierarchy

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data (observable inputs). This level includes equity investment (if any,) and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

The Bank has no financial instruments that fall under this category.

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

7.02 Fair Value Determination

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

7.02.01 Due from BSP and Other Banks

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

7.02.02 Held-to-Maturity Financial Assets

The fair value for HTM financial assets is based on market prices. Where this information is not available, the fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or through valuation techniques using discounted cash flow analysis.

7.02.03 Loans and Other Receivables

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

7.02.04 Deposit Liabilities

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

7.02.05 Bills Payable, Accrued Interest and Other Expenses, and Other Liabilities

Due to their short duration, the carrying amounts of accrued interest and other expenses and other liabilities in the statement of financial position are considered to be reasonable approximations of their fair values.

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

8. CASH AND CASH EQUIVALENTS

The account consists of the following:

	2019	2018
Cash and other cash items:		
Cash on hand	P 3,951,893	P 5,331,350
Checks and other cash items	7,232,830	6,129,489
	11,184,723	11,460,839
Due from Bangko Sentral ng Pilipinas	68,651,792	11,877,930
Due from other banks	167,905,929	73,360,476
	236,557,721	85,238,406
	P 247,742,444	P 96,699,245

Cash and other cash items represent actual cash in vault and those in possession of the cashier and the tellers.

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

Reserves against deposit liabilities for rural banks shall be 3% for both savings and time deposits. For December 31, 2019 and 2018, the Bank is compliant with the reserve requirement as set by the BSP.

Due from other banks comprise savings and time deposits earning interest at prevailing bank deposit rates.

Interest earned on deposits on local banks amounted to ₱314,758 and ₱294,128 in 2019 and 2018, respectively.

9. HELD-TO-MATURITY FINANCIAL ASSETS – net

This account consists of the following:

		2019		2018
Retail treasury bonds	₱	20,000,000	₱	20,000,000
Agrarian reform bonds		15,866,881		15,866,881
	₱	35,866,881	₱	35,866,881

Movement in the account are as follows:

		2019		2018
Balance, January 1	₱	35,866,881	₱	41,000,000
Additions		–		17,866,881
Maturities/Redemptions		–		(23,000,000)
Balance, December 31	₱	35,866,881	₱	35,866,881

Total interest earned on these financial assets amounted to ₱1,175,837 and ₱916,946 for the years ended December 31, 2019 and 2018, respectively.

10. LOANS RECEIVABLES – net

The account consists of the following:

	2019	2018
Current loans	P 484,900,008	P 441,108,395
Past due loans	33,844,299	24,903,070
Under litigation	544,096	544,096
Loans receivable	519,288,403	466,555,561
Loans receivable arising from repurchase agreement	5,000,000	5,000,000
	524,288,403	471,555,561
Unearned interests and discounts	(9,806,184)	(8,792,519)
	514,482,219	462,763,042
Specific loan loss provision	(22,714,463)	(17,758,162)
General loan loss provision	(3,758,795)	(6,932,243)
Allowance for credit losses	(26,473,258)	(24,690,405)
	P 488,008,961	P 438,072,637

The Bank's loan accounts are stated at the outstanding balance, reduced by estimated allowance for credit losses and unearned interest and discounts.

Total earned interest on loans amounted to P101,724,641 and P91,299,406 for the years ended December 31, 2019 and 2018, respectively.

The promissory notes of loans receivables are pledged as security for the related bills payable, amounting to P217,194,657 and P116,333,284 as of December 31, 2019 and 2018, respectively, as disclosed in Note 15.

The changes in the allowance for credit losses on loans receivables for the years ended December 31, 2019 and 2018:

	Agri-agra loans	MSME loans	Microfinance loans	Other loans	Total
Balance, December 31, 2017	₱ 4,002,768	₱ 7,374,083	₱ 1,291,000	₱ 7,009,355	₱ 19,677,206
Provision for	658,451	5,001,150	850,476	1,048,209	7,558,286
Write-off	(416,109)	(567,844)	(419,861)	(1,141,273)	(2,545,087)
Balance, December 31, 2018	4,245,110	11,807,389	1,721,615	6,916,291	24,690,405
Provision for (reversal of)	4,598,932	(1,652,395)	943,074	2,516,192	6,405,803
Write-off	(178,497)	(169,782)	(1,200,066)	(3,074,011)	(4,622,356)
Adjustments	—	(594)	—	—	(594)
Balance, December 31, 2019	₱ 8,665,545	₱ 9,984,618	₱ 1,464,623	₱ 6,358,472	₱ 26,473,258

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

2019	Agri-agra loans	MSME loans	Microfinance loans	Other loans	Total
Specific loan loss provision	₱ 7,503,009	₱ 9,421,493	₱ 527,899	₱ 5,262,062	₱ 22,714,463
General loan loss provision	1,162,536	563,125	936,724	1,096,410	3,758,795
Balance, December 31, 2019	₱ 8,665,545	₱ 9,984,618	₱ 1,464,623	₱ 6,358,472	₱ 26,473,258
2018	Agri-agra loans	MSME loans	Microfinance loans	Other loans	Total
Specific loan loss provision	₱ 3,579,150	₱ 8,642,510	₱ 922,887	₱ 4,613,615	₱ 17,758,162
General loan loss provision	665,960	3,164,879	798,728	2,302,676	6,932,243
Balance, December 31, 2018	₱ 4,245,110	₱ 11,807,389	₱ 1,721,615	₱ 6,916,291	₱ 24,690,405

The allowance for credit losses which includes both specific and general loan loss reserves, represents management estimates of credit losses inherent in the portfolio, after consideration of the prevailing and anticipated economic conditions, prior to loss experience, estimated recoverable value based on fair market values of underlying collateral and prospects of support from guarantors, subsequent collections and evaluations made by BSP Supervision and Examination Sector.

