2020
Annual Report

RBA
RURAL BANK of ANGELES
A Subsidiary of Asia United Bank

www.rba.com.ph

Miranda St. Corner Sto. Entierro St. Angeles City, Pampanga

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Corporate Policy

Bank's Vision and Mission Statements

Our Vision

The objective of Rural Bank of Angeles' ("RBA") to become the country's "Rural Bank of Choice" exemplifies its consistent vision to be the preferred financial services provider of clients in the rural and agricultural areas of the country. As the rural banking arm of Asia United Bank ("AUB"), RBA devotes its resources to cater the banking requirements of sectors otherwise unserved or unattended by commercial and universal banks. Thus, serving the unbanked communities in rural areas.

Our Core Values and Mission

We shall be guided by our chosen corporate values of Commitment, Integrity, Excellence, Leadership and Teamwork in:

- promoting comprehensive rural development with the end in view of attaining a more equitable distribution of opportunities and income
- expanding productivity as a key to raising the quality of life, especially the underprivileged
- to make needed credit available and readily accessible in the rural areas on reasonable terms

Branding

We are committed to be the Rural Bank of choice known for financial strength and superior delivery of innovative products and services driven towards total customer satisfaction.

Financial stability manifested by a strong capital position and growth in total resources, profitability, portfolio quality.

Proactive in the development of products and services that will satisfy all current and emerging market needs.

Customer satisfaction will be the primary consideration in every activity that we undertake (raisson d'etre).

RBA at a Glance

- RBAI established August 26, 1952.
- Started operations on *January 31, 1953*
- 6th Rural Bank in Philippines and 1st in Pampanga
- *22 Jan 09:* Monetary Board Resolution No. 135 places RBA under Prompt Corrective Action for failure to improve liquidity position and service withdrawals.

July 2009

- Monetary Board Resolution No. 955 approval in principle AUB purchase of RBAI
- AUB Audit Group and Transition Team parallel management control over RBA operations

July 17 to August 24, 2009

- Share Purchase Agreement signed witnessed by BSP officials
- Preparation for RBA re-opening

August 28, 2009

- 125 Million Equity Infusion

September 2009

- Start of deposit servicing and regular banking operations
- 2nd tranche of **P125 Million New Equity**

October 29, 2009

- Monetary Board Resolution No. 1555 approval of AUB acquisition of RBA

Sept. 22 – Dec. 7, 2009

- **P100 Million Additional Equity** in various amounts to support RBA operations (withdrawals)

December 15, 2009

- AUB Board of Directors meeting formalizing the RBA organization

January 15, 2010

- 1st RBA Credit Committee for Micro Finance 7 accounts approved

September 16, 2010

- **P70 Million Additional Equity**
- Completes the P420 Million Capital Infusion under Monetary Board Resolution No. 1555

August 4, 2011

- Approval to establish 5 MBOs

October 2013

- Approval In Principle to purchase all assets and assume the liabilities of the Cooperative Bank of Pampanga (CPAMP)
- **P50 Million Capital Infusion -** Start of serving of CPAMP depositors
- Board Resolution No. 1662 approval of RBA acquisition of Cooperative Bank of Pampanga

November 4, 5, 2013

- **P150 Million Additional Capital Infusion**
- PDIC Board Resolution No. 2013-10-215, Approval In Principle of the acquisition of CPAMP with Financial Assistance under the SPCB Plus Program

Business Model

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The bank’s business model illustrates the key components in the overall performance of the bank such as the Key Partners, Key Activities, Key Resources, Value Proposition, Customer Relationship, Channels, Customer Segments, Cost Structure and the Revenue Streams. Key Partners are the network of partners and suppliers that are essential to perform the key activities of the bank with the utilization of the key resources. Key partners, key activities and key resources comprise the cost structure of the bank. Value Proposition defines the two main products that the bank provides to its customers such as the deposit and loan products. Customer relationship exhibits the type of service that the bank’s offers to its clients through the use of the bank channels to reach its customer segments. These are revenue generating channels to sustain the daily banking operations.

Financial Summary

Asset Level

December 2019	December 2020
Php 3.524 Billion	Php 2.993 Billion

Operating Expenses

2019	December 2020
Php 436.66 Million	Php 360.91 Million *

Top 3 Operating Expenses for 2020	Percentage
Insurance, Taxes and Fees	36%
Compensation and Fringe Benefits	26%
Occupancy Expenses	23%

Income Level

December 2019	December 2020
Php 480.54 Million	Php 551.87 Million

Capital Position

December 2019	December 2020
Php 351.29 Million	Php 519.87Million

Total deposits down by Php 113.22 Million over December 2019 level. Total deposits for 2020 amounted to Php 2.253 Billion which is composed of 22% current and savings accounts and 73% time deposits. There are 485 current accounts with Php 52.768 outstanding balance. Average balance per current accounts is Php 108.80 Thousand.

Total interest income for the month amounted to Php 110.56 Million, Php 105.28 Million of which came from regular agricultural loans. Total interest expense is at Php 3.80 Million, giving rise to a net interest margin of Php 106.75 Million. Non-interest income amounted to Php 4.84 Million.

As to the financial position of the company YTD, interest income for the month amounted to Php 429.39 Million, Php 381.66 Million of which came from regular agricultural loans. Total interest expense is at Php 66.67 Million, giving rise to a net interest margin of Php 362.71 Million.

Financial Condition and Results of Operation

Review of bank's operations and result of operations

Performance of Agricultural Loans OB and PAR

Year	OB	PAR Amount	Major Reason/s for Past Due
2019	Php 2.456 Billion	Php 218.6 Million	Farm gate price of palay went as low as P9-10 per Kilo attributed to the Rice Tariffication Law. With these prices, farmers barely earn or may even incur losses as production cost or breakeven point is P10-P11. Past due ratio further deteriorated with the spread of the African Swine Flu affecting hog raisers.
2020	Php 2.227 Billion	Php 313.7 Million	Luzon was besieged by successive typhoons in the months of October to December coinciding with the peak harvest season. These typhoons caused widespread flooding practically wiping out all crops and the ability of farmers to pay of loans. At the same time, the Community Quarantines affected disposal and sale of crops, shortage of supplies, and travel, with the imposition of restrictions causing additional problems in collection.

RBAI ended the year 2020 with Php 2.3B total loan portfolio, which is lower by about Php 300 Million compared to 2019. The drop in the bank's loan portfolio is reportedly due to the reduction of about Php 312 Million in agricultural loans, and Php 52 Million in microfinance loans.

For the year, RBAI released a total of Php 1.9 Billion in agricultural loans, which is lower by about Php 1 Billion compared to 2019.

During start of the year, the bank barely had any loan releases due to the implementation of the community quarantine, averaging only about Php 80 Million in loan releases during the peak months of the bank. This is wholly different from 2019 wherein the beginning of the year had been the most productive for RBAI. The bank's figures were also significantly affected by the successive typhoons which hit the country at the end of 2020.

37% of RBAI's loan releases were machinery loans, which accounted for Php 742 Million. Payment rate for machinery loans remained at 99%.

Total microfinance loan releases for 2020 amounted to Php 62 Million, which is significantly lower compared to 2019 (Php 319 Million).

DepEd loan releases for 2020 amounted to a total of Php 8.4 Million, representing 53 accounts. Management was authorized to match the interest rates offered by other banks in the area.

Total net income for the year amounted to Php 181 Million, which is Php 120 Million higher than budget. The increase in the bank's income was aided by the sale of GSS (selling price of Php 70 Million net).

Loan loss provision for 2020 amounted to Php 50 Million, which is lower than budget (Php 88 Million) and the figure from the previous year (Php 138 Million).

Meantime, the bank has recovered Php 28 Million from written off accounts.

RBAI reportedly posted a lower interest expense for 2020 compared to the previous year. Operating expense (OPEX) for the year amounted to Php 297 Million, which is at par with the OPEX for 2019.

Regarding employees, Management is in the process of crafting policies which shall be geared towards further professionalizing the bank's employees.

Risk Management

Risk is inherit in our business and demands us to identify, asses and manage our risks by allotting our capital, resources and safeguards in an economical and appropriate manner. In the Banking industry, Risk Management plays an important role to protect the company's assets and also to develop and execute plans in advance and to deal with potential losses since the institution is exposed to different risk.

As a subsidiary of Asia United Bank (AUB), the Bank has availed several services from its parent bank and that includes the Risk Management. The requirements and oversight functions are performed by the Risk Management Unit (RMU) of AUB. On a monthly basis, RBA reports the financial, operations and credit status of our company and submit it to RMU. One of the planned Risk Management initiatives to be adopted through RMU is the adoption of the Expected Credit Loss models of Asia United Bank. Additionally, to exercise the oversight function, AUB's RMU Head attends the board meetings of RBA.

The overall risk associated with the bank's lending operations is primarily managed by the bank's Loans Operations Group. Initially, client and collateral verification is being done by the assigned Independent Credit Investigator. Approval of bookings and releasing of loan proceeds follows once all the necessary verifications are passed. Once the loan already released, recording and custody of collateral documents are transmitted to the Loans Operations Group. To alleviate repeated issues regarding improper loan solicitations and bookings and fraudulent accounts committed by Account Officers, the Bank has made initiatives on the Credit Investigations Unit to avert connivance which can result to fraud, breed familiarity and the like. Furthermore, cross validation is required with the credit investigator who is tasked to perform random phone calls to the loan applicant to verify all the gathered information.

Moreover, risks related to the Current and Savings Accounts (CASA) are being monitored and supervised by the Operations Head together with the Branch Operations Officer. Customer concerns and complaints are also being handled by the Operations Head and Branch Operations Officer. Operational risks are managed and supervised by relevant units of the bank such as Human Resources, Compliance, Information Technology and Accounting insofar as the risks are relevant to their functions and responsibilities. Also, a Call Tree exercise was being done on a regular basis as part of the Business Continuity Plan to mitigate the risk factors associated with the bank's contingency initiatives.

The bank engages an external legal counsel to provide legal services consisting of legal opinions, documentation and litigation to minimize and manage legal risk. As of date, there are no material legal issues and or cases that may affect the bank, its license or the business itself.

Anti-Money Laundering Governance and Culture

In the present time, Money Laundering and Terrorism Financing (ML/TF) establishes intolerable disturbance to every Banking and Financial Institutions worldwide. In the global market place, Money Laundering is a significant problem that caused great alarm both in local and international banking community due to the attempted use of financial institution to launder money that resulted in much stricter laws and increased in penalties. In contemplation of possible occurrence thereof, Rural Bank of Angeles (RBA) established controls and organizational behavior whereby threats of ML/TF can be easily detected and prevented. In line with this, the bank established a committee charter, headed by the Compliance Office. The said committee monitors and oversight all the respective branches as to compliance to the regulation and programs of the company. Also, it implements ML/TF Prevention Program to the Head Office Units including all the branches and evaluates the compliance of respective units thereof.

RBA, with the assistance of its parent bank, Asia United Bank (AUB), developed a functional system that generates reports complying with the AMLC requirements as to covered transactions (CTRs). It also established a process of detecting suspicious transactions (STRs) as well as the procedure on reporting. All RBA branches strictly follow all the Evaluation and Verification process of every account based on the submitted requirements. The Risk assessments indicates the existence of ML/TF and other available information in public database and / or the internet, and were also being made to establish the risk profile of the clients and the treatment it requires. In order to promote integrity and effectiveness in determining the possible occurrence of the ML/TF, the company provides an appropriate and on the date AML trainings and seminars to all the bank employees.

Corporate Governance

Overall Corporate Governance Structure and Practices

RBA recognizes that effective corporate governance serves the best interests of the bank, its shareowners, depositors and other interests. Effective corporate governance enhances the bank's capacity to achieve strategic goals and manage risks by ensuring that all stakeholders can hold directors to account as their representatives. In turn, directors will be obligated to hold management responsible for the sound operation of business and achievement of goals.

This structure is composed of stakeholders, directors and management contribute to promote the balancing o interests and protection of various interests – public and private. Towards this end, effective disclosure is required with reports that are accurate, prompt and useful on information on company policies, practices and results. This will provide greater investor, depositor and creditor protection and preservation and even enhancement of the bank's license, capital, assets and overall business.

To illustrate, the bank has a standing Audit committee composed of 3 Directors, among others, wherein all significant risk related, issues, major violations of policies and procedures, as well as incidents of fraud are reported for proper guidance, advise and other disposition of the board. Moreover, as a subsidiary of AUB, its Risk Management committee – also a board level committee – performs oversight function on the credit and operations risks exposure of the bank.

Key to enhancement of the governance structure is the adoption of best practices reflective of times and demands of business. With this perspective; the bank adopts the following practices in corporate governance.

- Development and Maintenance of a Competent and Diverse Board
- Commitment to Integrous and Ethical Behavior
- Defined Roles and Responsibilities
- Alignment of Strategies and Goals
- Accountability

Selection process for the Board and Senior Management

Only Filipino citizens are eligible for election to the Board. The regular term of a director shall be from the date of his election to the regular annual meeting of the stockholders of the Bank or until his successor shall have been elected and qualified to take his place at said annual meeting. Unless a director shall sooner resign, be removed from office, or becomes unable to act by reason of death, disqualification, or otherwise, he shall hold office during the term for which elected and until his successor is elected and qualified. No Director, officer, employee or agent of the Bank shall in any manner directly or indirectly, participate in the deliberation, or the determination of any bank matter affecting his pecuniary interest, or the pecuniary interests of any enterprise in which he is directly or indirectly interested. A member of the Board of Directors or its deliberation or determination of any matter with respect to which he is disqualified. When a member of any committee is disqualified, the remaining member who are directors may select another director to serve in the place of the disqualified member.

Board's Responsibility

The Bank's Board of Directors exercises an overall oversight in ensuring effective corporate governance to serve the beneficial interests of its stockholders and stakeholders. Exercising effective corporate governance practices are the best tool to promote good governance, thus, safeguarding the beneficial interests of the Bank and its stockholders and stakeholders.

Description of the Role and Contribution of Executive and Non-Executive

Executive Officers

The executive officers of the Bank are the President, Vice-President, Corporate Secretary, Cashier or Treasurer, and Bank Managers who shall be elected by a majority vote of the entire membership of the Board of Directors at its first meeting held after the annual stockholders meeting and at such other times during the year as be required to fill vacancies or as may be otherwise be delegated to the President.

President

The President shall be the Chief Executive Officer of the Bank. He shall see to it that all orders and resolutions of the Board of Directors, all orders of the Monetary Board of the Bangko Sentral ng Pilipinas, and all rules and regulations of the Bank are carried into effect, and shall exercise such other powers and perform such other duties as are prescribed for the Office of the President in the by-laws.

Vice President

The Vice-President shall exercise the powers, authority and duties of the President during the absence or inability to act of the latter.

Secretary

The Secretary shall provide for the keeping of the records of the Bank and shall have the custody of the seal of the corporation, the Secretary shall, in addition, exercise such other powers and perform such other duties are prescribed for the Office of the Secretary in the by-laws, and all other duties pertaining to that Office, and such other duties as may be prescribed from time to time to the Board of Directors.

Cashier

The Cashier shall have custody of all funds, securities and other assets of the association, shall provide full and complete record of all assets and liabilities of the Bank, and shall make such reports with respect thereto as may be required by the Board of Directors. The Cashier shall, in addition, exercise such other powers and perform such other duties as are prescribed by these by- laws for the Office of the Cashier and all other duties usually pertaining to that Office, and such other duties as may be prescribed by the Board of Directors.

Bank Managers

The Board of Directors may provide for the position of the Bank Managers who shall have, subject to the control of the Board of Directors, general management of the business affairs of the Bank.

Internal Auditor

The internal auditor shall have full, free and unrestricted access to all company activities, records, property and personnel. The internal auditor shall report directly to the Board of Directors.

Duties and responsibilities of Internal Audit shall include the following:

a. Perform continuous program of verification and conducts his/her examination in such a way to ensure management of the general reliability and validity of the reports.
b. Recommends the establishment of appropriate internal control.
c. Supervises and maintains the bank's system of internal control and ascertain as it is adequate and functioning properly.
d. Recommends appropriate measures to ensure that established policies, procedures and controls are followed.
e. Perform other functions as may be assigned by the Board of Directors in connection with the examination, evaluation and appraisal of the bank's operations.

Other Officers, Employees and Agent

The Board of Directors may elect or employ and, subject to the general supervision of the Monetary Board, fix the compensation of such other officers, employees, and agents as the Board of Directors may deem necessary, to perform such duties as may be prescribed from time to time by the Board of Directors.

Board Composition

Chairman of the Board

The Chairman of the Board provides leadership to the Board and its committees. He presides at and conducts the meetings of the stockholders and the board of directors with the right to vote. He calls meetings of stockholders and convenes the board of directors whenever he deems it necessary either on his own initiative or upon request of the president. The Chairman likewise exercises such powers and performs all duties customarily incidental to said office and as maybe prescribed by the board of directors from time to time.

Independent Directors

RBA promotes the strong independence of the Board and has appointed two Independent Directors, defined as those holding no interests or relationships with the Bank, the controlling shareholders, or the Management that would influence their decisions or interfere with their exercise of independent judgement.

Based on the definition of an Independent Director in Section 38 of the Securities Regulation Code of the Securities and Exchange Commission (SEC), RBA's present Board consists of two highly respected Independent Directors Justice Adolfo S. Azcuna, former Associate Justice of the Supreme Court and Atty. Federico S. Quimbo a Filipino politician who formerly represented Marikina's 2nd Legislative District in the House of Representatives of the Philippines.

Members of Board and Board Level Committees

Title of Class	Name of BOD	Citizenship	Position	Percentage of Shares
Common	Co, Abraham T.	Filipino	Chairman	.000021819%
Common	Ng, Jacob C.	Filipino	Treasurer	.000021819%
Common	Musico, Herminia C.	Filipino	Director	.000021819%
Common	Chua, George T.	Filipino	Director	.000021819%
Common	Librea, Zenaida S.	Filipino	Director	.000021819%
Common	Gomez, Manuel A.	Filipino	Director	.000021819%
Common	Azcuna, Adolfo S.	Filipino	Independent Director	.000021819%
Common	Quimbo, Romero Federico S.	Filipino	Independent Director	.000021819%
Common	Defante, Rainer T.	Filipino	President	.000021819%

Board Qualification

The business affairs of the bank shall be conducted under the supervision and control of Board of Nine (9) directors. The holders of common stock entitled to vote shall elect such directors in the manner provided in Section 31 of Republic Act -1459, whose qualifications shall be subject to the approval of the Monetary Board of Bangko Sentral ng Pilipinas. Only Filipino citizens are eligible for election to the Board. The regular term of a director shall be from the date of his election to the regular annual meeting of the stockholders of the Bank or until his successor shall have been elected and qualified to take his place at said annual meeting. Unless a director shall sooner resign, be removed from office, or becomes unable to act by reason of death, disqualification, or otherwise, he shall hold office during the term for which elected and until his successor is elected and qualified.

