ANNUAL REPORT ASSESSMENT CHECKLIST
Rural Bank of Calbayog City, Inc.
Stand-alone, Thrift Banks, Rural Banks and Cooperative Banks
As of 2021 Annual Report

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RURAL BANK OF CALBAYOG CITY, INC. (RBCCI)

"An Bangko nga an Hingyap Pag-Asenso ug Trabaho."

2021 ANNUAL REPORT

OUR PURPOSE

COMPANY MISSION

The Rural Bank of Calbayog City, Incorporated (RBCCI) is committed to provide financial products and services at reasonable rates and terms to promote business opportunities to small and medium enterprises, develop agricultural livelihood projects, and to provide technical support and assistance to agricultural reform beneficiaries.

Towards this end, RBCCI shall provide quality service that will meet and exceed its clients' expectations to ensure that RBCCI becomes their bank of choice.

COMPANY VISION

The Rural Bank of Calbayog City, Incorporated (RBCCI), exhibiting integrity, competence and compassion, aims to be the leading rural bank in the Region and a catalyst for financial growth in the countryside that uplifts the quality of living of its people.

COMPANY PROFILE

The Rural Bank of Calbayog City, Incorporated (RBCCI) was founded on February 7, 1959 with the late Hermenegildo R. Rosales at its helm as the Chairman of the Board, came together with the intention of assisting the agricultural and aquaculture sectors.

RBCCI maintained the distinction being the first bank in the City of Calbayog as well as in the Province of Samar. Incorporated with an authorized capital of Php 50,000.00, this "seed" money was more than sufficient to assist the farmers, fishermen and other small businesses. Its main thrust was to improve the quality of the Samareños' lives by offering finance assistance and technical know-how regarding the business or project they would like to embark on.

In addition to providing financial assistance to those who required it, RBCCI also provides depository services to its clientele.

Such facility not only provides security measure for the bank, at the same time, it provides an investment opportunity to its depositors through its earned interest on their respective monies.

Owing its continued existence and success to the communities served by the bank, RBCCI in return takes part in social responsibilities like giving contribution to various disaster-relief programs, socio-civic activities and charitable institutions.

CORE VALUES

INTEGRITY.

- Be worthy of trust and respect.
- We are committed to show fairness, transparency, honesty and responsibility in execution of our duties.
- We deliver accurate, reliable and customer-friendly products and services.
- Our business processes and practices support service excellence while protecting the interests of our customers, employees and shareholders.

CUSTOMER-CENTERED.

- We are customer-focused.
- We continuously improve the quality of our services and image of the bank and to exceed the customers' expectations and to provide with the highest value.

RECOGNIZING HIGH-LEVEL PERFORMANCE.

- We recognize the creativity and diversity.
- We offer rewards to our high-level performer employees.
- We are attentive, responsive, reliable and accessible when it comes to customers financial needs.

BEING EFFECTIVE.

- We are innovative and designed leaders who seek to do the right things at the right time.
- We believe that in order to be effective, the Bank must be run efficiently with the highest and superior standards in the industry.
- Mere compliance and continually challenge ourselves to improve, overcome barriers and remain passionate in what we do.

DILIGENCE.

- We are dedicated to consistently deliver outstanding results.

INNOVATION.

- We ensure the optimal use of information communication technology.

TEAMWORK.

- We work together in harmony to realize the goals within the allotted time.

INTRODUCTION

RBCCI maintained the distinction being the first bank in the City of Calbayog, as well as in the Province of Samar. The Bank's main thrust was to improve the quality of the Samarnons' lives by offering financial assistance and technical know-how regarding the business or project they would like to embark on.

In addition to providing financial assistance, the Bank also provides depository services to its clientele. Such facility not only provides security measures for the Bank, at the same time, it provides an investment opportunity to its depositors through its earned interest on their respective monies.

To continuously promote and facilitate orderly development of rural economy and solve financing difficulty of rural areas in development process, the RBCCI has planned to participate in various government lending programs that will mitigate the bank's possible risks and improve the RBCCI's performance by actively participating as an avenue to make successful government financing programs, while simultaneously ensuring decent profits and maintaining the fine balance between growth and quality.

To achieve these objectives, the RBCCI intends to evolve itself in government-initiated programs. That provides loan programs and/or financial initiatives to small farmers and fisher folk, micro and small agri-fishers enterprises, micro entrepreneurs, etc. to provide affordable and cost effective capital requirements to enable them to improve efficient productivity and profitability of their respective income-generating activities.

RBCCI's involvement in these projects will result to shifting of its planned paradigm – from usual high-volume lending programs to focusing on high-yielding investment partnered with the government programs.