The BSP observes certain criteria and guidelines based largely on the classification of loans in establishing specific loss reserves.

The Bank has established a threshold for segmentation of loans subject to individual and collective assessment. As for individual assessment, the amount of threshold is ₱1,000,000 and above, and credit grading system or post-evaluation process is used in the evaluation of borrowers' financial condition, risk rating, collateral and business status. Accordingly, allowance for credit losses for individually assessed loans shall be based on the following matrix:

Category of risk	Provision	Rating	Definition
No credit risk	1%	95 – 100	Highest degree of safety with regard to timely payment of financial obligations
Low credit risk	2%	90 – 94	Very good – high degree of safety with regard to timely payment of financial obligations. They differ only marginally in safety from excellent issues
Good credit risk	3%	85 – 89	Good – an adequate degree of safety with regard to timely payment of financial obligations. However, changes in circumstances can adversely affect such issues more than those in the higher rating categories
Moderate credit risk	5%	80 – 84	Moderate safety with regard to timely payment of financial obligations for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than in higher rating categories
Acceptable credit risk	7%	75 – 79	Inadequate safety with regard to timely payment of financial obligations; they are less likely to default in the immediate future than in lower rating categories, but an adverse change in circumstances could lead to inadequate capacity to make payment on financial obligations
Borderline/Watchlist	10%	70 – 74	High risk – this have a high likelihood of default; while current financial obligations are met, adverse business or financial obligations would lead to lack of ability or willingness to pay interest or principal
Especially mentioned	20%	65 – 69	Substantial – have factors present that make them vulnerable to default; timely payment of financial obligations is possible only if favorable circumstances continue
Substandard	30%	60 – 64	Default – are expected to default on scheduled payment dates. Collateral realization has to be seriously considered
Doubtful	50%	55 – 59	Doubtful in terms of risk quality. Repayment of loan is in doubt and possibility of default is exceptionally high. Collateral realization has to be seriously considered. The objective of the Bank is to minimize losses.
Loss	100%	Below 54	With poor prospect and recovery and will be considered as loss.

In terms of collectively assessed loans, the Bank strictly adheres to the setting up of valuation allowance for risk assets based on BSP Circular 1011 and Appendix 15 of the MORB.

10.01 Past Due Loans

Past due loans of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at maturity.

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

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

Installment refers to principal and/or interest amortizations that are due on several dates as indicated in the loan documents. The allowance for loan losses is the estimated amount of losses in the Bank's loan portfolio, based on evaluation of the collectibility of loans and prior loss experience

Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates to be present in the portfolio of loans and advances are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

The allowance is increased by provisions charged to expenses and reduced by write-offs and reversals.

10.02 Non-Performing Loans

As of December 31, 2019 and 2018, NPLs not fully covered by allowance for credit losses are as follows:

	2019	2018
Total Non-performing loans	P 25,697,745	P 18,124,098
Less: Non-performing loans covered by allowance for credit losses	(11,459,443)	(15,848,413)
	P 14,238,302	P 2,275,685

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

Loans, investments, receivables or any financial asset shall be considered non-performing, even without missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

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

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

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

	2019	2018
Ratio of gross NPLs to gross TLP (%)	4.90%	3.84%
Ratio of net NPLs to gross TLP (%)	2.72%	0.48%
Ratio of total allowance for credit losses to gross NPLs (%)	103.02%	136.23%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	88.39%	97.98%

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

The carrying amounts of the Bank's BPFFE are as follows:

2019	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Building under Construction	Total
Cost:							
Balance, January 1	₱ 15,371,750	₱ 10,263,875	₱ 19,066,017	₱ 12,452,035	₱ 3,609,579	₱ –	₱ 60,763,256
Additions	9,800,000	–	2,669,428	545,458	–	4,835,430	17,850,316
Disposals	–	–	(325,960)	(324,496)	–	–	(650,456)
Balance, December 31	25,171,750	10,263,875	21,409,485	12,672,997	3,609,579	4,835,430	77,963,116
Accumulated depreciation:							
Balance, January 1	–	9,322,001	14,436,764	10,155,060	1,627,978	–	35,541,803
Depreciation	–	941,870	2,963,190	1,913,952	259,417	–	6,078,429
Disposals	–	–	(325,960)	(294,219)	–	–	(620,179)
Balance, December 31	–	10,263,871	17,073,994	11,774,793	1,887,395	–	41,000,053
Carrying amount	₱ 25,171,750	₱ 4	₱ 4,335,491	₱ 898,204	₱ 1,722,184	₱ 4,835,430	₱ 36,963,063