The President and the Vice-President of the bank must be must be directors, the secretary or the cashier need not be a director or stockholder of the bank, but he must be a citizen and resident of the Philippines. The offices of the president and vice-president may not be combined with each other or with any other office or offices. No individual shall be eligible to become or be a salaried officer or employee if he is also or becomes a candidate for, or holder of, any public office which is remunerative.

Executive Committee

Abraham Co (Chairman), Manuel Gomez, Jacob Ng
Atty. Rainer T. Defante

Audit Committee

Justice Adolf Azcuna (Chairman), George Chua,

Anti-Money Laundering Committee

Zenaida Librea (Chairperson), RBA Compliance Officer, RBA Operations Head, RBA Branch Operations Officer and RBA IT Head

Board Attendance in Meetings

In 2020, the Board held a total of 12 meetings.

Abraham Co	Chairman of the Board	100%
Adolfo Azcuna	Independent Director	100%
Jacob Ng	Treasurer	92%
Manuelito Gomez	Director	100%
Rainer Defante	President	92%
Herminia Musico	Director	92%
George Chua	Director	92%
Zenaida Librea	Director	92%
Romero Federico Quimbo	Independent Director	17%

Changes in the Board of Director

In 2019, the vacant position on the board initially resulted from the resignation of Atty. Maria Pulido-Tan, whose vacant position continued due to the delay in finding for a qualified nominee for the position of independent director.

In 24 September 2020 that the Board of Directors of Rural Bank of Angeles, Inc. (“RBAI”) hereby elects and appoints Atty. Romero Federico S. Quimbo as an independent director of RBAI to fill the vacant position.

Performance Assessment Program

An annual self-rating is being conducted to measure the performance of each Member of the Board and its Management by accomplishing a Self-Assessment Questionnaire. The parameters for the assessment of the President and CEO will be provided by the Chairman of the Board, respectively.

Self-assessment Questionnaire includes questions on the following:

- Performance of Individual Board Members
- Fulfilment of the Board's Key Responsibilities
- Quality of Board – Management Relationship
- Effectiveness of Board Processes and Meetings
- Board Structure

The above-mentioned evaluation gives us notion on the performance of the Director. This Assessment and the evaluation give us the glimpse of responsibilities of the Director and identify the strength and areas of improvement and it help us also to set goals for more effective performance.

Orientation and Education Program

RBA gives importance to its employee’s continuous growth and development, from its Top Management down to the Rank and File employees. The Bank believes that it is essential to its employees to provide trainings, seminars, and other developmental exercises to improve the knowledge, skills, and abilities of its people. Therefore, the company invested and carefully evaluated the continuous Learning Programs to support their employee’s developmental needs.

In June 2019, the Bank formulated and implemented its Educational Assistance Program to provide learning opportunities for its employees to improve their personal and career development. In line with this, the bank provides reimbursement for tuition/registration fees for the approved educational activities based on scholastic ratings obtained. This is to encourage professionalism and assist the RBA employees to be more effective and efficient in their current position, and preparing for their possible career advancement, and to increasing adaptability to new ideas and innovation. This will also help the employees to reach their educational goals especially those who are undergraduates.

Retirement and Succession Policy

RBA recognizes the frameworks should be in place for an effective and orderly succession of Directors with collective knowledge, skills and experience necessary for the Board to effectively govern. Towards this end the following objectives are identified:

1. Identify the required knowledge, skills and experience at a full Board level to effectively fulfill the Board's legal role and responsibilities
2. Ensure an appropriate balance across the Board
3. To achieve continuity through a smooth succession of Directors that balances perspective and independence
4. To satisfy best practice within the legal and regulatory framework.

The Bank ensures the core competencies, as established and revised by the board from time to time will remain the primary criteria for assessing individual Director candidates for replacement of retiring members. To eligible for consideration for recommendation to the Board, all potential Director Candidates shall be required to satisfy a minimum threshold of competencies to be established on an annual basis by the board.

In addition to identifying the best qualified candidates, the Board shall also seek to achieve an appropriate balance of skills, expertise, attributes, and backgrounds at a full Board composite level specifically considering banking experience, labor and management expertise, financial and accounting background, risk management know how, information technology capabilities, law and regulatory exposure as well as integrity, probity, and independence.

Remuneration Policy

No compensation shall be paid any director as such, but the director of the bank may be allowed reasonable honoraria for attendance all meetings and also reasonable expenses incurred in connection thereto. Salaries of the executive officers of the Bank shall be fixed by the Board of Directors.

Policies and Procedures on Related Party Transactions

The Bank acknowledges that transactions between and among related parties are essential for the financial, commercial and economic welfare of the Bank and to the related group where the Bank belongs with. The

Bank is allowing related party transactions (RPTs) provided that these should be exercised on an arm's length basis.

This is to ensure that related party transactions (RPTs) are utilized to ensure both parties in the deal are acting in their own interest and are not subject to any pressure from the other party. Furthermore, the Bank implements appropriate oversight and exercises effective control mechanisms for managing said exposures of non-bank financial subsidiaries and affiliates. These appropriate oversight and effective control mechanisms are utilized to prevent abuses that can cause unfavorable impact to the Bank and its depositors, creditors, suppliers, and other vital stakeholders.

In ensuring that the related party transactions are carried out in a sound and prudent manner, attesting integrity and compliant with the necessary laws and regulations to protect the benefits of depositors, creditors and other essential stakeholders, the Bank's Board of Directors have the overall responsibility and oversight. Thus, the Bank's Board of Directors observes and implements corporate good governance in dealing with RPTs to ensure that these are handled on an arm's length basis and that no stakeholder is unjustly treated.

Self-Assessment Function

Rural Bank of Angeles Inc. has established internal controls and systems in various areas of its operations to protect it from risks innate in its business. The Internal Audit Group (IAG) of the parent, Asia United Bank, evaluates the effectiveness of these control systems and compliance programs, and recommends measures to improve governance, risk management, and internal control processes.

The IAG conducts regular reviews of Rural Bank of Angeles Inc. (RBA) branches and other operating units. Independent Compliance Testing is conducted to ensure compliance with anti-money laundering and terrorism financing rules and other regulatory requirements**.**

The Bank's compliance function is monitored by the parent's Compliance Group (CG). The Unit Compliance Officer of RBA conducts random compliance testing to develop a compliance culture across the ranks. A reporting process helps the Chief Compliance Officer (CCO) detect any regulatory infractions.

The CCO of the parent conducts review of progress of compliance testing performed by the Unit Compliance Officer of the Rural Bank of Angeles, Inc. The CCO also continues to regularly update all Unit Compliance Officers and Internal Audit Officers on recently issued regulatory requirements.

CORPORATE SOCIAL RESPONSIBILITY

The COVID-19 Pandemic and the Enhanced Community Quarantine (ECQ) in Luzon implemented to control the spread of the disease has affected the lives of countless Filipinos. Business closures, work lay-offs and general movement restrictions resulted to loss of income, salaries and wages depriving our countrymen the ability to provide for their families' basic needs.

Recognizing the widespread hardship and in response to the Government's call for "Bayanihan" during this difficult time, Rural Bank of Angeles ("RBA") with the financial support of its parent company, Asia United Bank ("AUB"), has initiated measures to deliver needed assistance in the provinces of Pampanga, Tarlac, Nueva Ecija and Pangasinan. RBA delivered a total of 14,250 sacks of rice to the following cities and municipalities through their respective local government units

Town/City	Barangays	Households/Families
Angeles, Pampanga	33	120,000
Magalang, Pampanga	27	29,700
Mangatarem, Pangasinan	82	27,000
Capas, Tarlac	20	48,200
Gapan, Nueva Ecija	23	25,000
Asingan, Pangasinan	21	11,000

Realizing the worthiness of the cause, RBA officers and staff went out of their ways to help in the distribution efforts from the loading and unloading of the delivery trucks to the actual distribution of the sacks of rice to our needy Kababayans. RBA and AUB hopes that the rice distribution will go a long way in alleviating the plight of Filipinos during their moment of need so they may rise up to the challenges ahead.

AUB ASIA UNITED BANK

RBA RURAL BANK OF ANGELES

BAYANIHAN PARA SA KABABAYAN MULA SA AUB - RBA

Magalang

Angeles City

Asingan

Capas

Mangatarem

Gapan

Consumer Protection Practices

1. Providing easy and convenient access within premises to persons with disability and senior citizens.

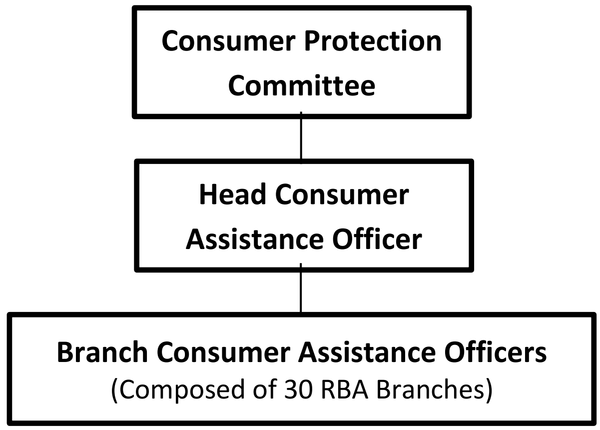
Each branch has this “Priority Lane” designated for persons with disability (PWDs), pregnant women and senior citizens which is located in front of the teller’s booth. This is in compliance with providing easy and convenient access within premises to persons with disability and senior citizens.

2. The Bank ensures that all bank documents such as Customer Information Forms (CIF), loan application forms and other related updating forms are clearly understood and reasonable consistent with the consent and notification requirements of the Data Privacy Act.

3. Consumer protection policy guidelines. The bank established a Consumer Assistance Management System to properly handle consumer complaints/concerns in accordance to the directive of the Financial Consumer Protection .

CONSUMER ASSISTANCE MANAGEMENT SYSTEM (CAMS)

A. Consumer Assistance Group (CAG)



Roles of Consumer Assistance Group

a. Monitor consumer assistance process:
b. Track the progress and development of resolutions;
c. Identify and evaluate the nature of complaints, to determine its complexity and to recommend long term solutions to avoid recurrence;
d. Collate the received complaints on a monthly basis, including the nature and the applied resolutions. Reporting template will be provided;

Function of Head Consumer Assistance Officer (HCAO)

a. The Productivity and Process Officer will act as the HCAO;
b. The HCAO serves as the hub who is responsible in receiving, designating consumer complaints and communicating responses to consumers;
c. He/she will be the primary responsible to monitor the consumer assistance process;
d. Keep track identify, and analyze the nature of complaints and recommend solutions to avoid recurrence through the assistance of the Branch-CAO;
e. Ensure immediate escalation of any significant complaint to concerned unit of the bank.
f. Responsible in accessing and managing the official consumer concerns email address: consumercare@rba.com.ph to properly record and respond to any concern immediately.

Function of Branch Consumer Assistance Officer (BCAO)

Business Units or the first lines of defense are the primary people exposed to customer service functions; they are responsible of the following:

a. Ensure that all customers' concerns are properly addressed;
b. Compliance to the Consumer Assistance Management Systems policies and procedures;
c. Reports all the customers' concerns on a regular basis.

The bank shall assign the Service Officer (SO) to act as the Consumer Assistance Officer in the Branch.

B. Consumer Assistance Process and Timeline

The Rural Bank of Angeles, Inc. (RBA) processes the received complaints as fast as it could. However, the Bank will adopt the turn-around time set by the Circular to ensure the consistency of response to be provided. See the following timeline:

ACTIVITY	SIMPLE *	COMPLEX *
Acknowledgment	Within 2 days	Within 2 days
Processing and resolution (assess, investigate and resolve)	Within 7 days	Within 45 days
Communication of Resolution	Within 9 days	Within 47 days

- *This is also applicable to Telephone/SMS and E-mail acceptance of complaint*
- *All periods are reckoned from the date of receipt of complaint*

C. Complaint Recording and Data Management

The RBA use different channels to received consumer complaints as shown in the procedure in handling complaints.

1. For Walk-in / Personal visit to Head Office and/or Branches

   The customer should;

   i. Fill-out the Customer Complaint Form Specify and detail completely the complaints/concerns

2. Postal – complainant may send letter to:

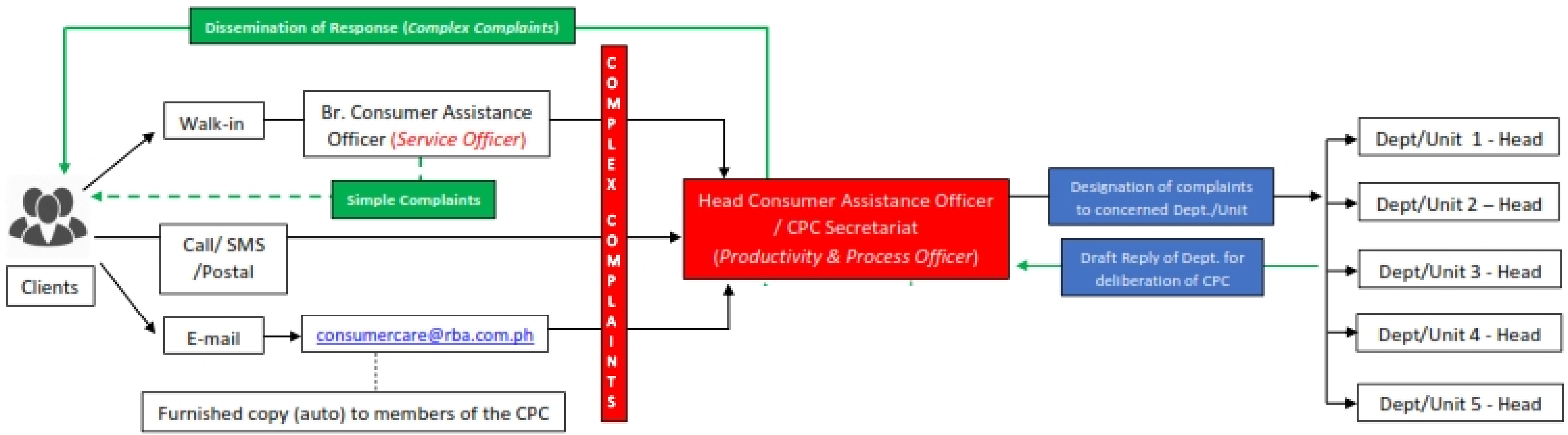
   Productivity and Process Officer
   Rural Bank of Angeles, Inc.
   Sto. Entierro St., Angeles City

3. Electronic Capturing of Complaints / Data Management System.

   Complainant may call or text the mobile number or send a message to the provided email address.

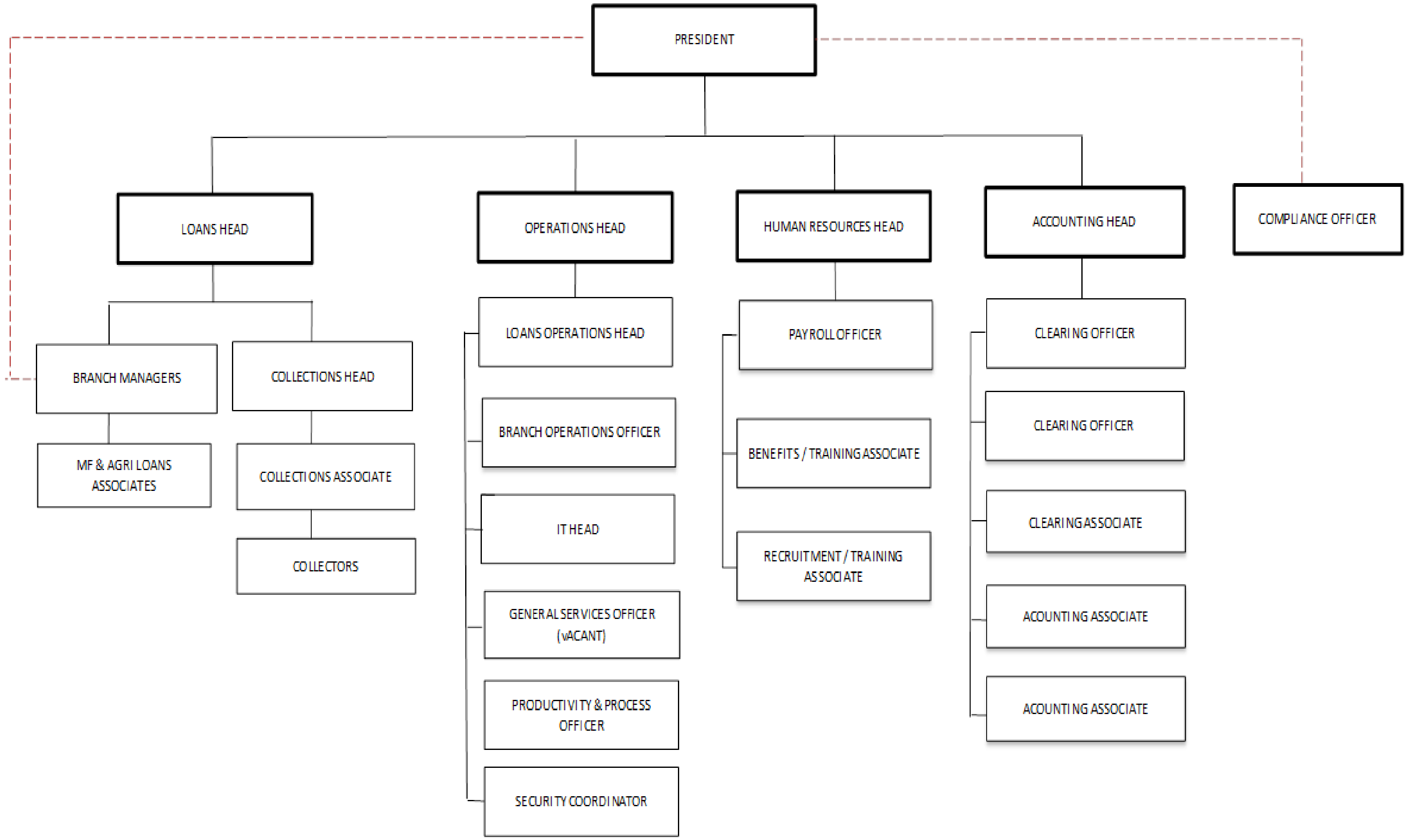
   - Tel. No. 0918-967-9452 / Email: customercare@rba.com.ph

CONSUMER COMPLAINT PROCESS FLOW



CORPORATE INFORMATION

FUNCTIONAL ORGANIZATION



Major Stockholder

Title of Class	Name	Citizenship	% of Ownership
Common	Asia United Bank	Filipino	99.54%
Preferred			