RBCCI BUSINESS MODEL

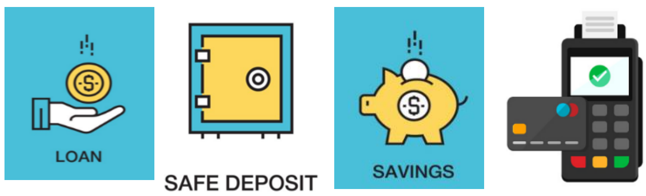
RBCCI comprises of the one (1) main office, two (2) branches and (2) branch-lite offices, namely: Head Office; Sta. Margarita Branch; Allen Branch; Money Shop Branch-lite Office; and, Oquendo Branch-lite Office.

The Bank offers variety of products and services such as, but not limited to, *Savings Account, Credit Accommodation – Real Estate and Chattel Mortgage, Agricultural Loan, Salary Loan, and Business Loan, Bills Payment – SAMELCO, ATM/POS Transactions.*

The Bank generates its revenues through different channels mainly in the aggressive collection of loan receivables and, in selling of acquired and foreclosed properties.

RBCCI aims to continuously develop and construct a healthier and more diversified rural financial system to effectively improve the overall financial environment of the community.

VALUE OFFERS:



FINANCIAL AND OPERATING HIGHLIGHTS

	Parent Bank (solo)	
Minimum Required Data	**2021**	**2020**
Profitability		
Total Net Interest Income	10,195,379.11	8,236,696.29
Total Non-Interest Income	487,901.87	2,386,810.52
Total Non-Interest Expenses	12,668,776.62	10,636,554.24
Pre-provision profit	1,886,618.44	13,047.43
Allowance for credit losses	-	-
Net income	1,280,978.55	586,677.98
Selected Balance Sheet Data		
Liquid Assets	87,103,517.65	90,340,760.35
Gross Loans	91,762,147.42	79,599,485.46
Total Assets	178,513,925.37	155,393,858.45
Deposits	126,982,195.97	114,110,947.40
Total Equity	43,718,561.37	39,218,687.31
Selected Ratios		
Return on equity	5.61%	2.57%
Return on assets	0.72%	0.38%
CET 2 capital ratio (for UBs/KBs)	-	-
Capital Adequacy Ratio	25.90%	22.91%

BREAKDOWN OF COMPONENTS OF TIER 1 AND TIER 2 CAPITAL

TIER 1	
Paid up common stock	20,000,000.00
Paid-up perpetual and non-cumulative preferred stock	2,832,400.00
Retained earnings	19,605,182.82
Undivided profits	1,280,978.55
Total Tier 1	43,718,561.37
Less: Total unsecured loans for both direct and indirect to DOSRI	93,639.68
Net Tier 1	43,624,921.69
TIER 2	
Increment Reserves-Bank Premises	-
General loan loss provision	691,600.23
Total Tier 2	691,600.23
Total Qualifying Capital	42,933,321.46
CAPITAL REQUIREMENTS	
Credit Risk	148,382,284.39
Market Risk	-
Operational Risk	22,730,786.06
Total Risk Weighted Assets	171,113,070.45
Tier 1 Capital Adequacy Ratio and Total Capital Adequacy Ratio	
Net Tier 1	43,624,921.69
Total Risk Weighted Assets	171,113,070.45
CAR Tier 1	25.49%
Net Tier 1 plus Tier 2	44,316,521.92
Total Risk Weighted Assets	171,113,070.45
Total CAR	25.90%

MESSAGE FROM THE **CHAIRMAN**

Our historic First Virtual Annual Stockholders Meeting 12 months ago. After 360+ days later, we are happy to report to you, our dear stockholders, that indeed we are SLIDE 3 UP! But before I go into details, allow me to quickly illustrate what your bank has gallantly faced over the last year. With the economic disaster that was 2020, 2021 had to be just better. While to some extent it was, the threat of ECQ or MECQ, which are now called Alert Levels, often disrupted whatever small gains there were. We just couldn't get a run going, so to speak.

But, despite these overlying conditions, the TEAM RBCCI, led by President and CEO Alan Giles Mary S. Sarmiento, tirelessly endured, persisted, and pushed on to acquire and collect and make Rural Bank of Calbayog City, Inc. the bank of choice of Calbayognons. The Income jumped by 23.64% from last year to Php 14.590M while Expenses were tempered by an increase of 18.13% or Php 13.247M. This resulted to a Net Income of Php 1.280M, a very healthy spike of 118.34% from last year.

Several years ago, your Board of Directors made a careful, conscious, and critical decision to gradually veer away from one of its famous products. The usual practice of providing personal and salary loans, a primary contributor to our bottom line in years past, gave way to put more emphasis and focus in providing business loans that are backed by tangible security.