2018	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Building under Construction	Total
Cost:							
Balance, January 1	₱ 5,371,750	₱ 10,263,875	₱ 18,183,617	₱ 11,572,799	₱ 3,508,158	₱ –	₱ 48,900,199
Additions	10,000,000	–	1,146,525	672,900	101,421	–	11,920,846
Disposals	–	–	(43,278)	(242,761)	–	–	(286,039)
Adjustments	–	–	(220,847)	449,097	–	–	228,250
Balance, December 31	15,371,750	10,263,875	19,066,017	12,452,035	3,609,579	–	60,763,256
Accumulated depreciation:							
Balance, January 1	–	7,929,012	11,497,860	7,514,407	1,333,175	–	28,274,454
Depreciation	–	1,392,989	2,982,182	2,883,414	294,803	–	7,553,388
Disposals	–	–	(43,278)	(242,761)	–	–	(286,039)
Balance, December 31	–	9,322,001	14,436,764	10,155,060	1,627,978	–	35,541,803
Carrying amount	₱ 15,371,750	₱ 941,874	₱ 4,629,253	₱ 2,296,975	₱ 1,981,601	–	₱ 25,221,453

Management believes that there are no indications of impairment in the value of its bank premises, furniture, fixtures and equipment as of December 31, 2019 and 2018.

No bank premises, furniture, fixtures and equipment were used as collateral for liabilities as at December 31, 2019 and 2018. Moreover, the Bank has no commitment to purchase bank premises, furniture, fixtures and equipment as of December 31, 2019 and 2018.

All additions in 2019 and 2018 were paid in cash.

During 2019, the Bank disposed several fixed assets with carrying amount of ₱30,277 for a cash selling price of ₱63,393, resulting to gain on sale of ₱33,116, as disclosed in Note 21.

Cost of fully-depreciated assets still in use amounted to ₱12,191,924 and ₱8,826,652 as of December 31, 2019 and 2018, respectively.

Under existing BSP regulations, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As of December 31, 2019 and 2018, the Bank has satisfactorily complied with this provision.

12. ASSETS HELD FOR SALE – net

This account pertains to real and other properties acquired (ROPA) in settlement of loans.

	2019	2018
Cost:		
Balance, January 1	₱ 9,428,293	₱ 10,162,058
Additions	–	275,064
Disposals	(7,366,010)	(1,008,829)
Balance, December 31	2,062,283	9,428,293
Allowance for impairment	(789,646)	(1,152,146)
Carrying amount	₱ 1,272,637	₱ 8,276,147

In 2019, the Bank sold assets held for sale with carrying amount of ₱7,366,010 for a cash selling price of ₱7,914,125, recognizing a gain amounting to ₱548,115, as disclosed in Note 21.

In 2018, the Bank sold assets held for sale with carrying amount of ₱1,008,829 for a cash selling price of ₱1,370,478, recognizing a gain amounting to ₱361,649, as disclosed in Note 21.

The fair value of the assets held for sale as of December 31, 2019 and 2018 amounted to ₱6,981,300 and ₱16,842,300, respectively. Such fair values have been determined by in-house appraisers on the basis of recent sales of similar property in the same area as the assets held for sale, which were adjusted for differences in key attributes such as property size, zoning, and accessibility, and taking into account the economic conditions prevailing at the time the valuations were made.

The Bank carried out a review of the recoverable amounts of its assets held for sale. The Bank has determined that there is no indication that an additional impairment loss has occurred on its assets held for sale.

13. OTHER ASSETS

The account consists of the following:

	2019	2018
Accounts receivable – net	P 3,969,686	P 4,807,314
Stationary and supplies on hand	960,597	649,053
Prepayments	807,890	298,000
Petty cash fund	158,000	158,000
Miscellaneous assets	1,197,672	318,169
	P 7,093,845	P 6,230,536

Accounts receivable consists of insurance for death claims, advance payment for maternity benefits, unreplenished POS and other transactions which are to be collected for a period of less than one year.

	2019	2018
Accounts receivable – gross	P 3,978,974	P 4,816,602
Allowance for credit losses	(9,288)	(9,288)
	P 3,969,686	P 4,807,314

14. DEPOSIT LIABILITIES

This account consists of the following:

	2019	2018
Savings deposits	P 299,898,088	P 244,323,963
Special savings deposits	122,733,427	116,263,258
	P 422,631,515	P 360,587,221

Savings earn annual interest rate of 1% in 2019 and 2018. Special savings deposits earn annual interest rate of 1.5% to 4.5% in 2019 and 2018, depending on the amount and term of the placement.

Total interest expense on deposit liabilities amounted to P6,090,454 and P5,185,385 for the years ended December 31, 2019 and 2018, respectively.

Under existing BSP regulations, savings deposits and time deposits of the Bank are subject to statutory reserve equivalent to 3.0%, except basic deposit accounts which are subject to 0% reserve requirement. As of December 31, 2019 and 2018, the Bank is compliant with such regulations.

15. BILLS PAYABLE

This account represents borrowings from local financial institutions, as follows:

	2019	2018
Land Bank of the Philippines	P 153,117,570	P 101,482,798
Development Bank of the Philippines	35,000,000	10,000,000
Small Business Corporation	29,077,087	4,850,486
	P 217,194,657	P 116,333,284

Movements of the account are disclosed below:

	2019	2018
Balance, January 1	P 116,333,284	P 42,932,169
Additional borrowings	218,951,803	121,226,986
Payments	(118,090,430)	(47,825,871)
Balance, December 31	P 217,194,657	P 116,333,284

The payment term of these bills payable is 90 days to 7 years for 2019 and 2018.

The promissory notes of loans receivables are pledged as security for the related bills payable, amounting to P217,194,657 and P116,333,284 as of December 31, 2019 and 2018, respectively, as disclosed in Note 10.