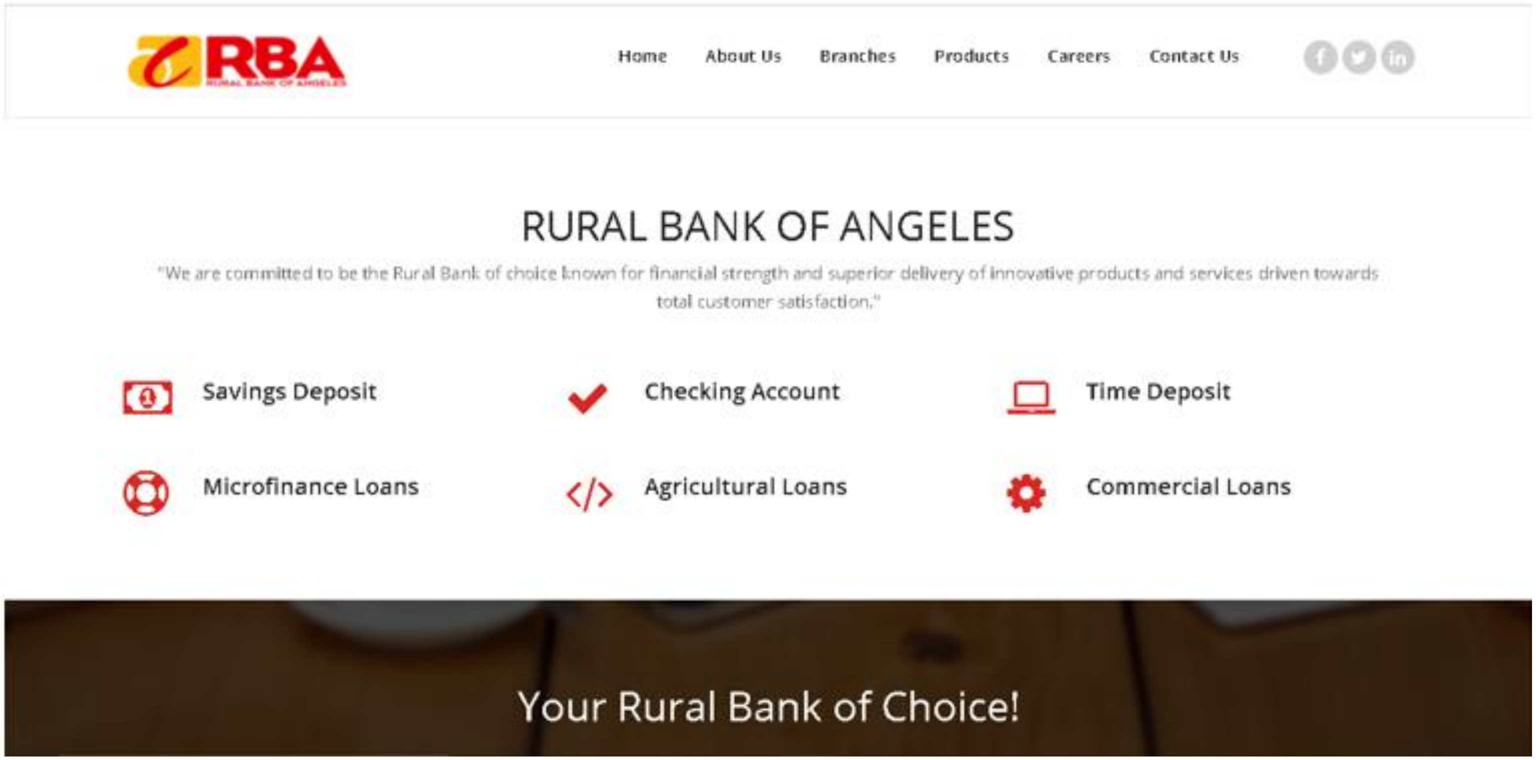
List of Officers

The Officers listed below are responsible in planning, directing and controlling activities that would be beneficial to the bank.

Name	Position	Birthday	Age	Nationality
Defante, Rainer Tarroza	President	11/25/1972	48	FILIPINO
Verona, Edwin Salazar	Loans Head	11/16/1973	47	FILIPINO
Villaroman, Jacqueline Rufino	Operations Head	7/23/1976	44	FILIPINO
Crisostomo, Nomer Angeles	Accounting Head	11/2/1975	45	FILIPINO
Ramos, Eugene Pascual	Compliance Officer	4/29/1980	41	FILIPINO
David, Leonard Cajala	It Head	10/4/1988	32	FILIPINO
Singson, Vanessa Jimenez	Human Resource Head	11/11/1986	34	FILIPINO
Magbag, Ropa Abular	Loans Operations Head	10/28/1988	32	FILIPINO
Dayrit, Mario V.	C.I. Unit Head	5/21/1972	49	FILIPINO
Sibal, Ramsey Tongol	Remedial Officer	6/20/1969	52	FILIPINO
Esguerra, Ma. Monette Angeles	Collection Head	8/27/1973	47	FILIPINO

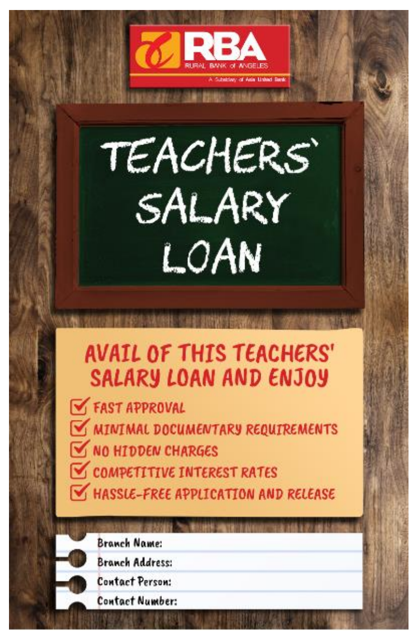
LIST OF BANKING UNITS

No.	Code	Branches	Province	Address	Date Opened	Landline Number	Mobile Number	Contact Person	Branch E-mail Address
1	501	Main	Pampanga	Miranda St. Corner Sto. Entierro St. Angeles City	31-Jan-53	(045) 598-0022	09190665517	Vanessa Cano	main@rba.com.ph
2	503	Dau	Pampanga	Angelique Square Bldg. McArthur Highway, Dau Mabalacat Pampanga	1-Jan-95	(045) 625-0384	09190665518	Eugene Francis Dayrit	dau@rba.com.ph
3	504	Capas	Tarlac	Poblacion Sto. Rosario Capas Tarlac	1-Jan-96	(045) 925-0472	09190665519	Allan David	capas@rba.com.ph
4	505	Magalang	Pampanga	Mun-Lac Bldg. Morales St. San Pedro Magalang Pampanga	1-Jan-95	(045) 435-0996	09190665520	Roberto Dela Rosa	magalang@rba.com.ph
5	506	San Fernando	Pampanga	LNG Bldg. McArthur Highway Dolores San Fernando Pampanga	1-Mar-11	(045) 455-3839	09190665521	Ramil Manabat	sanfernando@rba.com.ph
6	510	Apalit	Pampanga	R and L Bldg. McArthur Highway San Vicente Apalit Pampanga	31-Aug-12	(045) 652-0026	09190665523	Jerico Songsong	apalit@rba.com.ph
7	514	Lubao	Pampanga	Sta. Cruz Lubao Pampanga	31-Oct-14	(045) 971-7624	09190665524	Archie John Magtoto	lubao@rba.com.ph
8	515	Sta. Ana	Pampanga	San Joaquin Sta Ana Pampanga	18-Jun-15	(045) 409-9661	09190665526	Angelita Pineda	staana@rba.com.ph
9	516	Gapan	Nueva Ecija	Tinio St. Brgy. San Vicente Gapan City Nueva Ecija	18-Jun-15	(044) 958-7796	09190665527	Menandro Navarro	gapan@rba.com.ph
10	517	Gerona	Tarlac	Poblacion 3 Gerona Tarlac	28-Oct-16	(045) 628-1678	09190665528	Ariel Ramos	gerona@rba.com.ph
11	518	Cabanatuan	Nueva Ecija	Maharlika Highway Brgy. Quezon District Cabanatuan City Nueva Ecija	28-Oct-16	(044) 951-0192	09190665529	Eric Tarape	cabanatuan@rba.com.ph
12	519	Munoz	Nueva Ecija	Noli G. Wisco Bldg. T. Delos Santos St., Brgy. Poblacion West, Science City of Muñoz, Nueva Ecija.	15-Jul-16	(044) 940-7492	09190665530	Jerry Pamintuan	munoz@rba.com.ph
13	520	Mangatarem	Pangasinan	Along National Road, Brgy. Umanga, Mangatarem, Pangasinan	7-Nov-16	(075) 632-8762	09190665531	Melchor Cabigting	mangatarem@rba.com.ph
14	521	Asingan	Pangasinan	L. SOLORIA ST., cor T. Victorio St., Poblacion East, Asingan, Pangasinan	16-May-17	(075) 636-4435	09190665532	Hernanie Reyes	asingan@rba.com.ph
15	522	Solano	Nueva Vizcaya	#3 Agbayani Building Gaddang St. Poblacion North Solano Nueva Ecija	28-Jul-17	(078) 321-0230	09190665534	Loties Esurena	solano@rba.com.ph
16	523	San Mateo	Isabela	#National Highway Brgy. 1 Poblacion San Mateo Isabela	8-Mar-18	(078) 363-3665	09190665536	Phil Bryan Barrientos	sanmateo@rba.com.ph
17	524	Roxas	Isabela	#Taganaa St. Vira Roxas Isabela	8-Mar-18	(078) 642-0718	09190665537	John Rey Magday	roxas@rba.com.ph
18	525	Mangaldan	Pangasinan	Banaong West Mangaldan Pangasinan	25-Jul-18	(075) 523-3421	09190665538	Randy Francisco	mangaldan@rba.com.ph
19	526	Alcala	Pangasinan	Centro Norte, Alcala Cagayan	1-Oct-18	n/a	09190665539	Teofilo Nipas	alcala@rba.com.ph
20	527	Camalaniugan	Cagayan Valley	Aglipay St. Bulala, Camalaniugan, Cagayan	1-Oct-18	(078) 377-5245	09190665540	Lorenza Sabiano	camalaniugan@rba.com.ph
21	528	Ilagan	Isabela	National Highway, Baligatan, Ilagan City, Isabela	12-Nov-18	(078) 262-9022	09190665541	Limuel Galabay	ilagan@rba.com.ph
22	529	Cabarroguis	Quirino	Purok 4, Mangandingay Cabarroguis, Quirino	12-Nov-18	(078) 374-5788	09190665542	Ronadette Cortez	cabarroguis@rba.com.ph
23	530	Tuguegarao	Cagayan Valley	Luna Ext., Ugac Highway, Ugac Sur, Tuguegarao City	5-Dec-18	(078) 377-5569	09190665543	Edmund Pascual	tuguegarao@rba.com.ph
24	531	Guimba	Nueva Ecija	Units 3 and 4 JCB Bldg. Cawayan Bugtong, Guimba Nueva Ecija	2-May-19	(072) 486-2920	09190665546	Lemuel Peralta	guimba@rba.com.ph
25	532	Alaminos	Pangasinan	Sabaro, Poblacion, Alaminos City, Pangasinan	20-Jun-19	(075) 523-0240	09190665547	Laurence Cunanan	alaminos@rba.com.ph
26	533	Tabuk	Kalinga	Brgy. Bulanao Norte, Tabuk City, Kalinga	11-Jun-19	(074) 627-5504	09190665548	Edmundo Daguio	tabuk@rba.com.ph
27	534	Dingras	Ilocos Norte	1st Unit (Left) Exponent Commercial Space Rental, Brgy. Guerrero, Dingras Ilocos	24-May-19	(077) 600-0264	09190665549	Richardson Peralta	dingras@rba.com.ph
28	535	Bantay	Ilocos Sur	Bulag East, Bantay , Ilocos Sur	4-Jun-19	(077) 604-3775	09190665560	Charlimagne Andres	bantay@rba.com.ph
29	536	San Fernando	La Union	Brgy. Sevilla, San Fernando, La Union	9-Nov-19	(072) 619-5548	09190662324	Roy Duculan	launion@rba.com.ph
30	537	Baler	Aurora	Bonifacio St. Brgy. Suklayin, Baler Aurora	9-Nov-19	n/a	09190662321	Rommel Bernardo	baler@rba.com.ph



Bank Website

List of Products and Services



Deposit Products

Savings Account

1. Regular Savings

Description:

- An interest-bearing account, which allows deposits and withdrawals the via counter with the use of a passbook.
- Transactions can be done via over the counter on its domicile branch and other RBA branches.
- Uses passbook to monitor transactions.
- Deposits are insured by PDIC up to P500,000 per depositor.

2. Basic Savings Account

Description:

- For low income clients and those that are unserved or underserved by the financial system.
- An interest-bearing account, which allows deposits and withdrawals the via counter with the use of a passbook.
- Transactions can be done via over the counter on its domicile branch and other RBA branches.
- Uses passbook to monitor transactions.
- Maximum balance is not more than Php 50,000, should the depositor exceeds the Php 50,000 maximum balance, the bank should convert the basic deposit to a Regular Savings account subject for additional KYC.
- Deposits are insured by PDIC up to P500,000 per depositor.

3. Time Deposit

A. Regular Time Deposit

Product Description:

- Certificate of deposit (in Peso) with the Bank for a fixed period of time, in return for a fixed interest payable at the end of the term.
- Transactions can be done via over the counter on its domicile branch.
- PDIC insured up to P500,000

Details	Terms
Minimum Initial Placement	1,000.00
Placement Term	30 days up to 360 days
Withholding Tax Rate	20%
Documentary Stamps	P1,000.00 /200 x 1.50 x term/360
Pre-termination Penalty	Rate back to 0.75%

B. 5 Year Time Deposit

Product Description:

- Interest bearing Certificate of Deposit (in Peso) maintained for a minimum of (5) five years. Interest earned is credited every 35 calendar days.
- Interest income earned by the depositor is waived from 20% final tax and documentary stamps, thus, increasing depositor's yield and bank's access to longer-term funding in support of its PDIC insured up to P500,000.00

Details	Terms
Minimum Initial Placement	50,000.00
Placement Term	5 Year Fixed
Withholding Tax Rate	waived
Documentary Stamps	waived
Pre-termination Policy	a)Tenor<3 years : 50% of all interest earned b)Tenor<4 years : 25% of all interest earned c)Rate back to 0.75%. Subject to Withholding Tax and Documentary Stamps Expenses

4. Current Account

Individual Account and Corporate Account

Description:

- Interest-bearing Checking Account that maximizes the power of account holder's funds by earning interest while checks are issued.
- Deposits and encashments can only be done via over the counter on its domicile branch and other RBA branches.
- Uses passbook to monitor transactions.

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

Disclosures in the Annual Reports and Published Statement of Condition

A. Capital structure and capital adequacy:

1. Tier 1 Capital and breakdown of its components:

Common Stocks	P457,775,100.00
Additional Paid in Capital	400,050,000.00
Retained Earnings	(523,941,746)
Goodwill	(66,144,392.00)
Preferred Shares	531,100.00
Tier 1 Capital	440,654,225.83

2. Tier 2 Capital and a breakdown of its component
   General Loan Loss Provision permitted 13,329,828.34

3. Total Qualifying Capital 453,984,054.17
4. Capital Requirement for credit risk 1,965,123,658.91
5. Capital Requirements for market risk 0
6. Capital requirements for operational risk 802,499,580.25
7. Capital ratios
   - Common Equity Tier 1 ratio 15.90%
   - Total tier 1 capital expressed as a percentage of total risk weighted assets 15.92%
   - Total regulatory capital expressed as a percentage of total risk-weighted assets 16.40%

B. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

Total High Quality Liquid Assets	P294,622,288
Total net cash flows	164,202,435
Liquidity Coverage Ratio	179.43%
Available Stable Funding Ratio	2,152,959,424
Divide: Required Stable Funding	1,921,388,778
Net Stable Funding ratio	112.05%

ANNEX A

2020

AUDITED FINANCIAL STATEMENT

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Rural Bank of Angeles, Inc.
Miranda Corner Sto. Entierro Street
Angeles City, Pampanga

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rural Bank of Angeles, Inc. (a subsidiary of Asia United Bank Corporation) (the Bank), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. 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 and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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Report on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations No. 15-2010

Our audits were 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 28 and Revenue Regulations 15-2010 in Note 29 to the financial statements is 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 Angeles, Inc. (a subsidiary of Asia United Bank Corporation). 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.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso

Janet A. Paraiso
Partner
CPA Certificate No. 92305
SEC Accreditation No. 0778-AR-3 (Group A),
June 19, 2018, valid until June 18, 2021
Tax Identification No. 193-975-241
BIR Accreditation No. 08-001998-062-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534211, January 4, 2021, Makati City

May 28, 2021

RURAL BANK OF ANGELES, INC.
(A Subsidiary of Asia United Bank Corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Cash and Other Cash Items	**₱19,343,744**	₱21,559,777
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	**76,197,200**	76,966,368
Due from Other Banks (Notes 6 and 24)	**402,487,713**	184,679,863
Investment Securities at Amortized Cost (Note 7)	**199,231,344**	659,205,001
Loans and Receivables (Note 8)	**2,061,912,148**	2,321,706,333
Property and Equipment (Note 9)	**47,725,746**	64,403,914
Investment Properties (Note 10)	**74,182,508**	71,734,260
Right-of-use Assets (Note 21)	**27,949,917**	34,593,528
Goodwill (Note 11)	**66,144,392**	66,144,392
Other Assets (Note 12)	**18,128,519**	22,928,578
TOTAL ASSETS	**₱2,993,303,231**	₱3,523,922,014
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 13 and 24)	**₱2,253,139,955**	₱2,366,363,495
Bills Payable (Notes 14 and 24)	**63,553,791**	426,260,915
Accrued Taxes, Interest and Other Expenses (Note 15)	**60,874,548**	55,145,430
Lease Liabilities (Note 21)	**31,952,215**	37,210,388
Income Tax Payable (Note 23)	**11,638,725**	9,877,156
Other Liabilities (Notes 14 and 16)	**52,274,924**	277,777,588
TOTAL LIABILITIES	**2,473,434,158**	3,172,634,972
EQUITY		
Preferred Stock (Note 18)	**531,100**	531,100
Common Stock (Note 18)	**457,775,100**	457,775,100
Additional Paid-in Capital	**400,050,000**	400,050,000
Deficit	**(338,487,127)**	(507,069,158)
Total Equity	**519,869,073**	351,287,042
TOTAL LIABILITIES AND EQUITY	**₱2,993,303,231**	₱3,523,922,014

See accompanying Notes to Financial Statements.

RURAL BANK OF ANGELES, INC.
(A Subsidiary of Asia United Bank Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2020	2019
INTEREST INCOME		
Loans and receivables (Note 8)	**₱402,622,792**	₱474,317,175
Investment securities at amortized cost (Note 7)	**23,440,899**	20,861,463
Due from other banks (Notes 6 and 24)	**1,822,878**	4,721,475
Others (Note 14)	**12,454,094**	19,041,280
	440,340,663	518,941,393
INTEREST EXPENSE		
Deposit liabilities (Notes 13 and 24)	**61,109,717**	88,071,597
Bills payable (Note 14)	**17,326,722**	26,623,702
Lease liabilities (Note 21)	**2,211,525**	2,274,020
	80,647,964	116,969,319
NET INTEREST INCOME	**359,692,699**	401,972,074
Gain on sale of investment securities at amortized cost (Note 7)	**96,118,110**	–
Service charges	**37,693,348**	43,301,525
Miscellaneous (Note 19)	**58,369,606**	35,262,732
TOTAL OPERATING INCOME	**551,873,763**	480,536,331
OPERATING EXPENSES		
Compensation and fringe benefits (Notes 22 and 24)	**138,359,231**	126,178,668
Provision for credit and impairment losses (Notes 8, 10 and 12)	**60,593,434**	138,741,080
Taxes and licenses	**37,675,263**	59,942,086
Depreciation and amortization (Notes 9, 10, 12 and 21)	**35,680,125**	32,190,588
Insurance	**14,977,289**	22,455,379
Security and janitorial services	**9,790,270**	11,558,466
Fuel and lubricants	**8,906,556**	11,570,914
Postage, telephone and telegraph	**6,669,770**	7,016,438
Repairs and maintenance	**3,766,132**	3,344,986
Power, light and water	**3,309,498**	3,676,118
Stationeries and supplies	**3,012,875**	4,443,727
Professional fees	**1,584,128**	1,179,958
Rent (Note 21)	**1,009,844**	3,305,926
Entertainment, amusement and recreation	**118,248**	227,395
Miscellaneous (Note 20)	**35,457,093**	10,826,593
TOTAL OPERATING EXPENSES	**360,909,756**	436,658,322
INCOME BEFORE INCOME TAX	**190,964,007**	43,878,009
PROVISION FOR INCOME TAX (Note 23)	**23,840,885**	13,734,152
NET INCOME	**167,123,122**	30,143,857
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will not be reclassified to profit or loss in subsequent periods:		
Gain (loss) on remeasurement of retirement obligation (Note 22)	**1,458,909**	(6,656,797)
TOTAL COMPREHENSIVE INCOME	**₱168,582,031**	₱23,487,060

See accompanying Notes to Financial Statements.

RURAL BANK OF ANGELES, INC.
(A Subsidiary of Asia United Bank Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Preferred Stock (Note 18)	Common Stock (Note 18)	Additional Paid-in Capital	Deficit	Remeasurement of Retirement Obligation (Note 22)	Total
Balance at January 1, 2020	**₱531,100**	**₱457,775,100**	**₱400,050,000**	**(₱507,069,158)**	**₱–**	**₱351,287,042**
Net income for the year	–	–	–	167,123,122	–	167,123,122
Other comprehensive income for the year	–	–	–	–	1,458,909	1,458,909
Total comprehensive income for the year	–	–	–	167,123,122	1,458,909	168,582,031
Gain on remeasurement of retirement obligation transferred to deficit	–	–	–	1,458,909	(1,458,909)	–
Balances at December 31, 2020	**₱531,100**	**₱457,775,100**	**₱400,050,000**	**(₱338,487,127)**	**₱–**	**₱519,869,073**
Balances at January 1, 2019	₱531,100	₱457,775,100	₱400,050,000	(₱530,556,218)	₱–	₱327,799,982
Net income for the year	–	–	–	30,143,857	–	30,143,857
Other comprehensive loss for the year	–	–	–	–	(6,656,797)	(6,656,797)
Total comprehensive income for the year	–	–	–	30,143,857	(6,656,797)	23,487,060
Loss on remeasurement of retirement obligation transferred to deficit	–	–	–	(6,656,797)	6,656,797	–
Balances at December 31, 2019	₱531,100	₱457,775,100	₱400,050,000	(₱507,069,158)	₱–	₱351,287,042

See accompanying Notes to Financial Statements

RURAL BANK OF ANGELES, INC.
(A Subsidiary of Asia United Bank Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**₱190,964,007**	₱43,878,009
Adjustments for:		
Gain on sale of investment securities at amortized cost	**(96,118,110)**	–
Provision for credit and impairment losses (Notes 8 and 10)	**60,593,434**	138,741,080
Depreciation and amortization (Notes 9, 10, and 12)	**35,680,125**	32,190,588
Loss on pre-termination of bills payable (Note 11)	**25,056,859**	–
Gain on foreclosure of investment properties (Notes 10 and 19)	**(6,361,223)**	(7,109,111)
Gain on sale of investment properties and chattels (Notes 10, 12 and 19)	**(3,464,428)**	(5,274,875)
Retirement expense (Note 22)	**3,277,493**	736,239
Amortization of premium and discount on investment securities at amortized cost	**593,190**	1,308,715
Gain on sale of property and equipment (Notes 9 and 19)	**(20,000)**	(92,761)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	**189,440,770**	(541,554,447)
Other assets	**3,724,856**	(4,632,928)
Increase (decrease) in:		
Deposit liabilities	**(113,223,540)**	409,808,160
Accrued taxes, interest and other expenses	**5,729,118**	9,740,411
Other liabilities	**(11,204,665)**	8,096,764
Net cash generated from operations	**284,667,886**	85,835,844
Income taxes paid	**(22,079,316)**	(3,856,996)
Net cash generated from operating activities	**262,588,570**	81,978,848
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities/sale of:		
Investment securities at amortized cost	**1,103,123,297**	–
Investment properties and chattels (Notes 10 and 12)	**14,196,305**	21,804,732
Property and equipment (Note 9)	**60,000**	146,294
Acquisitions of:		
Investment securities at amortized cost	**(547,624,720)**	(38,207,836)
Property and equipment (Note 9)	**(4,439,301)**	(33,194,194)
Net cash provided by (used in) investing activities	**565,315,581**	(49,451,004)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of bills payable (Notes 23 and 26)	**(1,302,831,550)**	(160,000,000)
Proceeds from bills payable, net of related documentary stamp tax (Notes 23 and 26)	**699,795,034**	102,855,511
Payments of lease liabilities (Note 21)	**(10,044,986)**	(7,303,216)
Net cash used in financing activities	**(613,081,502)**	(64,447,705)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**214,822,649**	(31,919,861)

(Forward)

	Years Ended December 31	
	2020	2019
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**₱21,559,777**	₱25,196,883
Due from Bangko Sentral ng Pilipinas	**76,966,368**	60,601,236
Due from other banks	**184,679,863**	229,327,750
	283,206,008	315,125,869
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**19,343,744**	21,559,777
Due from Bangko Sentral ng Pilipinas	**76,197,200**	76,966,368
Due from other banks	**402,487,713**	184,679,863
	₱498,028,657	₱283,206,008
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**₱404,478,305**	₱448,831,833
Interest paid	**86,603,473**	109,112,659

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Rural Bank of Angeles, Inc. (the Bank) is a domestic corporation registered with the Securities and Exchange Commission (SEC) on December 3, 1952. It was granted an authority to operate as a banking institution by the Bangko Sentral ng Pilipinas (BSP) on January 31, 1953 and started banking operations on February 12, 1953. On December 29, 2005, the SEC approved the Bank's application to extend its corporate term for another 50 years.

The Bank provides deposit and lending services to retail customers, rural and urban industries, farmers and tenants and other meager income earners. Its principal place of business is located at Miranda corner Sto. Entierro Streets, Angeles City, Pampanga. As of December 31, 2020, the Bank has 30 branches including its head office.

The Bank is a 99.54%-owned subsidiary of Asia United Bank Corporation (the Parent Company).

The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) on May 28, 2021.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements are prepared under the historical cost basis, and are presented in Philippine Peso (₱), the Bank's functional currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2020. The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Bank.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*

  The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Bank enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform*

  The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

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

  The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*
  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Bank shall also disclose information about:

  - The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Bank is not required to restate prior periods.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

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

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

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

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Bank.

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

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

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

  The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- Annual Improvements to PFRS Standards 2018–2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Bank.

  - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*

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

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

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Bank.

Effective beginning on or after January 1, 2023

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

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts.* This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *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. 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 deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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.

Significant Accounting Policies

Cash and Other Cash Items
Cash and other cash items include cash and checks on hand. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Fair value measurement
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 or the most advantageous market must be accessible to by 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, maximizing the use of relevant observable inputs and minimizing 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 prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - inputs are unobservable inputs for the asset or liability

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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. External appraisers are involved for valuation of significant assets, such as investment properties.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Deposit liabilities, other financial liabilities and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

'Day 1' difference

When the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank immediately recognizes the difference between the transaction price and fair value (a 'Day 1' difference), if any, in the statement of income under 'Miscellaneous income' unless it qualifies for recognition as some other type of asset. In cases when the fair value is determined using data which are not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Initial Recognition and Classification of Financial Instruments

Financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVTPL, the initial measurement includes transaction cost. Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Bank may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test). For the purpose of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium or discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL.

As of December 31, 2020 and 2019, the Bank does not have financial instruments at FVTPL and FVOCI.

Financial assets at amortized cost
Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the EIR method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The allowance for credit losses is recognized in the statement of income under 'Provision for credit losses and impairment losses'.

This accounting policy mainly relates to 'Cash and other cash items', 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from other banks', 'Investment securities at amortized cost', 'Loans and receivables', and security deposits under 'Other assets'.

Financial liabilities at amortized cost
These are issued financial instruments or their components which are not designated as at FVTPL and where the substance of the contractual arrangement results 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 its 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.

After initial measurement, financial liabilities at amortized cost are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy mainly relates 'Deposit liabilities', 'Bills payable', 'Accrued taxes, interest and other expenses', and 'Other liabilities' are classified under this category.

Impairment of Financial Assets
PFRS 9 requires the Bank to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

Expected credit loss methodology
ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument and are computed for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition and for those financial assets which have indications of objective evidence of impairment.

Assessment of Significant Increase in Credit Risk/Staging assessment
For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. These include those classified as non-performing loans and restructured accounts. The ECL model requires that lifetime ECL be recognized for these impaired financial assets.

Definition of "default"
The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired. A loan is in default when the borrower becomes more than 90 days past due on its contractual payments except for microfinance loans wherein it is considered in default when the borrower becomes over 30 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate objective evidence of impairment, which include but not limited to, financial difficulty of the borrowers and significant problems in the operations of the counterparties. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record, i.e. consistent no missed payments on principal and interest for three (3) consecutive period for non-restructured accounts and six (6) consecutive payments for restructured accounts.

Credit risk at initial recognition
The Bank uses internal borrower rating assessment and approvals at various levels to determine the credit risk of exposures at initial recognition.

Significant increase in credit risk
The credit risk is deemed to have increased significantly, if based on aging information, the borrower becomes past due on the contractual payments for over a certain number of days. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Restructuring
In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Restructured impaired accounts are purchased or originated credit impaired accounts where lifetime ECL is provided.

ECL calculation
ECL is a function of the PD, LGD and EAD, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will be in default either in the next 12 months for Stage 1 or during its lifetime for Stage 2. The PD for each individual financial asset is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics (i.e. loan product basis) and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate.

The Bank incorporates overlays in its measurement of ECL. These overlays are based on broad range of macro-economic variables, which based on management's expert credit judgment and available and supportable information, reflect the reasonable expectation of future credit losses.

Collateral valuation
To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, real estates, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of condition.

Write-offs
Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to 'Provision for credit and impairment loss' in the profit or loss.

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

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

Modification of financial assets
The Bank derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment less has not already been recorded.

The Bank also performed a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Bank considered the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% difference from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Bank recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new ' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired (POCI).

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

<u>Property and Equipment</u>
Property and equipment are carried at cost net of accumulated depreciation and any impairment in value. The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance are charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the assets as follows:

	EUL in years
Building	10 - 40
Furniture and equipment	3 - 5
Transportation equipment	3 - 5
Leasehold improvements	Term of the lease or 10 years whichever is shorter

The useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of property and equipment are reviewed by the Bank's management for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under 'Investment Properties' upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value. Depreciation on building is calculated on a straight-line basis over maximum useful life of ten (10) years from the time it was acquired.

Investment properties are derecognized when they have either been disposed of or when investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the statement of comprehensive income in the year of retirement or disposal.

Other Assets - Chattels

Other assets - chattels consists of repossessed chattels. They are stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life from the date of acquisition, which is estimated to be no longer than three (3) years.

Business Combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in operating expenses.

Goodwill
Goodwill is initially measured at cost being the excess of the acquisition cost over the net fair value of the acquired identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the cash generating unit (CGU) that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Impairment is determined for goodwill by assessing the recoverable amount of the CGUs (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the cash generating unit (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the profit or loss in the statements of comprehensive income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Impairment of Non-Financial Assets
At each reporting date, the Bank assesses whether there is any indication that its property and equipment, investment properties, right-of-use assets, software cost and chattel may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is charged against current operations in the year in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation, had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in profit or loss. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Revenue Recognition
Revenue from contracts with customers (scoped in under PFRS 15) is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those goods or services.

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

Service charges and penalties
Service charges, and penalties relating to loans and receivables and deposit transactions are generally recognized when the services are rendered.

Gain on sale of investment properties
Gain on sale of investment properties is recognized when control of such properties is transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those goods.

Revenues outside the scope of PFRS 15
Interest income
For all financial instruments measured at amortized cost, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation includes estimation of cash flows from financial instrument (for example, prepayment options), and any loan origination fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR, with the change in carrying amount recorded as 'Interest income'.

Under PFRS 9, when a financial asset becomes credit-impaired, the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Expense Recognition
Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Interest expense
Interest expense on deposit liabilities and bills payable are recognized based on the accrual method of accounting.

Administrative and other operating expenses
Administrative and other operating expenses include the costs directly associated with the generation of revenue and cost of administering the business, and these are expensed as incurred.

Equity
When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital' (APIC) account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged against APIC account.

Deficit represents accumulated losses of the Bank.

Income Taxes

Current tax

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

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates applicable to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity through OCI.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Retirement Cost

Defined Benefit Plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the single discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements are closed to Deficit at the end of every reporting period.

Leases

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

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases

The Bank applies the short-term lease recognition exemption to its short-term leases for some branches (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Determination of lease term of contracts with renewal and termination options – the Bank as a lessee

The Bank has several lease contracts that include extension and termination options. Generally, the options to extend or terminate the lease are not included in the determination of the lease term. These optional periods to renew are not enforceable, as the Bank cannot enforce the extension of the lease without the agreement from the lessor, and therefore, the Bank does not have the right to use the asset beyond the non-cancellable period. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Government Grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When loans or similar assistance are provided by government or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant. The government grant component is measured as the difference between the fair value of the loan granted and cash received at the date of grant. Such amount shall be recognized in the profit or loss on a systematic basis over the periods in which the Bank recognizes the related costs as expense for which the grants are intended to compensate.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and where, appropriate, the risk specific to the liability.

Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Events after the Reporting Period

Post-year-end events that provide additional information about the Bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with the PFRS requires the Bank to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may occur which can 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.

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

The following are the critical judgment and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

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

(a) *Evaluation of business model in managing financial instruments*

The Bank manages its financial assets based on business models that maintain adequate liquidity level and preserve capital requirements, while maintaining a strategic portfolio of financial assets for accrual consistent with its risk appetite.

The Bank developed business models which reflect how it manages its portfolio of financial instruments. In determining the classification of a financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank.

In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of investment securities carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

In 2020, the Bank sold investment securities classified as Investment securities at amortized cost with carrying amount totaling ₱617.05 million, resulting in Gain on sale of investment securities at amortized cost totaling ₱96.12 million. The sale was made in order to settle the PDIC borrowing in 2020 because of breach in loan covenant in 2019.

The Bank assessed that the sale resulted from changes in intention for a certain investment security and do not reflect a change in the Bank's objectives for the hold to collect business model. Accordingly, the remaining securities in the affected portfolio are continued to be measured at amortized cost. Refer to Note 7 for more details

(b) *Contingencies*

The Bank is currently involved in various legal proceedings arising from the ordinary course of business. The estimate of the probable costs for the resolution of these claims and assessments has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. The Bank currently does not believe that liabilities which may arise from these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 25).

Estimates

(a) *Estimation of credit losses on loans and receivables*

The measurement of impairment losses for financial assets at amortized cost, particularly loans and receivables under PFRS 9 requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk;
- The Bank's definition of default, which is consistent with regulatory requirements;
- The segmentation of financial assets when the ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, and the effect on PDs, EADs and LGDs.
- Definition of forward-looking macroeconomic scenario variables.

As of December 31, 2020 and 2019, the carrying values of loans and receivables and related allowance for credit losses are disclosed in Note 8.

The Bank updated the model inputs to incorporate potential impact of the pandemic on the macroeconomic variables selected for overlay determination. The Bank also revised the probability weights of the macroeconomic variables to consider the Bank's expectation of the potential impact of the pandemic.

(b) *Recognition of deferred tax assets*
Deferred tax assets are recognized in respect of the temporary differences and unused tax losses to the extent that there are sufficient taxable temporary differences relating to the same taxation authority which are expected to reverse in the same period as the expected reversal of the deductible temporary differences or to the extent that it is probable that future taxable profit will be available against which that it can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Bank only recognized deferred tax assets on certain temporary differences to the extent that the timing of expected reversal will be in the same period as the expected reversal of the taxable temporary differences.

Amounts of recognized and unrecognized deferred tax assets as of December 31, 2020 and 2019 are disclosed in Note 23.

(c) *Impairment of goodwill*
Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is written down for impairment where the recoverable amount is insufficient to support their carrying value. The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections from financial budgets and the Bank's strategic plan covering a five-year period. The assumptions used in the calculation of value-in-use are sensitive to estimates of future cash flows from business, interest margin, discount rate and long-term growth rate used to extrapolate cash flows beyond the budget period.

Future cash flows and growth rates were determined based on past experience and strategies developed using a five-year period projection by the management. A Long-term growth rate of 3.39% for 2020 and 6.35% for 2019 have been determined by management based on the historical average growth rates and market outlook for the services, industry and country in which the CGUs are operating. The discount rate applied has been determined based on the average cost of capital of 19.70% and 16.50% in 2020 and 2019, respectively. The discount rate increased due to higher beta from comparable companies.

The goodwill impairment test in 2020 and 2019 did not result in an impairment loss of goodwill of the Bank's CGU as the recoverable amount for the CGU was higher than the carrying amount. As to the assessment of value-in-use of the CGU, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

The carrying amount of goodwill as of December 31, 2020 and 2019 is disclosed in Note 11.

(d) *Present value of retirement obligation*
The cost of defined benefit obligation and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates and future salary increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The discount rates used were determined using the market yields of Philippine government bonds with terms consistent with the expected employee benefit payout as at statement of financial position date. Future salary increases are based on historical annual merit, market and promotional increase and expected future inflation rates.