Interest rate is 2% to 7% per annum in 2019 and 2018.

Interest expense on bills payable charged to statement of comprehensive income for the years ended December 31, 2019 and 2018 amounted to P5,483,060 and P3,920,232, respectively.

16. ACCRUED TAXES, INTEREST AND OTHER EXPENSES

Details of this account are disclosed below:

	2019	2018 As restated
Accrued interest expense	P 2,046,041	P 1,452,899
Accrued taxes	3,165,995	2,080,532
Accrued other expenses	2,979,570	2,337,291
	P 8,191,606	P 5,870,722

Accrued other expenses pertain to expenses already incurred but not yet paid as of yearend, such as salaries and other employee benefits, professional fees, rent, utilities, and other expenses.

Accrued taxes pertain to gross receipts tax not yet paid as of yearend.

17. RETIREMENT BENEFIT OBLIGATION

The Bank has a funded, non-contributory, defined benefit retirement plan covering all qualified employees.

Employees' normal retirement benefits will be computed equal to 100% of plan salary for every year of credited service. Retirement from service of the Bank shall be compulsory upon employees' attainment of the age of sixty (60) years with completion of at least five (5) years of service.

As of December 31, 2019 and 2018, the Bank has retirement benefit obligation as shown below:

	2019	2018
Accrued retirement benefit	P 5,526,194	P 4,560,804
Plan asset	(1,596,477)	(1,702,352)
Balance, December 31	P 3,929,717	P 2,858,452

Movement of accrued retirement benefit is shown below:

	Note	2019	2018
Balance, January 1		P 4,560,804	P 4,629,015
Retirement benefit expense	22	1,071,265	505,289
Benefits paid		(105,875)	(573,500)
Balance, December 31		P 5,526,194	P 4,560,804

Details of the Bank's plan asset are disclosed below:

	2019	2018
Balance, January 1	P 1,702,352	P 2,275,852
Benefits paid	(105,875)	(573,500)
Balance, December 31	P 1,596,477	P 1,702,352

18. OTHER LIABILITIES

This account consists of the following:

	2019	2018
Accounts payable	P 42,726,711	P 21,454,607
Withholding tax payable	495,187	465,000
Government payables	484,901	429,209
Dividends payable	4,002	—
Due to the Treasurer of the Philippines	16,354	16,354
	P 43,727,155	P 22,365,170

Accounts payable refers to claims by third parties arising from the purchase of goods and services and advance remittances of borrowers for their loan obligation.

Accounts payable also includes funds granted by the Agricultural Credit Policy Council (ACPC) to the Bank for the implementation of Production Loan Easy Access (PLEA) and Survival and Recovery (SURE) assistance programs, amounting to P36,921,431 and P20,000,000 as of December 31, 2019 and 2018, respectively.

PLEA assistance program is a special lending facility designed to address the needs of farmers and fisherfolk-borrowers that are classified as poor. The facility seeks to extend credit that is fast, convenient and at a cost affordable to the intended borrowers. On the other hand, SURE assistance program is a quick response post-disaster support facility of the Department of Agriculture that provides immediate financial assistance package to small farmers and fisherfolk and their households in calamity-affected areas so that they may immediately regain their capacity to earn a living.

Movement of dividends payable is shown below:

	Note	2019	2018
Balance, January 1		P —	P —
Declaration	20	3,000,000	2,000,000
Dividends paid		(2,995,998)	(2,000,000)
Balance, December 31		P 4,002	P —

19. CAPITAL STOCK

19.01 Common Stock

Shown below are the details on the movement of common stock:

	2019		2018	
	Shares	Amount	Shares	Amount
Authorized capital at ₱100 par value	550,000	₱ 55,000,000	1,200,000	₱ 120,000,000
Issued and fully paid at ₱100 par value				
Balance, January 1	694,298	69,429,800	675,000	67,500,000
Additional issuance	—	—	19,298	1,929,800
Stock dividends	260,000	26,000,000	—	—
Balance, December 31	954,298	₱ 95,429,800	694,298	₱ 69,429,800

Common stocks carry one vote per share and a right to dividends

19.02 Capital Management

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

The Bank manages its capital structure, which composed of paid-up capital and surplus reserve, and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities.

Based on MORB Section 121, the Bank qualifies as a rural bank with head office in all other areas outside National Capital Region (up to 3rd class municipalities with 1 to 10 branches). This type is required to meet ₱30,000,000 minimum capitalization. As of December 31, 2019 and 2018, the Bank is compliant with the minimum capitalization requirement.

Under the current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk-weighted assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets is total capital funds excluding:

- (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- (b) total outstanding unsecured credit accommodations to DOSRI;
- (c) deferred tax asset;
- (d) goodwill, if any;
- (e) sinking fund for redemption of redeemable preferred stock; and
- (f) other regulatory deductions.

Risk assets consists of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

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

Tier 1 Capital and Tier 2 are defined as follows:

- a. Tier 1 Capital includes the following:
 - i. paid up common stock,
 - ii. surplus

Subject to deductions for:

- i. deferred tax asset

- b. Tier 2 Capital includes:
 - i. general loan loss provision

As of December 31, 2019 and 2018, the Bank's capital adequacy ratios are 15.89% and 18.02%, respectively.

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

Information regarding the Bank's "unimpaired capital" as of December 31, 2019 and 2018 is shown below.