The key assumptions in determining the present value of the defined benefit obligation of the Bank are disclosed in Note 22.

4. Fair Value Measurement

The following table provides the fair value hierarchy of the Bank's assets and liabilities measured at fair value and those for which fair values are required to be disclosed:

	December 31, 2020				
		Fair Value			
	CarryingValues	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost	₱199,231,344	₱199,336,948	₱–	₱–	₱199,336,948
Receivables from customers					
Agricultural	1,919,362,898	–	–	2,003,456,518	2,003,456,518
Microfinance	24,273,812	–	–	28,482,663	28,482,663
Commercial	14,960,402	–	–	15,981,015	15,981,015
Others	25,489,863	–	–	25,724,919	25,724,919
Other assets	2,754,506	–	–	2,622,695	2,622,695
	2,186,072,825	199,336,948	–	2,076,267,810	2,275,604,758
Non-Financial assets					
Investment properties					
Land	68,750,991	–	–	78,672,811	78,672,811
Building and improvements	5,431,517	–	–	12,734,794	12,734,794
	74,182,508	–	–	91,407,605	91,407,605
	₱2,260,255,333	₱199,336,948	₱–	₱2,167,675,415	₱2,367,012,363

(Forward)

	December 31, 2020				
		Fair Value			
	CarryingValues	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities for which fair values are disclosed					
Financial Liabilities					
Time deposit liabilities	**₱1,757,573,302**	**₱–**	**₱–**	**₱1,783,044,253**	**₱1,783,044,253**
Bills payable	**63,553,791**	**–**	**–**	**63,640,720**	**63,640,720**
Lease liabilities	**31,952,215**	**–**	**–**	**32,629,271**	**32,629,271**
	₱1,853,079,308	**₱–**	**₱–**	**₱1,879,314,244**	**₱1,879,314,244**

	December 31, 2019				
		Fair Value			
	CarryingValues	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost	₱659,205,001	₱694,595,053	₱–	₱–	₱694,595,053
Receivables from customers					
Agricultural	2,104,822,087	–	–	2,180,870,555	2,180,870,555
Microfinance	82,477,227	–	–	98,471,497	98,471,497
Commercial	30,723,110	–	–	31,655,643	31,655,643
Others	26,630,958	–	–	27,812,204	27,812,204
Other assets	5,426,035	–	–	5,176,775	5,176,775
	2,909,284,418	694,595,053	–	2,343,986,674	3,038,581,727
Non-Financial assets					
Investment properties					
Land	65,915,165	–	–	75,737,075	75,737,075
Building and improvements	5,819,095	–	–	14,730,328	14,730,328
	71,734,260	–	–	90,467,403	90,467,403
	₱2,981,018,678	₱694,595,053	₱–	₱2,434,454,077	₱3,129,049,130
Liabilities for which fair values are disclosed					
Financial Liabilities					
Time deposit liabilities	₱1,859,216,071	₱–	₱–	₱1,870,394,795	₱1,870,394,795
Bills payable	426,260,915	–	–	458,022,909	458,022,909
Lease liabilities	37,210,388	–	–	39,008,018	39,008,018
	₱2,322,687,374	₱–	₱–	₱2,367,425,722	₱2,367,425,722

As of December 31, 2020 and 2019, no transfers were made among the three levels in the fair value hierarchy.

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are as follows:

Cash and other cash items, due from BSP, due from other banks, accounts receivable, accrued interest receivable, demand deposit liabilities, savings deposit liabilities, accrued expenses payable and other liabilities - The carrying amounts approximate fair values considering that these accounts are short term in nature.

Loans and receivables and time deposits - Fair values are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of loans or incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the loans or time deposits being valued. For loans and receivables where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximate fair values.

Investment securities at amortized cost - Fair values are generally based on quoted market prices.

Investment properties - Description of the valuation techniques and significant unobservable inputs used in the valuation of the Bank's investment properties are as follows:

Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.

Significant Unobservable Inputs	
Price per square meter	Ranges from ₱40.00 to ₱11,000.00
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms to the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Liabilities
The fair values of liabilities approximate their carrying amounts due to either the demand nature or the relatively short-term maturities of these liabilities except for: (a) time deposit liabilities; (b) bills payable and (c) lease liabilities whose Level 3 fair values are estimated using the discounted cash flow methodology using the Bank's incremental borrowing rates of 4.3% to 7.1% and for similar borrowings with maturities consistent with those remaining for the liability being valued.

There are no financial assets and financial liabilities measured at fair value as at December 31, 2020 and 2019.

5. Financial Risk Management Objectives and Policies

Framework, Organization and Processes
The Bank faces both financial and non-financial risks. Financial risks arise from the use of financial instruments and include credit risk, market risk and liquidity risk.

The succeeding sections will discuss the Bank's risk management structure, the definition and sources of key financial risks, and the processes and methodologies applied in identifying, monitoring, and managing these key financial risks.

Risk Management Structure
The Bank has its own BOD which is ultimately responsible for oversight of the Bank's risk management process which involves identifying, measuring, analyzing, monitoring and controlling risks.

The BOD has the overall responsibility for the oversight of the Bank's risk management process. Supporting the BOD in this function is the Senior Management Committee (SMC).

The SMC is responsible for ensuring that there are adequate policies and procedures for conducting risk taking activities on both long-range and day-to-day basis. This responsibility includes:

- Ensuring that there is clear delineation of lines of responsibility for managing risk, appropriately structured limits on risk taking, effective internal controls and a comprehensive risk reporting process; and
- Ensuring that all appropriate approvals were obtained and that adequate operational procedures and risk control systems are in place.

The SMC is assisted in these functions by the Internal Audit Group of the Parent Bank. The Internal Audit Group undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the SMC.

Credit Risk

Credit risk is the risk of financial loss to the Bank if a counterparty to a financial instrument fails to meet its contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits.

Management of credit risk is the principal responsibility of the Credit Committee. The role of the Credit Committee is to ensure that the credit risk policies are strictly complied with when approving loan proposals.

Management of credit risk

The Bank faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties or invests funds to issuers (e.g., investments securities issued by government entities).

The Bank manages credit risk by setting limits for individual and group of borrowers. The Bank also monitors credit exposures and continually assesses the credit worthiness of counterparties. In addition, the Bank obtains security by entering into agreements (e.g., collateral agreements) which include, among others, real estate, chattel and guarantees with counterparties to limit the exposure.

The carrying value of the Bank's loans and receivables reflects its maximum exposure to credit risk.

Maximum exposure to credit risk after considering collateral held or other credit enhancements

The maximum exposure of the Bank's financial instruments is equivalent to the carrying values as reflected in the statement of financial position and related notes. The credit risk associated with the receivables from customers is mitigated because some of these receivables have collaterals. The Bank also applied some loans to Agricultural Guarantee Fund Pool (AGFP) which guarantees 85% of the outstanding principal loan balance upon maturity.

An analysis of the maximum exposure to credit risk for receivables from customers, after taking into account any collateral held of other credit enhancements is shown below as at December 31, 2020 and 2019.

	2020			
	Maximum Credit Exposure	**Fair Value of Collateral and Credit Enhancements**	**Net Exposure to Credit Risk**	**Financial Effect of Collateral and Credit Enhancement**
Due from BSP	**₱76,197,200**	**₱–**	**₱76,197,200**	**₱–**
Due from other banks	**402,487,713**	**–**	**402,487,713**	**–**
Investment securities at amortized cost	**199,231,344**	**–**	**199,231,344**	**–**
	677,916,257	**–**	**677,916,257**	**–**
Loans*:				
Agriculture	**1,996,743,513**	**2,435,005,372**	**643,474,361**	**1,353,269,152**
Microfinance	**24,442,789**	**–**	**24,442,789**	**–**
Commercial	**15,048,397**	**42,155,000**	**6,730,820**	**8,287,733**
Others	**25,634,952**	**672,500**	**25,562,278**	**72,674**
Accrued interest receivable	**42,497**	**–**	**42,497**	**–**
	2,061,912,148	**2,477,832,872**	**700,252,745**	**1,361,629,559**
Other assets	**2,754,506**	**–**	**2,754,506**	**–**
	₱2,742,582,911	**₱2,477,832,872**	**₱1,380,923,508**	**1,361,629,559**

***Includes accrued interest receivable*

	2019			
	Maximum Credit Exposure	Fair Value of Collateral and Credit Enhancements	Net Exposure to Credit Risk	Financial Effect of Collateral and Credit Enhancement
Due from BSP	₱76,966,368	₱–	₱76,966,368	₱–
Due from other banks	184,679,863	–	184,679,863	–
Investment securities at amortized cost	677,673,898	–	677,673,898	–
	939,320,129	–	939,320,129	–
Loans*:				
Agriculture	2,163,725,589	1,829,810,997	1,037,929,420	1,125,796,169
Microfinance	81,429,980	–	81,429,980	–
Commercial	30,096,580	52,568,750	15,257,752	14,838,828
Others	26,671,975	2,278,750	26,024,513	647,462
Accounts receivable	1,241,589	11,049,116	1,241,589	–
Accrued interest receivable	71,723	–	71,723	–
	2,303,237,436	1,895,707,613	1,161,954,977	1,141,282,459
Other assets	5,426,035	–	5,426,035	–
	₱3,247,983,600	₱1,895,707,613	₱2,106,701,141	₱1,141,282,459ss

***Includes accrued interest receivable*

Financial effect of collateral in mitigating credit risk is equivalent to the fair value of the collateral or the carrying value of the loan, whichever is lower.

Concentration of risks of financial assets with credit risk exposure
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.

An analysis of concentration of credit risk by industry sector as of December 31, 2020 and 2019 is shown below:

	2020		
	Loans and Receivables	**Other Financial Assets***	**Total**
Agriculture, forestry and fishing	**₱2,232,060,433**	**₱–**	**₱2,232,060,433**
Wholesale and retail, repair of motor vehicles, motorcycles	**19,140,212**	**–**	**19,140,212**
Manufacturing	**23,772,835**	**–**	**23,772,835**
Financial intermediaries	**–**	**134,121,074**	**134,121,074**
Government institution	**–**	**544,563,839**	**544,563,839**
Other service activities**	**124,762,011**	**–**	**124,762,011**
Other assets	**–**	**2,754,506**	**2,754,506**
	2,399,735,491	**681,439,422**	**3,081,174,910**
Less: unearned interest and discounts	**46,181,890**	**768,656**	**46,950,546**
	2,353,553,601	**680,670,766**	**3,033,387,157**
Less: allowance for credit losses	**291,641,453**	**–**	**291,641,453**
	₱2,061,912,148	**₱680,670,766**	**₱2,741,745,705**

**Consists of due from BSP, due from other banks, investment securities at amortized cost) and other financial assets included under 'Other Assets'*
***Includes employee loans and accounts receivable*

	2019		
	Loans and Receivables	Other Financial Assets*	Total
Agriculture, forestry and fishing	₱2,540,806,340	₱–	₱2,540,806,340
Wholesale and retail, repair of motor vehicles, motorcycles	63,195,708	–	63,195,708
Manufacturing	25,015,765	–	25,015,765
Financial intermediaries	–	184,679,863	184,679,863
Government institution	–	685,121,368	685,121,368
Other service activities**	91,826,622	–	91,826,622
Other assets	–	5,426,035	5,426,035
	2,720,844,435	875,227,266	3,596,071,701
Less: unearned interest and discounts (premiums)	84,518,647	(51,050,001)	33,468,646
	2,636,325,788	926,277,267	3,562,603,055
Less: allowance for credit losses	314,619,455	–	314,619,455
	₱2,321,706,333	₱926,277,267	₱3,247,983,600

**Consists of due from BSP, due from other banks, investment securities at amortized cost and other financial assets included under 'Other Assets'*
***Includes employee loans and accounts receivable*

Collateral and other credit enhancements
The Bank holds collateral against loans and receivables mostly in the form of real estate and chattel mortgage. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated every two years. The Bank also obtains financial guarantee from a government agency which serves as credit risk mitigant in the event the loan defaults.

As of December 31, 2020 and 2019, past due loans and receivables amounting to ₱9.97 million and ₱11.31 million are secured by real estate and chattel mortgage with aggregate appraised values of ₱27.59 million and ₱31.30 million, respectively.

Credit quality per class of financial assets
The credit quality of financial assets is assessed based on days past due.
The description of each groupings according to stage is explained further as follows:

- Stage 1 - those that are considered current and up to a certain number of days past due, and based on delinquencies and payment history, do not demonstrate significant increase in credit risk;
- Stage 2 - those that are considered more than a certain number of days past due but does not demonstrate objective evidence of impairment as of reporting date, and based on delinquencies and payment history, demonstrate significant increase in credit risk; and
- Stage 3 - those that are considered more than 90 days past due or in default, or demonstrate objective evidence of impairment as of reporting date.

To estimate PD, the Bank developed a transition matrix based on the monthly migration of accounts to each age bucket. This matrix is scaled to the observed point-in-time PDs as of the reporting dates which are then adjusted to incorporate both current and forward looking information for ECL calculation.

The Bank assessed that due from BSP, due from other banks and investments securities at amortized cost are low-credit risk investment since these are placed and recoverable either from banks or government with high external credit ratings. As of December 31, 2020 and 2019, the Bank determined that the impact of 12-month ECL ("Stage 1") is not material.

The following table shows the classification of loans and receivable according to stages as of December 31, 2020 and 2019 (gross of unearned fee income):

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans receivable from customers				
Agriculture	**₱1,896,417,361**	**₱6,143,078**	**₱326,726,282**	**₱2,229,286,721**
Microfinance	**18,297,697**	**467,739**	**18,911,268**	**37,676,704**
Commercial	**10,313,959**	**290,857**	**9,885,267**	**20,490,083**
Other Loans	**27,919,861**	**31,324**	**1,020,439**	**28,971,624**
Other Receivables	**78,780,104**	**95,139**	**4,435,116**	**83,310,359**
	₱2,031,728,981	**₱7,028,137**	**₱360,978,372**	**₱2,399,735,491**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Loans receivable from customers				
Agriculture	₱2,140,774,766	₱61,265,026	₱257,127,340	₱2,459,167,132
Microfinance	80,037,724	4,997,582	9,894,178	94,929,484
Commercial	26,010,155	73,092	8,759,377	34,842,624
Other Loans	29,486,710	1,154,866	181,577	30,823,153
Other Receivables	90,837,715	2,289,711	7,954,616	101,082,042
	₱2,367,147,070	₱69,780,277	₱283,917,088	₱2,720,844,435

Movements in the allowance for credit losses follow:

	December 31, 2020						
	Agriculture	**Commercial**	**Microfinance**	**Others**	**Accounts receivable**	**Accrued interest receivable**	**Total**
Balance at beginning of the year	**₱273,403,583**	**₱4,536,451**	**₱12,870,233**	**₱4,186,668**	**₱11,446,291**	**₱8,176,229**	**₱314,619,455**
Provision for credit losses	**59,907,814**	**806,817**	**7,687,260**	**(704,905)**	**(4,517,542)**	**(4,850,280)**	**58,329,164**
Write-off	**(69,154,854)**	**–**	**(7,382,800)**	**–**	**(4,769,512)**	**–**	**(81,307,166)**
Balances at end of year	**₱264,156,543**	**₱5,343,268**	**₱13,174,693**	**₱3,481,763**	**₱2,159,237**	**₱3,325,949**	**₱291,641,453**

	December 31, 2019						
	Agriculture	Commercial	Microfinance	Others	Accounts receivable	Accrued interest receivable	Total
Balance at beginning of the year	₱225,978,458	₱6,377,616	₱22,099,021	₱4,139,621	₱11,446,291	₱3,237,732	₱273,278,739
Provision for credit losses	117,002,319	487,532	13,622,639	2,690,093	–	4,938,497	138,741,080
Write-off	(69,577,194)	(2,328,697)	(22,851,427)	(2,643,046)	–	–	(97,400,364)
Balances at end of year	₱273,403,583	₱4,536,451	₱12,870,233	₱4,186,668	₱11,446,291	₱8,176,229	₱314,619,455

The table below illustrates the movements of the allowance for credit losses during the year with the effect of movements in ECL due to transfers between stages:

	2020							
	Outstanding Balance				ECL			
Agricultural loans (gross of unearned fee income)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
January 1, 2020	₱2,140,774,766	₱61,265,026	₱257,127,340	₱2,459,167,132	₱85,032,985	₱28,045,993	₱160,324,605	₱273,403,583
New loans	1,994,169,764	–	–	1,994,169,764	80,500,115	–	–	80,500,115
Assets derecognized or repaid	(2,070,909,008)	(31,913,395)	(52,072,918)	(2,154,895,321)	(106,645,835)	(14,870,792)	(28,444,544)	(149,961,171)
Transfer to Stage 1	449,217	(449,217)	–	–	74,336	(74,336)	–	–
Transfer to Stage 2	(6,143,078)	6,143,078	–	–	(295,543)	295,543	–	–
Transfer to Stage 3	(161,924,300)	(28,902,414)	190,826,714	–	(12,496,029)	(13,100,865)	25,596,894	–
Write-off	–	–	(69,154,854)	(69,154,854)	–	–	(69,154,854)	(69,154,854)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	3,902,714	2,131,497	91,916,934	97,951,145
Changes to inputs used for ECL calculations	–	–	–	–	9,770,444	(233,703)	21,880,984	31,417,725
December 31, 2020	**₱1,896,417,361**	**₱6,143,078**	**₱326,726,282**	**₱2,229,286,721**	**₱59,843,187**	**₱2,193,337**	**₱202,120,019**	**₱264,156,543**

	2019							
	Outstanding Balance				ECL			
Agricultural loans (gross of unearned fee income)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2019	₱1,771,257,616	₱34,762,394	₱193,493,775	₱1,999,513,785	₱93,881,026	₱18,319,538	₱113,777,894	₱225,978,458
New loans	2,962,006,537	–	–	2,962,006,537	136,567,044	–	–	136,567,044
Assets derecognized or repaid	(2,356,841,152)	(17,672,818)	(58,262,026)	(2,432,775,996)	(133,545,294)	(9,137,739)	(32,821,938)	(175,504,971)
Transfer to Stage 1	47,376	(47,376)	–	–	32,588	(32,588)	–	–
Transfer to Stage 2	(61,265,026)	61,265,026	–	–	(3,322,663)	3,322,663	–	–
Transfer to Stage 3	(174,430,585)	(17,042,200)	191,472,785	–	(16,152,067)	(9,149,210)	25,301,277	–
Write-off	–	–	(69,577,194)	(69,577,194)	–	–	(69,577,194)	(69,577,194)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	(28,852)	29,074,827	99,059,407	128,105,382
Changes to inputs used for ECL calculations	–	–	–	–	7,601,203	(4,351,498)	24,585,159	27,834,864
December 31, 2019	₱2,140,774,766	₱61,265,026	₱257,127,340	₱2,459,167,132	₱85,032,985	₱28,045,993	₱160,324,605	₱273,403,583