	2019		2018	
	In (000,000's)		As restated In (000,000's)	
Tier 1 Capital	P	117.426	P	99.879
Tier 2 Capital		3.760		7.057
Gross qualifying capital		121.186		106.936
Total risk-weighted assets	P	762.466	P	593.302
Tier 1 ratio		15.40%		16.83%
Total capital ratio		15.89%		18.02%

20. SURPLUS

20.01 Surplus Reserve

Surplus reserves represent funds set aside for unforeseen events that may require immediate cash outflow, such as contingencies and losses. The account has a balance of ₱1,000 as of December 31, 2019 and 2018.

20.02 Surplus Free

Details of the Bank's surplus free are disclosed below:

	2019		2018	
			As restated	
Balance, January 1	P	30,523,802	P	14,267,064
Dividends declared		(29,000,000)		(2,000,000)
Profit		20,472,704		18,210,102
Adjustments		—		46,636
Balance, December 31	P	21,996,506	P	30,523,802

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

20.03 Dividends

20.03.01 Cash Dividends

On April 16, 2019, in a regular meeting held by the Board of Directors, a declaration of cash dividend of ₱4.3209 per share for common shareholders of record as of April 24, 2019, or a total of ₱3,000,000, was unanimously approved. The application for the approval of BSP was made on April 24, 2019.

On February 26, 2018, the Bank applied with the BSP for the approval of the cash dividends amounting to ₱2,000,000, to be paid to stockholders of record as of February 22, 2018.

20.03.02 Stock Dividends

On May 14, 2019, in a special meeting held by the Board of Directors, a declaration of stock dividends amounting to ₱26,000,000, representing 37.4479% of the total stockholdings, was unanimously approved. The application for the approval of BSP was made on June 7, 2019.

21. OTHER OPERATING INCOME

This account consists of the following:

		2019	2018 As restated
Service charges on loans	₱	18,987,923	₱ 14,157,299
Bank commissions		9,554,883	10,282,834
Recovery on charged-off assets		1,150,516	1,043,499
Gain on sale of non-financial assets		581,231	361,649
Miscellaneous income		121,048	953,050
	₱	30,395,601	₱ 26,798,331

Details of gain on sale of non-financial assets are shown below:

	Notes	2019	2018
Gain on sale of:			
Investment properties	12	548,115	361,649
Bank premises, furniture, fixtures and equipment	11	₱ 33,116	₱ —
		₱ 581,231	₱ 361,649

Miscellaneous income pertains to bank charges, overages, passbook replacement fees, bank certification fees and others.

22. OPERATING EXPENSES

Details of other expenses are shown below:

	Notes	2019	2018
Compensation and fringe benefits		P 45,515,186	P 38,613,067
Taxes and licenses	32	9,159,435	7,643,221
Depreciation	11	6,078,429	7,553,388
Fees and commission		4,978,830	4,138,390
Fuel and lubricants		2,426,095	2,164,190
Rent expense	25	2,269,172	2,120,643
Security, messengerial and janitorial services		2,033,649	2,207,929
Insurance		1,661,406	1,458,866
Travel		1,569,481	1,730,544
Power, light and water		1,352,297	1,445,396
Postage, telephone and telegraph		1,340,751	1,357,125
Advertising and publicity		1,300,755	989,192
Stationery and office supplies		1,120,895	1,328,219
Information technology expenses		1,112,859	1,419,516
Retirement benefit expense	17	1,071,265	505,289
Repairs and maintenance		1,026,172	805,034
Management and other professional fees		770,159	891,013
Representation and entertainment		142,970	126,596
Supervision fees		119,278	84,173
Litigation		111,563	216,995
Membership fees and dues		49,060	105,540
Fines, penalties and other charges		5,086	—
Miscellaneous		1,543,138	2,699,681
		P 86,757,931	P 79,604,007

Compensation and fringe benefits consist of:

	2019	2018
Salaries and wages	P 27,387,652	P 25,177,816
Staff benefits	14,784,409	10,685,100
Government contributions	2,462,086	2,155,151
Directors' fees	903,000	595,000
	P 45,537,147	P 38,613,067

Miscellaneous expenses pertain to meetings and conferences, freight costs, souvenirs and giveaways, and other expenses.

23. INCOME TAX

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

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

Under current tax regulations, the applicable income tax rate is thirty percent (30%). Interest allowed as a deductible expense is reduced by an amount equivalent to thirty three percent (33%) of interest income subjected to final tax. Also, entertainment, amusement and recreation (EAR) expense is limited to one percent (1%) of net revenues, as defined, for sellers of services beginning September 1, 2002. The current regulations also provide for MCIT of 2% on modified gross income and allow a three year NOLCO. Any excess of the MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability while NOLCO can be applied against taxable income, both in the next three years from the year of occurrence.

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

23.01 Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

	2019	2018
Income tax expense – current	P 9,257,299	P 4,830,799
Income tax benefit – deferred	(856,414)	–
	P 8,400,885	P 4,830,799

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the tax rate in 2019 and 2018 is as follows:

	2019	2018 As restated
Accounting profit	P 28,873,589	P 23,040,901
Tax expense at 30%	8,662,077	6,912,270
Tax effect of income that is subject to lower rate:		
Interest income subject to final tax	(447,179)	(363,322)
Disallowed interest expense	184,461	149,870
Other non-deductible expenses	1,526	–
Income exempt from tax	–	(1,941,143)
Unrecognized deferred tax asset	–	1,503,960
Others	–	(1,430,836)
	P 8,400,885	P 4,830,799

23.02 Deferred Tax Assets

Details of the Bank's deferred tax assets are shown below:

	Allowance for credit losses – loans receivable	Retirement benefit obligation	Total
Balance, December 31, 2017	P –	P –	–
Profit or loss			
Origination	–	–	–
Reversal	–	–	–
Balance, December 31, 2018	–	–	–
Profit or loss			
Origination	1,921,741	321,380	2,243,121
Reversal	(1,386,707)	–	(1,386,707)
Balance, December 31, 2019	P 535,034	P 321,380	P 856,414

Prior to 2019, the Bank did not recognize deferred tax assets since management believes that future taxable income will not be available to allow such deferred tax assets to be utilized.

The Bank has unrecognized deferred taxes as follows:

	2019	2018
Allowance for credit losses – loans	P 7,406,943	P 7,407,122
Retirement benefit obligation	857,535	857,536
Allowance for credit losses – accounts receivable	2,786	2,786
	P 8,267,264	P 8,267,444

24. RELATED PARTY TRANSACTIONS

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

24.01 Loans to DOSRI

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

- 1) The individual ceiling for credit accommodations of a bank to each of its DOSRI shall be equivalent to his outstanding deposits and book value of his paid-in capital in the lending bank. The unsecured credit accommodations to each of the Bank's DOSRI shall not exceed 30% of his total credit accommodations.
- 2) The aggregate ceiling for credit accommodations, whether direct or indirect, to DOSRI of a bank shall not exceed 15% of the total loan portfolio of the Bank or its combined capital accounts net of deferred income tax, unbooked valuation reserves and other capital adjustments required by the BSP, whichever is lower. The total unsecured direct and indirect borrowings of DOSRI shall not exceed 30% of the aggregate ceiling or the outstanding direct/indirect credit accommodations thereto, whichever is lower.

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

24.02 Remuneration of Key Management Personnel

The key management compensation for the years ended December 31, 2019 and 2018 amounted to P7,649,287 and P6,604,248, respectively.

25. OPERATING LEASE AGREEMENTS

The Bank has several lease agreements which are renewable under certain terms and conditions. At the reporting date, the future minimum lease payment under non-cancellable operating leases is as follows:

		2019		2018
Not later than one year	P	1,048,320	P	1,796,235
Later than one year and not later than five years		1,698,473		2,538,420
Later than five years		17,364		225,737
	P	2,764,157	P	4,560,392
Rent expense (Note 22)	P	2,269,172	P	2,120,643

26. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the 2018 financial statements and note disclosures have been reclassified to conform to the current year's presentation. Details are as follows:

Old account	Notes	Before reclassification Dr (Cr)	Reclassification adjustment Dr (Cr)	After reclassification Dr (Cr)
Statement of financial position:				
Held-to-maturity securities, net	9	48,866,881	(13,000,000)	35,866,881
Due from other banks	8	60,360,476	13,000,000	73,360,476
Other resources, net		7,932,888	(7,932,888)	—
Other assets	13	—	6,230,536	6,230,536
Retirement benefit obligation	17	(4,560,804)	1,702,352	(2,858,452)
Accrued taxes, interest and other expenses	16	(8,342,951)	2,472,229	(5,870,722)
Income tax payable*		—	(2,472,229)	(2,472,229)
Statement of comprehensive income:				
Service charge/commissions/fees		(24,440,133)	24,440,133	—
Recovery from charged-off assets		(1,043,499)	1,043,499	—
Profit on sale/redemption of investments		(361,649)	361,649	—
Other operating income*	21	(878,269)	(25,845,281)	(26,723,550)
Compensation/fringe benefits		38,044,511	(38,044,511)	—
Occupancy and equipment-related expenses		9,764,443	(9,764,443)	—
Other operating expenses		31,795,053	(31,795,053)	—
Operating expenses	22	—	79,605,007	79,604,007

*accounts that are also subject to restatement, as disclosed in Note 27

Such reclassifications resulted to a better presentation of the financial statements and did not have any effect on prior year's profit or loss.

27. RESTATEMENT OF 2018 FINANCIAL STATEMENTS

In 2019, the Bank restated its financial statements as of and for the year ended December 31, 2018 to reflect certain prior period adjustments. These adjustments pertain to income tax payable, surplus free and other operating income.

The analysis of the affected line items in the statement of financial position of the Bank as of December 31, 2018 is shown below:

	As previously reported Dr (Cr)	Adjustments Dr (Cr)	As restated Dr (Cr)
<i>Change in liabilities:</i>			
Income tax payable ^a	P (2,472,229)	P 74,781	P (2,397,448)
<i>Change in equity:</i>			
Surplus free ^b	(30,449,021)	P (74,781)	(30,523,802)

The analysis of the affected line items in the statement of comprehensive income of the Bank for the year ended December 31, 2018 is shown below:

	As previously reported Dr (Cr)	Adjustments Dr (Cr)	As restated Dr (Cr)
Other operating income ^c	(26,723,550)	P (74,781)	(26,798,331)

- Restatement on income tax payable pertains to offsetting unrecorded creditable withholding taxes and other adjustments.
- Restatement on surplus free pertains to the net effect of restatement on income statement accounts.
- Restatement on other operating income pertains to creditable withholding taxes claimed as tax credits in 2018 but not in recorded in the books and other adjustments.