	2020							
	Outstanding Balance				ECL			
Microfinance loans (gross of unearned fee income)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
January 1, 2020	₱80,037,724	₱4,997,582	₱9,894,178	₱94,929,484	₱5,057,739	₱1,641,596	₱6,170,898	₱12,870,233
New loans	59,956,167	–	–	59,956,167	3,839,569	–	–	3,839,569
Assets derecognized or repaid	(105,026,547)	(2,204,946)	(2,594,654)	(109,826,147)	(6,655,363)	(716,950)	(1,619,988)	(8,992,301)
Transfer to Stage 1	–	–	–	–	–	–	–	–
Transfer to Stage 2	(467,739)	467,739	–	–	(28,957)	28,957	–	–
Transfer to Stage 3	(16,201,908)	(2,792,636)	18,994,544	–	(1,080,188)	(924,646)	2,004,834	–
Write-off	–	–	(7,382,800)	(7,382,800)	–	–	(7,382,800)	(7,382,800)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	7,210	185,950	10,340,737	10,533,897
Changes to inputs used for ECL calculations	–	–	–	–	69,827	(45,978)	2,282,246	2,306,095
December 31, 2020	**₱18,297,697**	**₱467,739**	**₱18,911,268**	**₱37,676,704**	**₱1,209,837**	**₱168,929**	**₱11,795,927**	**₱13,174,693**

	2019							
	Outstanding Balance				ECL			
Microfinance loans (gross of unearned fee income)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2019	₱107,937,262	₱5,576,491	₱23,436,244	₱136,949,997	₱5,334,740	₱1,862,600	₱14,901,681	₱22,099,021
New loans	256,991,680	–	–	256,991,680	12,156,677	–	–	12,156,677
Assets derecognized or repaid	(267,643,308)	(3,279,042)	(5,238,416)	(276,160,766)	(12,753,029)	(1,080,918)	(3,281,574)	(17,115,521)
Transfer to Stage 1	61,342	–	(61,342)	–	39,014	–	(39,014)	–
Transfer to Stage 2	(4,950,735)	4,950,735	–	–	(239,423)	239,423	–	–
Transfer to Stage 3	(12,358,517)	(2,250,602)	14,609,119	–	(737,769)	(769,233)	1,507,002	–
Write-off	–	–	(22,851,427)	(22,851,427)	–	–	(22,851,427)	(22,851,427)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	(36,148)	1,264,856	10,324,358	11,553,066
Changes to inputs used for ECL calculations	–	–	–	–	1,293,677	124,868	5,609,872	7,028,417
December 31, 2019	₱80,037,724	₱4,997,582	₱9,894,178	₱94,929,484	₱5,057,739	₱1,641,596	₱6,170,898	₱12,870,233

	2020							
Commercial loans (gross of unearned fee income)	**Outstanding Balance**				**ECL**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
January 1, 2020	₱26,010,155	₱73,092	₱8,759,377	₱34,842,624	₱897,475	₱17,751	₱3,621,225	₱4,536,451
New loans	7,735,267	–	–	7,735,267	207,640	–	–	207,640
Assets derecognized or repaid	(19,747,227)	(73,092)	(2,267,489)	(22,087,808)	(63,212)	(17,750)	(999,265)	(1,080,227)
Transfer to Stage 1	–	–	–	–	–	–	–	–
Transfer to Stage 2	(290,857)	290,857	–	–	(7,808)	7,808	–	–
Transfer to Stage 3	(3,393,379)	–	3,393,379	–	(757,234)	–	757,234	–
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	62,670	78,102	1,526,040	1,666,812
Changes to inputs used for ECL calculations	–	–	–	–	30,604	(1,122)	(16,890)	12,592
December 31, 2020	₱10,313,959	₱290,857	₱9,885,267	₱20,490,083	₱370,135	₱84,789	₱4,888,344	₱5,343,268

	2019							
Commercial loans (gross of unearned fee income)	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2019	₱52,694,821	₱1,001,514	₱10,832,251	₱64,528,586	₱1,347,609	₱297,370	₱4,732,637	₱6,377,616
New loans	19,830,173	–	–	19,830,173	579,743	–	–	579,743
Assets derecognized or repaid	(41,878,253)	(708,673)	(4,600,512)	(47,187,438)	(1,147,215)	(197,492)	(2,141,551)	(3,486,258)
Transfer to Stage 1	59,766	–	(59,766)	–	28,131	–	(28,131)	–
Transfer to Stage 2	(73,092)	73,092	–	–	(931)	931	–	–
Transfer to Stage 3	(4,623,260)	(292,841)	4,916,101	–	(489,219)	(99,878)	848,157	259,060
Write-off	–	–	(2,328,697)	(2,328,697)	–	–	(2,328,697)	(2,328,697)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	(27,369)	16,858	2,458,130	2,447,619
Changes to inputs used for ECL calculations	–	–	–	–	606,726	(38)	80,680	687,368
December 31, 2019	₱26,010,155	₱73,092	₱8,759,377	₱34,842,624	₱897,475	₱17,751	₱3,621,225	₱4,536,451

	2020							
Other loans* (gross of unearned fee income)	**Outstanding Balance**				**ECL**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
January 1, 2020	₱120,324,425	₱3,444,577	₱8,136,193	₱131,905,195	₱16,939,561	₱1,829,963	₱5,039,664	₱23,809,188
New loans	30,175,157	–	–	30,175,157	1,217,385	–	–	1,217,385
Assets derecognized or repaid	(29,302,346)	(2,862,410)	(12,864,101)	(45,028,857)	(8,215,448)	(1,491,421)	(4,434,698)	(14,141,567)
Transfer to Stage 1	248,733	(230,749)	(17,984)	–	158,276	(144,111)	(14,165)	–
Transfer to Stage 2	(126,463)	126,463	–	–	(1,961)	1,961		–
Transfer to Stage 3	(14,619,541)	(351,418)	14,970,959	–	(6,281,701)	(194,431)	6,476,132	–
Write-off	–	–	(4,769,512)	(4,769,512)	–	–	(4,769,512)	(4,769,512)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	(75,125)	30,410	1,990,888	1,946,173
Changes to inputs used for ECL calculations	–	–	–	–	903,589	1,693	–	905,282
December 31, 2020	₱106,699,965	₱126,463	₱5,455,555	₱112,281,983	₱4,644,576	₱34,064	₱4,288,309	₱8,966,949

**Consists of other loans, sales contract receivable, accounts receivable and accrued interest receivable*

	2019							
Other loans* (gross of unearned fee income)	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2019	₱84,005,554	₱582,053	₱7,196,842	₱91,784,449	₱13,525,929	₱353,507	₱4,944,208	₱18,823,644
New loans	53,685,699	–	–	53,685,699	1,817,295	–	–	1,817,295
Assets derecognized or repaid	(9,585,894)	(227,387)	(1,108,626)	(10,921,907)	(597,133)	(155,197)	(1,017,052)	(1,769,382)
Transfer to Stage 1	–	–	–	–	–	–	–	–
Transfer to Stage 2	(3,444,201)	3,444,201	–	–	(85,161)	85,161	–	–
Transfer to Stage 3	(4,336,733)	(354,290)	4,691,023	–	(154,760)	(198,307)	353,067	–
Write-off	–	–	(2,643,046)	(2,643,046)	–	–	(2,643,046)	(2,643,046)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	–	1,986,121	2,747,170	4,733,291
Changes to inputs used for ECL calculations	–	–	–	–	2,433,391	(241,322)	655,317	2,847,386
December 31, 2019	₱120,324,425	₱3,444,577	₱8,136,193	₱131,905,195	₱16,939,561	₱1,829,963	₱5,039,664	₱23,809,188

**Consists of other loans, sales contract receivable, accounts receivable and accrued interest receivable*

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes.

Interest rate risk

Interest rate risk arises from the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Parent Bank, through its Treasury Group, assists the Bank to monitor interest rate risk by providing the Bank the quotes and other relevant information on a weekly basis.

As of December 31, 2020 and 2019, the Bank has no exposure to interest rate risk since its financial instruments are not subject to floating interest rate.

Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to meet its obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged funding sources with its Parent Bank in addition to its core deposit base, manages with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains short-term deposits with a stable bank that can be easily liquidated in the event of unforeseen interruption of cash flow. The Bank considers its investment positions in managing its liquidity risk. The high-yielding securities, which are relatively easy to liquidate in the event a fund need arises, are used to match the duration profile of the deposits.

The Bank has a committed line of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the BSP which is above the required 5.00% for demand deposits and 3.00% for savings and time deposits statutory reserve.

The table below shows the maturity profile of the Bank's financial assets and liabilities based on the contractual undiscounted cash flows as of December 31, 2020 and 2019:

	2020						
	On Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and other cash items	₱19,193,744	₱–	₱–	₱–	₱–	₱–	₱19,193,744
Due from BSP	76,197,200	–	–	–	–	–	76,197,200
Due from other banks*	162,346,172	240,417,531	–	–	–	–	402,763,703
Investment securities at amortized cost	–	–	–	200,000,000	–	–	200,000,000
Loans and receivables							
Loans*							
Agriculture	300,612,457	142,648,573	203,299,706	293,819,245	167,768,450	1,634,021,842	2,742,170,273
Microfinance	12,971,645	1,722,487	6,987,822	13,839,409	5,700,711	904,027	42,126,101
Commercial	6,224,693	510,282	1,608,948	1,024,301	2,692,463	11,941,552	24,002,239
Others	1,240,822	23,532	436,760	166,912	3,128,890	–	4,996,916
Accounts receivable	2,159,237	–	–	–	–	–	2,159,237
Accrued interest receivable	24,724,953	19,805,890	28,477,540	7,534,559	607,446	734	81,151,122
Other Assets	179,500	–	20,000	90,000	84,000	2,381,009	2,754,509
	₱605,850,423	₱405,128,295	₱240,830,776	₱516,474,426	₱179,981,960	₱1,649,249,164	₱3,597,515,044
Financial Liabilities							
Deposit liabilities							
Demand	₱52,767,659	₱–	₱–	₱–	₱–	₱–	₱52,767,659
Savings	442,798,994	–	–	–	–	–	442,798,994
Time*	–	463,031,783	572,309,399	389,177,895	26,093,417	317,757,547	1,768,370,041
Bills payable*	28,554,864	35,102,861	–	–	–	–	63,657,725
Accrued taxes, interest and other expenses**	46,190,010	2,089,454	2,055,999	509,849	129,223	691,056	51,665,591
Lease liabilities	–	994,485	2,476,757	2,465,288	5,553,782	24,211,766	35,702,078
Other liabilities**	29,337,511	–	–	–	–	–	29,337,511
	599,649,038	501,218,583	576,842,155	392,153,032	31,776,422	342,660,369	2,444,299,599
	₱6,201,385	(₱96,090,288)	(₱336,011,379)	₱124,321,394	₱148,205,538	₱1,306,588,795	₱1,153,215,445

*Includes future interest
**Excludes statutory liability

	2019						
	On Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and other cash items	₱21,559,777	₱–	₱–	₱–	₱–	₱–	₱21,559,777
Due from BSP	76,966,368	–	–	–	–	–	76,966,368
Due from other banks*	144,586,529	40,112,044	–	–	–	–	184,698,573
Investment securities at amortized cost	–	19,530,328	–	40,000,000	19,530,328	900,170,517	979,231,173
Loans and receivables							
Loans*							
Agriculture	229,728,258	206,112,358	283,339,831	642,547,684	149,573,110	1,431,872,890	2,943,174,131
Microfinance	6,955,816	2,229,384	15,905,121	55,108,992	30,712,053	3,264,552	114,175,918
Commercial	4,789,799	123,397	1,313,979	2,724,733	9,019,822	24,063,667	42,035,397
Others	1,409,488	3,085	62,691	734,099	2,021,361	31,901,819	36,132,543
Accounts receivable	12,687,880	–	–	–	–	–	12,687,880
Accrued interest receivable	35,492,680	30,358,308	12,630,463	8,479,372	1,323,739	109,600	88,394,162
Other Assets	3,064,326	–	20,000	–	355,000	1,986,709	5,426,035
	₱537,240,921	₱298,468,904	₱313,272,085	₱749,594,880	₱212,535,413	₱2,393,369,754	₱4,504,481,957
Financial Liabilities							
Deposit liabilities							
Demand	₱54,839,051	₱–	₱–	₱–	₱–	₱–	₱54,839,051
Savings	452,308,373	–	–	–	–	–	452,308,373
Time*	5,833,288	492,972,612	468,677,366	513,486,094	115,262,064	338,454,994	1,934,686,418
Bills payable*	666,729,333	–	–	–	–	–	666,729,333
Accrued taxes, interest and other expenses**	32,047,381	4,342,587	2,841,804	2,506,539	605,068	487,571	42,830,950
Lease liabilities	928,484	725,445	1,494,180	2,293,062	4,952,737	31,885,862	42,279,770
Other liabilities**	31,911,591	–	–	–	–	–	31,911,591
	1,244,597,501	498,040,644	473,013,350	518,285,695	120,819,869	370,828,427	3,225,585,486
	(₱707,356,580)	(₱199,571,740)	(₱159,741,265)	₱231,309,185	₱91,715,544	₱2,022,541,327	₱1,278,896,471

**Includes future interest*
***Excludes statutory liability*

6. Due from BSP and Due from Other Banks

The 'Due from BSP' account represents the outstanding balance of peso non-interest-bearing deposit accounts with BSP which the Bank maintains primarily to meet reserve requirements.

Due from other banks earned interest at annual rates ranging from 0.01% to 2.625% and from 0.01% to 3.50% in 2020 and 2019, respectively.

Interest income on due from other banks amounted to ₱1.82 million and ₱4.72 million in 2020 and 2019, respectively.

7. Investment Securities at Amortized Cost

As of December 31, 2020, this account includes non-interest-bearing treasury bills with maturities ranging from 120 to 336 days.

As of December 31, 2019, this account includes a fixed rate treasury note that bears annual interest of 6.88% and a non-interest-bearing treasury bill. These securities have maturities ranging from 2020 to 2039. The interest-bearing note was acquired through the use of proceeds from a direct loan with Philippine Deposit Insurance Company (PDIC) totaling ₱635.07 million (see Note 14).

The Bank recognized interest income for these securities using the effective interest rate method amounting to ₱23.44 million and ₱20.86 million in 2020 and 2019, respectively.

On August 10, 2020, the Bank sold its investment securities with face value of ₱568.16 million and carrying amount of ₱617.05 million. The Bank recognized a gain of ₱96.12 million from the said transaction and used the proceeds to pay its direct loan with PDIC.

With the settlement of its direct loan with PDIC, the Bank has no other securities pledged as collateral with other financial institutions as of December 31, 2020.

8. Loans and Receivables

This account consists of:

	December 31	
	2020	2019
Receivables from customers:		
Agriculture	**₱2,229,286,721**	₱2,459,167,132
Microfinance	**37,676,704**	94,929,484
Commercial	**20,490,083**	34,842,624
Others	**28,971,624**	30,823,153
	2,316,425,132	2,619,762,393
Less unearned interest and discounts	**46,181,890**	84,518,647
	2,270,243,242	2,535,243,746
Other receivables:		
Accounts receivable	**2,159,237**	12,687,880
Accrued interest receivable	**81,151,122**	88,394,162
	83,310,359	101,082,042
	2,353,553,601	2,636,325,788
Less allowance for credit losses	**291,641,453**	314,619,455
	₱2,061,912,148	₱2,321,706,333

Loans and receivables earned interest at annual rates ranging from 8.00% to 54.00% in 2020 and 2019. Other loans consist of salary loans and sales contract receivables.

In 2020 and 2019, the Bank recognized interest income on loans and receivables amounting to ₱402.62 million and ₱474.32 million, respectively.

The unearned interest and discounts pertain mainly to agricultural loan products.

Loans Modifications

On March 25, 2020, Republic Act (RA) No. 11469, otherwise known as the Bayanihan to Heal as One Act ("Bayanihan 1 Act") was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the enhanced community quarantine (ECQ) period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, RA No. 11494, otherwise known as the Bayanihan to Recover as One Act ("Bayanihan 2 Act"), was enacted. Under Bayanihan 2 Act, a one-time sixty (60)-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

Based on the Bank's assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets. For the year ended December 31, 2020, the net impact of the loan modification after subsequent accretion of the modified loans is not material.

Loans and receivables acquired from Cooperative Bank of Pampanga (CBP)
The Bank acquired loans and receivables from CBP, having a face value of ₱349.99 million which are measured at fair value of ₱92.6 million at the date of acquisition. The separate valuation allowance of acquired loans and receivables was not recognized by the Bank as these receivables were measured at fair value on acquisition date. Any uncertainties about future cash flows of these receivables were included in the determination of fair value.

As of December 31, 2020 and 2019, the carrying amount of remaining loans acquired from CBP amounted to nil and ₱0.28 million, respectively.

In 2020 and 2019, there were no write off loans acquired from CBP.

9. Property and Equipment

The composition of and movements in this account follow:

	December 31, 2020					
	Land	Building	Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost						
Balances at beginning of year	₱1,793,309	₱33,204,031	₱36,240,201	₱38,328,464	₱29,883,926	₱139,449,931
Additions	–	1,451,290	1,747,444	221,061	1,019,506	4,439,301
Disposals	–	–	–	–	(60,000)	(60,000)
Balances at end of year	1,793,309	34,655,321	37,987,645	38,549,525	30,843,432	143,829,232
Accumulated Depreciation						
Balances at beginning of year	–	10,567,284	23,762,041	22,100,043	15,327,262	71,756,630
Depreciation and amortization	–	2,479,703	6,628,457	6,104,874	5,864,435	21,077,469
Disposals	–	–	–	–	(20,000)	(20,000)
Balances at end of year	–	13,046,987	30,390,498	28,204,917	21,171,697	92,814,099
Allowance for Impairment Losses	–	3,289,387	–	–	–	3,289,387
Net Book Values	₱1,793,309	₱18,318,947	₱7,597,147	₱10,344,608	₱9,671,735	₱47,725,746

	December 31, 2019					
	Land	Building	Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost						
Balances at beginning of year	₱1,793,309	₱20,908,825	₱29,342,555	₱30,480,185	₱23,987,363	₱106,512,237
Additions	–	12,295,206	6,904,146	7,848,279	6,146,563	33,194,194
Disposals	–	–	(6,500)	-	(250,000)	(256,500)
Balances at end of year	1,793,309	33,204,031	36,240,201	38,328,464	29,883,926	139,449,931
Accumulated Depreciation						
Balances at beginning of year	–	9,486,632	17,865,905	16,239,707	9,869,453	53,461,697
Depreciation	–	1,080,652	5,902,636	5,860,336	5,654,279	18,497,903
Disposals	–	–	(6,500)	–	(196,470)	(202,970)
Balances at end of year	–	10,567,284	23,762,041	22,100,043	15,327,262	71,756,630
Allowance for Impairment Losses	–	3,289,387	–	–	–	3,289,387
Net Book Values	₱1,793,309	₱19,347,360	₱12,478,160	₱16,228,421	₱14,556,664	₱64,403,914

The Bank recognized gain on sale of property and equipment amounting to ₱0.02 and ₱0.09 million in 2020 and 2019, respectively (see Note 19).

As at December 31, 2020 and 2019, the cost of fully depreciated assets that are still being used by the Bank amounted to ₱40.31 million and ₱27.87 million, respectively.

10. Investment Properties

The composition of and the movements in this account follow:

	December 31, 2020		
	Land	**Building**	**Total**
Cost			
Balances at beginning of year	**₱70,732,200**	**₱9,065,362**	**₱79,797,562**
Additions	**18,103,857**	**281,617**	**18,385,474**
Disposals	**(13,284,570)**	**(318,370)**	**(13,602,940)**
Adjustments	**280,809**	**(280,809)**	**–**
Balances at end of year	**75,832,296**	**8,747,800**	**84,580,096**
Accumulated Depreciation			
Balances at beginning of year	**–**	**3,083,286**	**3,083,286**
Depreciation	**–**	**118,690**	**118,690**
Disposals	**–**	**(48,674)**	**(48,674)**
Balances at end of year	**–**	**3,153,302**	**3,153,302**
Allowance for Impairment Losses			
Balances at beginning of year	**4,817,035**	**162,981**	**4,980,016**
Provisions	**2,264,270**	**–**	**2,264,270**
Balances at end of year	**7,081,305**	**162,981**	**7,244,286**
Net Book Values	**₱68,750,991**	**₱5,431,517**	**₱74,182,508**

	December 31, 2019		
	Land	Building	Total
Cost			
Balances at beginning of year	₱60,900,040	₱10,999,462	₱71,899,502
Additions	20,647,168	–	20,647,168
Disposals	(10,815,008)	(1,934,100)	(12,749,108)
Balances at end of year	70,732,200	9,065,362	79,797,562
Accumulated Depreciation			
Balances at beginning of year	–	2,443,286	2,443,286
Depreciation	–	865,801	865,801
Disposals	–	(225,801)	(225,801)
Balances at end of year	–	3,083,286	3,083,286
Allowance for Impairment Losses			
Balances at beginning of year	4,966,250	162,981	5,129,231
Disposals	(149,215)	–	(149,215)
Balances at end of year	4,817,035	162,981	4,980,016
Net Book Values	₱65,915,165	₱5,819,095	₱71,734,260

In 2020 and 2019, the Bank recognized gain on sale of investment properties amounting to ₱0.64 million and ₱3.72 million. Gain on foreclosure of investment properties amounted to ₱6.52 million and ₱7.11 million in 2020 and 2019, respectively, and recognized under 'Miscellaneous income' in profit or loss (see Note 19).

As of December 31, 2020 and 2019, the Bank does not have investment properties that are being leased out.

11. Goodwill

This account represents the goodwill amounting to ₱66.14 million from the acquisition of the assets and assumption of liabilities of CBP in 2014.

The goodwill arising from the acquisition is attributed to the increase in geographical presence and customer base as a result of the additional branches acquired from CBP. These branches and customer base are combined with the Bank, which is considered as the CGU for purposes of the goodwill impairment assessment.

12. Other Assets

This account consists of:

	2020	2019
Financial assets		
Security deposits	**₱2,704,509**	₱2,553,209
Sinking fund	**–**	2,822,829
Miscellaneous assets	**49,997**	49,997
	2,754,506	5,426,035
Non-financial assets		
Chattels, net	**13,321,286**	12,505,649
Prepaid expenses	**2,052,727**	4,996,894
	15,374,013	17,502,543
	₱18,128,519	₱22,928,578

The movements in 'Chattels' account follow:

	2020	2019
Cost		
Balance at beginning of year	**₱18,054,000**	₱5,476,294
Additions	**22,172,792**	23,426,586
Disposals	**(20,755,619)**	(10,848,880)
Balance at end of year	**19,471,173**	18,054,000
Accumulated Depreciation		
Balance at beginning of year	**5,548,351**	3,781,885
Depreciation	**3,897,592**	2,852,879
Disposals	**(3,296,056)**	(1,086,413)
Balance at end of year	**6,149,887**	5,548,351
Net Book Value	**₱13,321,286**	₱12,505,649

The Bank also recognized gain on sale of chattels amounting to ₱2.82 million and ₱1.55 million in 2020 and 2019, respectively (see Note 19).

As of December 31, 2019, the sinking fund amounting to ₱2.82 million pertains to the fund set aside for future settlement of the direct loan with PDIC (see Note 14).

Prepaid expenses include prepaid rent, health insurance of employees, vault insurance, vehicle insurance and other insurance paid by the Bank.

Miscellaneous assets pertain to refundable rental deposits and utility deposits.

13. Deposit Liabilities

The components of deposit liabilities follow:

	2020	2019
Demand	**₱52,767,659**	₱54,839,051
Savings	**442,798,994**	452,308,373
Time	**1,757,573,302**	1,859,216,071
	₱2,253,139,955	₱2,366,363,495

Deposit liabilities bear annual interest rate of 0.25% for demand and savings deposits and from 1.00% to 4.50% and 0.05% to 6.50% for time deposits in 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the statutory and liquidity reserves as reported to the BSP amounted to ₱76.20 million and ₱76.97 million, respectively, which are equivalent to the balance of 'Due from BSP'. As of December 31, 2020, and 2019, the Bank was in compliance with the above requirements.

The interest expense on deposit liabilities is composed of the following:

	2020	2019
Time	**₱59,867,080**	₱85,781,012
Savings	**1,108,423**	2,060,342
Demand	**134,214**	230,243
	₱61,109,717	₱88,071,597

14. Bills Payable

As of December 31, 2020, and 2019, the outstanding balance of bills payable amounted to ₱63.55 million and ₱426.26 million, respectively.

This account consists of unsecured borrowings from the Agricultural Credit Policy Council and National Livelihood Development Corporation which were assumed from CBP and the borrowings availed from the PDIC in 2019. This account also includes the ₱35.00 million drawdown from its ₱665.00 million credit line with the Parent Bank, with credit term of 30 days (see Note 24).

In 2019, the Bank availed of the financial assistance from PDIC amounting to ₱635.07 million which bears low interest rate and was recognized at present value of ₱385.45 million on the date the financial assistance was received, resulting in a difference of ₱249.62 million.

The difference of ₱249.62 million between the fair value of the bills payable and the related proceeds from the PDIC financial assistance is accounted for as government grant and was recorded as 'Other Liabilities' in the statement of financial position. This is amortized using the effective interest rate of 5.22% until the maturity of the borrowing from PDIC. Amortization of unearned income is presented as 'Others' in Interest Income portion of income statement. In addition, Philippine government securities are pledged to PDIC as security for the financial assistance received (see Note 7).

Under the terms of the financial assistance's agreement of the Bank with PDIC, the Bank has to meet certain conditions, including required level of CAR. As of December 31, 2019, the Bank's CAR is below the requirement under the Agreement. Accordingly, the Bank's BOD approved in June 2020, to settle the financial assistance with PDIC by selling the pledged collaterals and using the proceeds to settle the borrowings. The pre-termination resulted in a loss amounting to ₱25.06 million (see Note 20).

Bills payable bear annual interest rates ranging from 3.00% to 9.00% and 0.125% to 9.00% in 2020 and 2019, respectively.

Interest expense recognized in 2020 and 2019 amounted to ₱17.33 million and ₱26.62 million, respectively. Grant income recognized in 2020 and 2019 amounted to ₱12.45 million and ₱19.04 million, respectively, which was presented under 'Others' in interest income.

There were no outstanding bills payable to a related party in 2019.

15. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2020	2019
Financial liabilities		
Accrued interest payable	**₱24,751,721**	₱29,221,195
Accrued other expenses payable	**26,913,870**	13,609,755
	51,665,591	42,830,950
Non-financial liabilities		
Accrued taxes and licenses	**9,208,957**	12,314,480
	₱60,874,548	₱55,145,430

16. Other Liabilities

This account consists of:

	2020	2019
Financial liabilities		
Accounts payable	**₱19,099,552**	₱21,673,632
Payable to shareholders	**10,237,959**	10,237,959
	29,337,511	31,911,591
Non-financial liabilities		
Retirement liability (Note 22)	**13,392,069**	11,573,485
Unearned grant income (Note 14)	–	230,578,535
Miscellaneous	**9,545,344**	3,713,977
	22,937,413	245,865,997
	₱52,274,924	₱277,777,588

Accounts payable includes insurance payments and annotations fees deducted in advance upon release of the proceeds of loans to the borrowers which are subsequently remitted to the appropriate payees.

Payable to shareholders refers to the consideration payable to the preferred shareholders of CBP.

Miscellaneous include teller overages, SSS, Philhealth and Pag-ibig payables.

17. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within 12 months and beyond 12 months from reporting date:

	2020		
	Less than 12 Months	Over 12 Months	Total
Financial Assets			
Cash and other cash items	₱19,343,744	₱–	₱19,343,744
Due from BSP	76,197,200	–	76,197,200
Due from other banks	402,487,713	–	402,487,713
Investment securities - at gross	200,000,000	–	200,000,000
Loans and receivables - at gross	967,238,299	1,432,497,192	2,399,735,491
Other assets	373,497	2,381,009	2,754,506
	1,665,640,453	1,434,878,201	3,100,518,654
Nonfinancial Assets - at gross			
Property and equipment	–	143,829,232	143,829,232
Investment properties	–	84,580,096	84,580,096
Right-of-use asset	–	27,949,917	27,949,917
Goodwill	–	66,144,392	66,144,392
Other assets	2,052,727	19,471,173	21,523,900
	2,052,727	341,974,809	344,027,537
Unearned interest, premiums and discounts	–	–	(46,950,546)
Allowance for credit and impairment losses	–	–	(302,175,126)
Accumulated depreciation and amortization	–	–	(102,117,288)
	₱–	₱–	₱2,993,303,231
Financial Liabilities			
Deposit liabilities	₱1,936,935,130	₱316,204,825	₱2,253,139,955
Bills payable	63,553,791	–	63,553,791
Accrued interest and other expenses	50,974,535	691,056	51,665,591
Lease liabilities	10,142,102	21,810,113	31,952,215
Other liabilities	29,337,511	–	29,337,511
	2,090,943,069	338,705,994	2,429,649,063
Nonfinancial Liabilities			
Income tax payable	11,638,725	–	11,638,725
Accrued taxes and licenses	9,208,957	–	9,208,957
Other liabilities	9,545,344	13,392,069	22,937,413
	30,393,026	13,392,169	43,785,095
	₱–	₱–	₱2,473,434,158

	2019		
	Less than 12 Months	Over 12 Months	Total
Financial Assets			
Cash and other cash items	₱21,559,777	₱–	₱21,559,777
Due from BSP	76,966,368	–	76,966,368
Due from other banks	184,679,863	–	184,679,863
Loans and receivables - at gross	2,016,858,229	703,986,206	2,720,844,435
Investment securities - at gross	–	608,155,000	608,155,000
Other assets	3,389,326	2,036,709	5,426,035
	2,303,453,563	1,314,177,915	3,617,631,478
Nonfinancial Assets - at gross			
Property and equipment	–	139,449,931	139,449,931
Investment properties	–	79,797,562	79,797,562
Right-of-use asset	–	34,593,528	34,593,528
Goodwill	–	66,144,392	66,144,392
Other assets	4,996,894	20,575,250	25,572,144
	4,996,894	340,560,663	345,557,557
Unearned interest, premiums and discounts	–	–	(33,468,646)
Allowance for credit and impairment losses	–	–	(322,888,858)
Accumulated depreciation and amortization	–	–	(82,909,517)
	₱–	₱–	₱3,523,922,014
Financial Liabilities			
Deposit liabilities	₱2,162,922,382	₱203,441,113	₱2,366,363,495
Bills payable	663,620,563	–	663,620,563
Accrued interest and other expenses	32,047,381	10,783,569	42,830,950
Lease liabilities	9,539,663	27,670,725	37,210,388
Other liabilities	31,911,591	–	31,911,591
	2,900,041,580	241,895,407	3,141,936,987
Nonfinancial Liabilities			
Income tax payable	9,877,157	–	9,877,157
Accrued taxes and licenses	12,314,480	–	12,314,480
Other liabilities	24,301,185	221,564,812	245,865,997
	46,492,822	221,564,812	268,057,634
Discount on bills payable	–	–	(237,359,648)
	₱–	₱–	₱3,172,634,973

18. Equity

The Bank's authorized capital stock amounted to ₱500.00 million divided into 4,934,860 shares of common stock and 65,140 shares of preferred stocks, both with par value of ₱100.00 as of December 31, 2020 and 2019.

Details of the number of subscribed and paid-up common and preferred shares as of December 31, 2020 and 2019 are as follows:

	Shares	Amount
Common Stock	4,577,751	₱457,775,100
Preferred stock	5,311	531,100
	4,583,062	₱458,306,200

Capital Management
The primary objective of the Bank's capital management is to ensure that it complies with externally imposed capital requirements given its risk exposure and planned business expansion.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities and assessments of prospective business requirements or directions. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory Qualifying Capital
The Bank's capital-to-risk assets ratio (CAR) as at December 31, 2020 and 2019 based on the Basel III risk-based capital adequacy, are shown in the table below (amounts in millions, except percentage):

	2020*	2019
Common Equity Tier 1 Capital	**₱440.12**	₱261.73
Tier 1 capital	**440.65**	262.26
Tier 2 capital	**13.33**	22.11
Gross qualifying capital	**453.98**	284.37
Total risk-weighted assets	**₱2,767.62**	₱2,865.16
Capital ratios		
Common Equity Tier 1 ratio	**15.90%**	9.13%
Total tier 1 capital expressed as a percentage of total risk weighted assets	**15.92%**	9.15%
Total regulatory capital expressed as a percentage of total risk-weighted assets	**16.40%**	9.93%

**as reported to BSP*

The above CAR as of December 31, 2019 are based on audited balances, adjusted for some regulatory items and are not the same with CARs as previously reported to the BSP.

The risk-weighted CAR is calculated by dividing the sum of its Tier 1 and Tier 2 capital by its risk-weighted assets, as defined under BSP regulations. The determination of the Bank's compliance with the regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

Qualifying capital and risk-weighted assets are computed based on BSP regulations. Under the current banking regulations, the capital accounts of the Bank should not be less than an amount equal to ten percent (10.00%) of its risk-weighted assets. Risk-weighted assets consist of total assets less 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 qualifying capital of the Bank consists of Tier 1 capital, which comprises paid-up common stock, additional paid-in and deficit less required deductions such as unsecured credit accommodations to director, officers, supervisors and related interest (DOSRI).

Risk-weighted assets are determined by assigning defined risk weights to the balance sheet exposure and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 150.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

Leverage Ratio and Total Exposure Measure
The Basel III Leverage Ratio (BLR) is designed to act as a supplementary measure to the risk-based capital requirement. The leverage ratio intends to restrict the buildup of leverage in the Bank and reinforce the risk-based requirements with a simple, non-risk based "backstop" measure. It is defined as a capital measure over its total exposure measure with a minimum requirement of 5.00%.

The Bank's BLR and Total Exposure Measure as of December 31, 2020 and 2019, as reported to the BSP, follows:

	2020	2019
Capital Measure	**₱453,724,583**	₱439,333,332
Divide: Exposure measure	**2,993,303,231**	3,655,730,317
Leverage ratio	**15.16%**	12.02%

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
The NSFR seeks to limit the overreliance and short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts. It complements the LCR, which promotes short term resilience of a Bank's liquidity profile. The minimum LCR and NSFR requirement should be no lower than 100% at all times.

The Bank's LCR as of December 31, 2020 and 2019, as reported to the BSP, follows:

	2020	2019
Total High Quality Liquid Assets	**₱294,622,288**	₱137,774,681
Total net cash flows	**164,202,435**	323,220,927
LCR	**179.43%**	42.63%

	2020	2019
Available Stable Funding Ratio	**₱2,152,959,424**	₱2,637,718,637
Divide: Required Stable Funding	**1,921,388,778**	2,003,592,840
Net Stable Funding ratio	**112.05%**	131.65%

Minimum Capital Requirement
Under an existing BSP Circular, rural banks based outside Metro Manila are required to comply with the minimum capital requirement of ₱40.00 million. As at December 31, 2020 and 2019, the Bank has complied with the minimum capital requirement.

19. Miscellaneous Income

The details of this account follow:

	2020	2019
Recoveries of loans previously written-off	**₱25,988,489**	₱3,294,123
Gain on foreclosure of investment properties (Note 10)	**6,521,542**	7,109,911
Gain on sale of investment properties and chattels (Notes 10 and 12)	**3,464,428**	5,274,875
Gain (loss) on sale of sale of property and equipment (Note 9)	**20,000**	92,761
Commissions	**–**	4,715,399
Others	**22,375,147**	14,775,663
	₱58,369,606	₱35,262,732

Others mainly pertain to, rental income, excess annotation fees, penalties collected on past due loans and miscellaneous income on closed accounts.

20. Miscellaneous Expenses

This account consists:

	2020	2019
Loss on pre-termination of bills payable (Note 14)	**₱25,056,859**	₱–
Litigation	**3,441,075**	2,637,637
Corporate governance, programs, travel and events	**1,430,440**	1,404,448
Information technology	**1,024,087**	1,412,620
Supervision and examination fees	**769,168**	921,903
Advertising and publicity	**53,732**	134,999
Membership dues	**47,660**	16,700
Commissions	**–**	79,300
Fines, penalties and other charges	**–**	29,172
Others	**2,148,036**	4,189,814
	₱33,971,057	₱10,826,593

Fines, penalties and other charges include lease pre-termination fee, other fees and charges.

Others include donation and other charitable contributions, banking fees, and miscellaneous expense.

21. Lease Agreements

The Bank has entered into various operating leases covering premises and office space with third parties used in its operations. The lease contracts are for periods ranging from 1 to 16 years. Lease contracts include escalation clauses which bear an annual rent increase ranging from 5.00% to 10.00%.