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	2018	Cash inflow	Cash outflow	Non-cash changes	2019
Bills payable	116,333,284	218,951,803	(118,090,430)	—	217,194,657
Dividends payable	—	—	(2,995,998)	3,000,000	4,002
	116,333,284	218,951,803	(121,086,428)	3,000,000	217,198,659

	2017	Cash inflow	Cash outflow	Non-cash changes	2018
Bills payable	42,932,169	121,226,986	(47,825,871)	—	116,333,284
Dividends payable	—	—	(2,000,000)	2,000,000	—
	42,932,169	121,226,986	(49,825,871)	2,000,000	116,333,284

29. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

30. EVENTS AFTER THE REPORTING DATE

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

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

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

31. APPROVAL OF FINANCIAL STATEMENTS

These financial statements for the year ended December 31, 2019 was approved and authorized for issue by the Board of Directors (BOD) on June 18, 2020.

32. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 15-2010

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

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

32.01 Gross Receipts Tax

		2019		2018
Gross receipts tax paid	P	3,554,455	P	2,849,441
Gross receipts tax payable		3,165,995		2,080,532
	P	6,720,450	P	4,929,973

32.02 All Other National and Local Taxes

All other local and national taxes paid by the Bank and presented as part of operating expenses for the periods ended December 31, 2019 and 2018 consist of:

	2019	2018
National tax:		
Percentage tax	P 6,720,450	P 4,929,973
Documentary stamp taxes	1,538,633	790,768
Local taxes:		
Business permit and other fees	395,748	343,000
Registration	79,938	75,762
Others	424,666	1,503,718
	P 9,159,435	P 7,643,221

32.03 Withholding Taxes

Withholding taxes paid or accrued for the years ended December 31, 2019 and 2018 consist of:

2019	Paid	Accrued	Total
Expanded withholding tax	P 230,886	P 67,167	P 298,053
Withholding tax on compensation	360,300	249,154	609,454
Final withholding tax	1,073,656	131,490	1,205,146
	P 1,664,842	P 447,811	P 2,112,653
2018	Paid	Accrued	Total
Expanded withholding tax	P 146,229	P 86,319	P 232,548
Withholding tax on compensation	299,320	111,595	410,915
Final withholding tax	928,577	267,086	1,195,663
	P 1,374,126	P 465,000	P 1,839,126

32.04 Tax Assessments

The Bank has no on-going tax assessments as of December 31, 2019 and 2018.

32.05 Tax Cases

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

33. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 19–2011

RR No. 19–2011 that prescribes the use of new income tax forms starting with calendar year 2013 became effective on December 9, 2012. Companies are now required to include, as part of the notes to the financial statements, the schedules and information on taxable income and deductions.

Below is the additional information required by RR 19–2011. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

33.01 Interest Income

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

	Financial statement	Income tax return
Loans receivables	P 101,724,641	P 101,724,641
Due from other banks	314,758	–
Held-to-maturity investments	1,175,837	–
	P 103,215,236	P 101,724,641

33.02 Cost of Services

The breakdown of the Bank's deductible cost of services consists of:

	Financial statement	Income tax return
Compensation and fringe benefits – direct	P 25,310,116	P 25,310,116
Interest expense	11,573,514	10,958,644
Insurance – PDIC	727,856	727,856
Supervision fees	119,278	119,278
	P 37,730,764	P 37,115,894

33.03 Other Operating Income

Details of other operating income of Bank for 2019 are as follows:

	Financial statement	Income tax return
Service charges	P 18,987,923	P 18,987,923
Bank commissions	9,554,883	9,554,883
Recovery on charged-off assets	1,150,516	1,150,516
Gain on sale of non-financial assets	581,231	581,231
Miscellaneous income	121,048	121,048
	P 30,395,601	P 30,395,601

33.04 Allowable Deductions

Details of the Bank's deductible expenses for 2019 are as follows:

	Financial statement	Income tax return
Compensation and fringe benefits	P 20,205,070	P 20,205,070
Taxes and licenses	9,159,435	9,159,435
Depreciation	6,078,429	6,078,429
Fees and commission	4,978,830	4,978,830
Fuel and lubricants	2,426,095	2,426,095
Rent expense	2,269,172	2,269,172
Security, messengerial and janitorial services	2,033,649	2,033,649
Travel	1,569,481	1,569,481
Power, light and water	1,352,297	1,352,297
Postage, telephone and telegraph	1,340,751	1,340,751
Advertising and publicity	1,300,755	1,300,755
Stationery and office supplies	1,120,895	1,120,895
Information technology expenses	1,112,859	1,112,859
Retirement benefit expense	1,071,265	—
Repairs and maintenance	1,026,172	1,026,172
Insurance – others	933,550	933,550
Management and other professional fees	770,159	770,159
Representation and entertainment	142,970	142,970
Litigation	111,563	111,563
Membership fees and dues	49,060	49,060
Fines, penalties and other charges	5,086	—
Miscellaneous	1,543,138	1,543,138
	P 60,600,681	P 59,524,330
Provision for credit losses	6,405,803	—
Accounts written-off	—	4,622,356
	P 67,006,484	P 64,146,686

34. SUPPLEMENTARY INFORMATION UNDER BSP CIRCULAR 1074

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

34.01 Basic Quantitative Indicators of Financial Performance

	2019	2018 As restated
Return on average equity	18.84%	20.04%
Return on average assets	2.87%	3.43%
Net interest margin	14.11%	16.77%

34.02 Description of Capital Instruments Issued

Refer to Note 19.

34.03 Significant Credit Exposures

Disclosures as to industry/economic sector are as follows:

	2019		2018	
	Peso Amount	%	Peso Amount	%
Agriculture, forestry and fishing	126,755,211	24.41	68,938,483	14.78
Wholesale and retail trade, repair of motor vehicles and motorcycles	104,667,658	20.16	103,213,390	22.12
Household use	73,914,352	14.23	173,891,138	37.27
Real estate activities	46,029,802	8.86	150,000	0.03
Mining and quarrying	33,558,614	6.46	28,574,492	6.12
Education	26,335,244	5.07	—	—
Administrative and support service activities	22,097,620	4.25	38,732,854	8.30
Professional, scientific and technical activities	20,025,000	3.86	915,131	0.20
Construction	19,219,909	3.70	11,348,416	2.43
Other service activities	14,904,265	2.87	12,749,151	2.73
Financial and insurance activities	12,344,541	2.38	2,475,606	0.53
Accommodation and food service activities	10,841,647	2.09	8,503,588	1.82
Manufacturing	4,819,618	0.93	12,015,117	2.58
Transportation and storage	2,766,331	0.53	3,693,803	0.79
Human health and social work activities	395,442	0.08	671,345	0.15
Water supply, sewerage, waste management and remediation activities	237,143	0.05	44,854	0.01
Arts, entertainment and recreation	162,430	0.03	114,068	0.02
Information and communication	139,177	0.03	467,621	0.10
Electricity, gas, steam and air conditioning supply	74,399	0.01	56,504	0.01
Total	519,288,403	100.00	466,555,561	100.00

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

In 2019, the Bank is exposed to agriculture, forestry and fishing, wholesale and retail trade, repair of motor vehicles and motorcycles, household use, real estate activities, mining and quarrying, education, administrative and support service activities, professional, scientific and technical activities, construction, other service activities, and financial and insurance activities, amounting to more than 10% of Tier 1 Capital.

In 2018, the Bank is exposed to agriculture, forestry and fishing, wholesale and retail trade, repair of motor vehicles and motorcycles, household use, mining and quarrying, education, administrative and support service activities, construction, other service activities, and manufacturing, amounting to more than 10% of Tier 1 Capital.

34.04 Breakdown of Total Loans

34.04.01 As to Security

Loan portfolio classification as to security follows:

	2019		2018	
Secured by real estate mortgage	P	94,916,154	P	80,543,773
Secured by chattel mortgage		57,421,583		71,640,958
Secured by others		20,701,504		4,000,000
Secured		173,039,241		156,184,731
Unsecured		346,249,162		310,370,830
	P	519,288,403	P	466,555,561

34.04.02 As to Status per Product Line

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

2019					
Loan Product	Performing		Non-performing		Total
	Current	Past Due	Past Due	Under Litigation	
BOLA	171,312,439	900,788	1,774,511	110,659	174,098,397
FAST	1,195,923	—	162,135	260,482	1,618,540
FBL	8,243,892	—	86,961	—	8,330,853
GDL	5,176,120	—	11,628	—	5,187,748
GPL	244,593	—	—	—	244,593
HUGE	36,829,148	4,193,875	7,843,328	—	48,866,351
I-CARE	21,267,539	1,015,843	707,012	—	22,990,394
JWL	151,504	—	—	—	151,504
KBH	60,142,685	—	407,730	—	60,550,415
KBT	28,739,288	—	476,059	—	29,215,347
KBY	8,550,000	—	—	—	8,550,000
MOVE	7,025,709	—	331,700	—	7,357,409
PLEA/SURE	11,155,909	62,786	4,098,372	—	15,317,067
REAL	2,968,056	—	—	—	2,968,056
REG	121,897,203	2,517,358	9,254,213	172,955	133,841,729
Total	484,900,008	8,690,650	25,153,649	544,096	519,288,403

Loan Product	2018				Total
	Performing		Non-performing		
	Current	Past Due	Past Due	Under Litigation	
BOLA	126,128,580	2,976,925	1,798,252	110,659	131,014,416
FAST	1,774,156	—	1,015,853	260,482	3,050,491
FBL	6,576,329	50,540	90,410	—	6,717,279
GDL	3,888,020	—	—	—	3,888,020
GPL	—	—	—	—	—
HUGE	50,908,765	1,973,143	4,807,045	—	57,688,953
I-CARE	19,168,662	226,834	831,946	—	20,227,442
JWL	—	—	—	—	—
KBH	58,097,787	—	745,316	—	58,843,103
KBT	29,735,591	—	533,583	—	30,269,174
KBY	4,000,000	—	—	—	4,000,000
MOVE	9,639,864	—	—	—	9,639,864
PLEA/SURE	19,999,200	—	—	—	19,999,200
REAL	3,054,093	—	—	—	3,054,093
REG	108,137,348	2,095,626	7,757,597	172,955	118,163,526
Total	441,108,395	7,323,068	17,580,002	544,096	466,555,561

35.05 Information on Related Party Loans

Refer to Note 24.

35.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2019 and 2018, bills payable amounting to ₱217,194,657 and ₱116,333,284, respectively, are secured by a pledge of certain assets as follows:

	2019	2018
Loans receivables	₱ 217,194,657	₱ 116,333,284

35.07 Nature and Amount of Contingencies and Commitments

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

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

	2019	2018
Items held as collateral	147	162