The rollforward analysis of right-of-use assets and lease liabilities follows:

	2020	
	Right-of-use assets	**Lease liabilities**
As at January 1, 2020	**₱34,593,528**	**₱37,210,388**
Additions	**4,786,813**	**4,786,813**
Depreciation expense	**(10,586,374)**	–
Interest expense	–	**2,211,525**
Payments	–	**(12,256,511)**
Adjustment	**(844,050)**	–
As at December 31, 2020	**₱27,949,917**	**₱31,952,215**

	2019	
	Right-of-use assets	Lease liabilities
As at January 1, 2019	₱30,950,087	₱30,950,087
Additions	15,385,574	15,385,574
Depreciation expense	(9,974,005)	–
Pre-terminations	(1,768,128)	(1,822,057)
Interest expense	–	2,274,020
Payments	–	(9,577,236)
As at December 31, 2019	₱34,593,528	₱37,210,388

Shown below is the maturity analysis of the undiscounted lease payments as of December 31, 2020 and 2019:

	2020	2019
1 year or less	**₱11,490,312**	₱10,393,908
more than 1 years to 2 years	**8,807,999**	9,432,351
more than 2 years to 3 years	**6,961,177**	7,424,971
more than 3 years to 4 years	**4,652,912**	6,585,950
more than 4 years to 5 years	**1,497,054**	4,652,912
more than 5 years	**2,292,624**	3,789,678
	₱35,702,078	₱42,279,770

The following are the amounts recognized in profit or loss in 2020 related to lease arrangements:

	2020	2019
Depreciation expense of right-of-use assets	**₱10,586,374**	₱9,974,005
Interest expense on lease liabilities	**2,211,525**	2,274,020
Rent expense - short-term leases	**1,009,844**	3,305,926
Gain on pre-termination of lease liabilities	–	(53,929)
	₱13,807,743	₱15,500,022

22. Retirement Liability

The Banks's liability for retirement benefits is based solely on the requirements under Republic Act 7641, *Retirement Pay Law* as the Bank does not have a formal retirement plan.

The cost of defined benefit pension plan as well as the present value of the retirement liability is determined using actuarial valuation which involves making various assumptions. The principal actuarial assumptions used are shown below:

	2020	2019
Discount rate	**4.10%**	5.50%
Future salary increase rate	**6.00%**	8.00%
Average future working life years	**9**	9

Changes in the present value of the defined benefit obligation as of December 31, 2020 and 2019 recognized in the statements of financial position follow:

	2020	2019
Balance at beginning of year	**₱11,573,485**	₱4,180,449
Current service cost	**2,640,951**	1,036,249
Interest cost	**636,542**	326,075
Gain on settlement of obligations	**–**	(626,085)
Remeasurement losses (gains):		
Experience adjustments	**230,457**	870,616
Actuarial loss (gain) arising from changes in financial assumptions	**(1,689,366)**	5,786,181
Balance at end of year	**₱13,392,069**	₱11,573,485

The amounts of defined benefit cost that is included under "Compensation and fringe benefits" in the statements of income are as follows:

	2020	2019
Current service cost	**₱2,640,951**	₱1,036,249
Interest cost	**636,542**	326,075
Gain on settlement of obligations	**–**	(626,085)
	₱3,277,493	₱736,239

In 2020 and 2019, the amounts actuarial remeasurements of retirement liability amounted to ₱1.46 million gain and ₱6.66 million loss, respectively.

The sensitivity analyses below have been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation (PBO) as of December 31, 2020 and 2019 assuming if all other assumptions were held constant:

	2020	
	Increase (decrease)	**Defined benefit obligation**
Discount rates	**+ 100 bps**	**(₱10,868,901)**
	- 100 bps	**16,624,976**
Future salary increases	**+ 100 bps**	**16,526,176**
	- 100 bps	**(10,888,025)**

	2019	
	Increase (decrease)	Defined benefit obligation
Discount rates	+ 100 bps	(₱2,171,711)
	- 100 bps	2,789,399
Future salary increases	+ 100 bps	2,688,356
	- 100 bps	(2,144,808)

In 2020, the average duration of the retirement liability is 25.1 years.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2020	2019
Year 1	**₱–**	₱302,730
Year 2 – 7	**708,824**	483,029
Year 8 – 9	**1,690,436**	440,615
Year 10	**–**	1,434,141
Year 11 – 15	**13,623,061**	12,910,075
Year 16 – 20	**24,462,550**	18,247,753
Year 21 – 30	**93,467,618**	137,739,400
Year 31 – 40	**80,609,231**	143,103,836

23. Income Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes presented as 'Taxes and licenses' in the statements of income.

Income taxes include corporate income tax, as discussed below, and 20.0% final withholding tax on gross interest income from government securities and other deposit substitutes.

Current tax regulations provide that RCIT rate shall be 30.0%. It further states that nondeductible interest expense shall likewise be reduced to 33.0% of interest income subjected to final tax.

An optional standard deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. For the 2020 and 2019 RCIT computation, the Bank elected to claim itemized expense deductions instead of the OSD.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.0% of the Bank's net revenue. The regulations also provide for MCIT of 2.0% on modified gross income and allow a NOLCO. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence and five years for those losses incurred for taxable years 2020 and 2021.

Provision for income tax consists of:

	2020	2019
Current tax		
RCIT	**₱18,788,130**	₱12,073,746
Final tax	**5,052,755**	1,660,406
	₱23,840,885	₱13,734,152

Below are the components of the net deferred tax liability:

	2020	2019
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱6,408,937**	₱8,942,192
Accumulated depreciation - investment properties and chattels	**2,790,957**	2,589,491
	9,199,894	11,531,683
Deferred tax liability on:		
Gain on foreclosure of investment properties	**9,199,894**	9,497,349
Unamortized portion of DST on bills payable	**–**	2,034,334
	₱–	₱–

As of December 31, 2020 and 2019, the Bank did not recognize deferred tax assets on the following deductible temporary differences as the Bank assessed that it is not probable that the related tax benefits will be realized in the foreseeable future:

	2020	2019
Allowance for credit and impairment losses	**₱280,812,002**	₱293,081,552
Deferred service fees	**22,844,563**	30,530,017
Accrued expenses	**13,392,068**	18,480,437
Retirement liability	**18,480,437**	11,573,484
Lease liabilities, net of ROU assets	**4,002,298**	2,616,860
	₱339,531,368	₱356,282,350

A reconciliation of income before income tax computed at the statutory tax rate to effective income tax follows:

	2020	2019
Statutory income tax	**₱57,289,202**	₱13,163,403
Adjustments for:		
Tax-paid and tax-exempt income	**(31,361,811)**	5,738,392
Nondeductible expenses	**2,501,115**	846,832
Change in unrecognized deferred tax assets	**(4,587,621)**	(6,014,475)
Provision for income tax	**₱23,840,885**	₱13,734,152

24. Related Party Transactions

In the ordinary course of business, the Bank has transactions with its related parties. Transactions between related parties are based on terms similar to those offered to non-related parties. Parties are related if one party has the ability, directly or indirectly, to control the other parties or exercise significant influence over the other party in making the financial and operating decisions and the parties are subject to common control or common significant influence.

As of December 31, 2020 and 2019, significant related party transactions follow:

	December 31, 2020		December 31, 2019		
Category	Amount/ Volume	Outstanding Balance	Amount/ Volume	Outstanding Balance	Terms, Conditions and Nature
Parent Company					
Due from other banks	**₱–**	**₱30,927,171**	₱–	₱37,282,342	Peso demand deposits
Deposit liabilities		**–**		50,000,000	Time deposits
Deposits	**–**		7,488,215		With annual interest rate of 3.75%
Withdrawals	**50,000,000**		128,211,983		
Interest income on due from other banks		**78,030**		55,785	Interest earned from peso demand deposits
Interest expense on deposits	**4,615,639**	**114,583**	7,602,798	114,583	Interest rate ranging from 3.75% to 6%, payable monthly
Bills payable	**700,000,000**	**35,000,000**	–	–	The loan has 5.75% interest per annum and terms ranging from 31 days to 350 days. Transaction cost incurred amounted to ₱0.20 million. Interest expense, including amortization of debt issue costs, in 2020 amounted to ₱0.67 million. Unpaid interest for the loan is presented under "Accrued Taxes, Interest and Other Expenses"."
Accrued interest on intercompany bills payable	**665,639**	**44,722**	–	–	
Other Related Parties					
Deposit liabilities		**1,060,041,607**		1,024,617,332	With annual interest rates from 1.91% to 2%
Deposits	**323,500,000**		596,748,194		
Withdrawals	**288,075,725**		172,130,872		

Other related parties include significant investor of the Parent Company and its related affiliates.

Transactions with related parties are settled in cash.

Remunerations of Directors and other Key Management Personnel

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

Since the Bank's BOD and senior management are interlocking directors and officers of the Parent Company, the compensation of key management of the Bank was part of the compensation of key management of the Parent Company in 2020 and 2019.

25. Contingencies

In the ordinary course of the Bank's business, there are outstanding contingent liabilities such as pending litigations which are not shown in the accompanying financial statements. These cases are in the nature of annulment of foreclosed properties, annulment of mortgages, writs of possession, among others. Management does not anticipate losses from these contingencies that would adversely affect the Bank's operations.

26. Notes to Statements of Cash Flows

The following is the summary of noncash activities:

	2020	2019
Non-cash investing activities:		
Additions to investment properties and chattels from settlement of loans	**₱12,024,251**	₱49,499,196
Recognition of new right-of-use assets (Note 21)	**4,786,8134**	46,335,661
Acquisition of investment securities at amortized cost through issuance of bills payable	–	622,305,881
Disposal of investment properties through sales contract receivable	–	5,606,699
Derecognition of new right-of-use asset (Note 21)	–	1,768,128

Changes in the liabilities arising from financing liabilities
The following are the cash flow movements of the Bank's financing liabilities in 2020 and 2019:

	2020				
			Non-cash changes		
	January 1, 2020	**Net Cash flows**	**Interest Accretion**	**Net Additions (Derecognitions) *****	**December 31, 2020**
Bills Payable*	**₱426,260,915**	**(₱603,036,516)**	**₱14,481,879**	**₱225,642,546**	**₱63,553,791**
Lease liabilities**	**37,210,388**	**(12,256,511)**	**2,211,525**	**4,786,813**	**31,952,215**
	₱463,471,303	**(₱615,293,027)**	**₱16,693,404**	**₱230,429,359**	**₱95,506,006**

**Ending balance includes unamortized debt issue costs.*
***Ending balance includes both accrual of interest expense.*
****Pertains to non-cash financing activities during the year such as additions to lease liabilities and derecognition of unearned discount of PDIC loan.*

	2019				
			Non-cash changes		
	January 1, 2019	Net Cash flows	Interest Accretion	Net Additions (Derecognitions) ***	December 31, 2019
Bills Payable*	₱78,554,868	(₱57,144,489)	₱19,404,656	₱385,445,880	₱426,260,915
Lease liabilities**	30,950,087	(9,577,236)	2,274,020	13,563,517	37,210,388
	₱109,504,955	(₱66,721,725)	₱21,678,676	₱399,009,397	₱463,471,303

**Ending balance includes unamortized debt issue costs.*
***Ending balance includes both accrual of interest expense.*
**** Pertains to non-cash financing activities during the year such as additions to lease liabilities and availment of PDIC loan net of unearned discount.*

27. Events After Reporting Period

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Company:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.00 million and with total assets not exceeding ₱100.00 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event.

Applying the provisions of the CREATE Act, the Bank would have been subjected to lower regular corporate income tax rate of 25.00% effective July 1, 2020. Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the prorated corporate income tax rate of the Bank for CY2020 is 27.50%. This will result in lower provision for current income tax for the year ended December 31, 2020 and lower income tax liability as of December 31, 2020 by ₱2.02 million.

The reduced amounts will be reflected in the Bank's 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.

28. Supplementary Information Required under BSP Circular 1074

On February 7, 2020, the BSP issued Circular No. 1074 to amend certain provisions of the MORB and Manual of Regulations for Foreign Exchange Transactions (MORFXT). The Circular provides for new and amended disclosure requirements to the audited financial statements, which are to be presented either (i) on specific notes to the financial statements, or (ii) in a separate note containing supplementary information as required by the BSP. This supplementary information is not a required disclosure under PFRS.

In compliance with the requirements set forth by Circular No. 1074, hereunder is the supplementary information:

Financial Performance Indicators
The following basic ratios measure the financial performance of the Bank:

	2020	2019
Return on average equity	**38.37%**	8.84%
Return on average assets	**5.13%**	1.01%
Net interest margin on average earning assets**	**12.34%**	14.36%

***Interest-earning assets comprise of due from other banks, loans and receivable and investment securities at amortized cost.*

The following formulas were used to compute the indicators:

Performance Indicator	BSP Prescribed Formula (in percentage)
Return on Average Equity	Net Income (or Loss) after Tax / Average Total Capital Accounts*
Return on Average Assets	Net Income (or Loss) after Tax / Average Total Assets*
Net Interest Margin	Net Interest Income (or Loss) after Tax / Average Interest Earning Assets*

**Average amount is calculated based on current year-end and previous year-end balances*

Capital Instruments
The Bank's capital instruments consist of the following:

Capital Stock
As of December 31, 2020 and 2019, the Bank has outstanding capital stock as shown below:

	Shares	Amount
Common Stock	4,577,751	₱457,775,100
Preferred stock	5,311	531,100
	4,583,062	₱458,306,200

Concentration of Credit Exposures
As at December 31, 2020 and 2019, information on the concentration of credit as to industry of loans and receivables (gross of unearned discount and unearned lease/finance income and before allowance for credit losses) follows:

	2020		2019	
	Amount	**Percentage**	Amount	Percentage
Agriculture, forestry and fishing	**₱2,232,060,433**	**93.01%**	₱2,540,806,340	93.38%
Wholesale and retail, repair of motor vehicles, motorcycles	**19,140,212**	**0.80%**	63,195,708	2.32%
Manufacturing	**23,772,835**	**0.99%**	25,015,765	0.92%
Other service	**124,762,011**	**5.20%**	91,826,622	3.38%
	₱2,399,735,491	**100.00%**	₱2,720,844,435	100.00%

Breakdown of Total Loans as to Security and Status
The following are details of the loans and receivables for BSP reporting.

The details of the secured and unsecured loans and receivables as of December 31, 2020 and 2019 are as follows:

	2020		2019	
	Amount	**Percentage**	Amount	Percentage
Secured:				
Real estate	**₱52,148,118**	**2.17%1**	₱74,349,021	2.73%1
Chattel	**1,288,749,982**	**53.70%**	1,054,031,006	38.74%
	1,340,898,100	**55.87%**	1,128,380,027	41.47%
Unsecured	**1,058,837,391**	**44.13%**	1,592,464,408	58.53%
	₱2,399,735,491	**100.00%**	₱2,720,844,435	100.00%

Of the unsecured loans, ₱439.58 million and ₱656.58 million as of December 31, 2020 and 2019, respectively, represent agricultural loans which are covered by the AGFP program of the Department of Agriculture. Under the terms of this agreement, AGFP provides 85% guarantee cover on the principal balance of the eligible loans at the time of claim but not to exceed the amount of credit ceiling per commodity as set by the AGFP Governing Board.

In 2020 and 2019, the Bank paid guarantee fee to AGFP (presented under 'Insurance expense' in profit or loss) amounting to ₱6.60 million and ₱12.19 million, respectively.

Accounts receivables include receivables from AGFP, a government program which provides guarantee coverage to unsecured loans for agricultural food commodity production, amounting to nil and ₱11.15 million as of December 31, 2020 and 2019, respectively.

Generally, nonperforming loans (NPLs) refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrear ages reaches ten percent (10.00%) of the total receivable balance.

Microfinance loans are tagged as NPLs when the borrower missed an installment payment.

Receivables are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs. As of December 31, 2020 and 2019, restructured receivables amounted ₱112.74 million and ₱144.29 million, respectively. Interest income earned from restructured loans amounted to ₱5.80 million and ₱4.45 million in 2020 and 2019.

Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

With the issuance of BSP Circular 941 Amendments to the Regulations on Past Due and NPLs effective January 1, 2018, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non–performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Breakdown of total loans as to status

Information on the amounts of performing and non-performing loans and receivables (gross of unearned interest and discounts and allowance for impairment and credit losses) of the Bank are as follows:

	2020			2019		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Gross Loans*						
Other Agricultural Credit Loans	₱1,187,125,280	₱226,594,380	₱1,413,719,660	₱1,306,236,787	₱119,530,489	₱1,425,767,276
Medium Scale Enterprise	382,178,290	7,750,240	389,928,530	390,319,122	5,207,723	395,526,845
Small Scale Enterprise	260,345,132	5,774,675	266,119,807	425,272,309	5,900,736	431,173,045
Agrarian Reform Loans	116,062,584	51,466,197	167,528,781	217,172,241	14,077,909	231,250,150
Loans to Individuals	28,979,582	5,772,004	34,751,586	27,129,499	2,952,524	30,082,023
Microfinance Loans	20,584,464	17,092,240	37,676,704	88,676,258	6,253,214	94,929,472
	₱1,995,275,332	₱314,449,736	₱2,309,725,068	₱2,454,806,216	₱153,922,595	₱2,608,728,811

**Excludes sales contract receivables and accrued interest receivable*

The NPLs in 2020 and 2019, as presented above, are gross of specific allowance amounting to ₱194.71 million and ₱143.95 million. Out of these loans, ₱25.55 million and ₱20.63 million are secured as of December 31, 2020 and 2019, respectively.

In computing for NPLs, loans and receivables acquired from CBP were adjusted to their fair values at the date of acquisition.

Information on related party loans

As required by BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank.

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

As of December 31, 2020 and 2019, the Bank has no DOSRI loans.

Secured Liability and Assets Pledged as Security

The Bank's investments in Philippine government securities with face value of ₱568.16 million and carrying amount of ₱619.71 million, were pledged to the PDIC as a security for the financial assistance received (see Note 14). The fair value of these government securities as at December 31, 2019 amounted to ₱654.86 million.

With the settlement of its direct loan with PDIC on August 10, 2020, the Bank has no other securities pledged as collateral with other financial institutions as of December 31, 2020.

Contingencies and commitments

As of December 31, 2020 and 2019, the Bank has no amounts of contingencies and commitments arising from off-balance sheet items, transaction-related contingencies, sale and repurchase agreements not recognized in the statement of financial position, interest and foreign exchange related items and other commitments.

29. Supplementary Information Required Under Revenue Regulations 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses

In 2020, taxes and licenses of the Bank, which include all other taxes, local and national, consist of:

Gross receipt tax	₱33,709,269
Documentary stamp tax	2,235,961
License and permit fees	1,730,033
	₱37,675,263

Gross receipt tax

The Bank is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, fees and commissions from lending activities at 5.00% or 1.00%, depending on the loan term, and at 7.00% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

Withholding Taxes

Details of total withholding tax remittances in 2020 and outstanding liability balance as of December 31, 2020 are as follows:

	Total Remittance	Outstanding Balance
Final withholding taxes	₱4,544,967	₱153,861
Expanded withholding taxes	1,155,451	91,139
Tax on compensation and benefits	968,825	167,149
	₱6,669,243	₱412,149

Tax Assessment

As of December 31, 2020, the Bank has not received any final assessment notices from the BIR and it has no tax cases, litigation and/or prosecution in court or bodies outside BIR.