Oftentimes, these require a more tedious and stringent process of validation and our employees had to quickly learn to adapt and be more vigilant in order to satisfy our customers. On hindsight, this strategic pivot proved to "insulate" the bank from the economic effects of the pandemic which greatly affected individuals and small businesses alike and allowed us to quickly recover lost momentum.

In terms of Income contribution, Income from Other Loans is at 42% compared to 2019 levels of 24%. Meanwhile, Income from Salary Loans, which were at 17% in 2019, is now only responsible for 3% of our Total Income. A clear turnaround.

For 2021, we set a lofty target of Php 104M for our Loan Portfolio. Despite the demanding conditions, your bank was able to reach a Gross Loan Portfolio of Php 92M or 88% of its target. Most of these loans were personally worked on by our ever-determined Bank President and CEO, Alan Sarmiento. Congratulations!!!

Quoting our President and CEO, and in complete synchronization with our hashtag of #NOWHERETOGOBUTUP, for year 2022, we are targeting over Php 110M in Total Loan Portfolio!!

At the start of 2021, we were facing the bulk of the after-effects of the pandemic as exhibited by Past Due ratios of as high as 45% or close to half of our entire loan portfolio! Efforts had to be doubled not just in collecting our customer's debts but more importantly, reaching out and communicating to them that we are here to extend to them our help. As 2021 closed, we were able to reduce this to a much manageable 25%.

As a result, and after an absence of 16 years, I am very happy and proud to announce a modest dividend of Ph2.00 per share for each stockholder on record as of December 31, 2021.

Again, CONGRATULATIONS TEAM RBCCI!!! Onwards and Upwards!!!

ALFRED DENNIS B. ANCHETA
Chairman of the Board

MESSAGE FROM THE PRESIDENT AND CEO

Chairman, directors, and stockholders,

Like 2020, the year 2021 was full of challenges. We are still in the pandemic stage, still feeling the effects of the economic slowdown attributable to the COVID19 Pandemic. The management had to adjust the required protocols, like handling customers and sanitation of the office environment. As a proactive initiative, I personally made arrangements for the vaccination of all bank employees using only Pfizer to protect the employees from mild to severe cases of the COVID virus.

Aside from the challenges brought about by the pandemic, Management had yet another challenge - the resignation of employees due to piracy, personal advancement, and salaries. This is a major concern for RBCCI's Board and Management due to the time, effort, and investment to develop the skills being wasted and the continuity of the work processes, affected. In these challenging times.

In consideration of the challenges faced by Rural Bank of Calbayog City, Inc., Management shall tediously assess the bank's financial status and performance from Yr. 2022 to Yr. 2025 to establish an effective and efficient business plan and projections, to include the benefits and incentives of the staff to encourage them to stay in the bank.

ALAN GILES MARY S. SARMIENTO
President and CEO

2021 Performance Review and Report on Operations

2021 Income and Performance

In 2021 year-end income is Php 14,590, 515.99 with an expense of Php 13,309.539.44 resulting to a net profit of Php 1,280,978.55. The increase in expenses of Php 1,126,000.00 was due to the expenses for the 30 foreclosed properties resulting to an overall legal cost of Php 670,000.00 as well as the stockholders' dividend payment in the amount of Php 456,000.00. Without the two expenses, the total expense should be at Php 12,183,000.00 as compared to the pre-pandemic period with resulted to an income of Php 19,480,926.01 in 2019.

Loan Concentration

Management revised the RBCC Policies and Procedure Manual to reflect the current operational requirements of the Bank. One notable revision made is the loan concentration or the breakdown of loan exposure of the bank which now reflects an increasing in secured loans accommodation while decreasing the approval of unsecured loans. Thus, the bank is further moving away from unsecured loans to secured loans to reduce the risk on uncollected payments and the same time the cost of the Allowance for Credit Losses for the unsecured loans. In secured loans, the foreclosure of properties resolves the default payment of the borrower, while in unsecured loans, writing-off of the bad debt is the only solution for the non-payment of the said loans.

The loan releases for Yr. 2021 reached 78% with Secured Loans amounting to Php 65,082,620.28 at 70% of the Bank's Loan Portfolio. While the Unsecured Loans amounted to Php 27,509,248.02 or 30% of the Bank's Loan Portfolio.

For a better appreciation on the status of Unsecured Loans, below is the breakdown:

BUSINESS LOAN	Php 4,597,256.58
P3 LOAN	3,702,301.61
OTHER LOANS	796,832.71
ACPC LOAN	4,670,177.90
SALARY	13,742,679.22

The Unsecured Loans for ACPC amounting to Php 4,670,177.90 is zero risk to the Bank due the funds are given by the DA-Agriculture credit policy council (ACPC) with payments due for ten years.

For the Yr. 2021, the total loans released by RBCCI amounted to Php 45,960,000.00 with Secured loan amounting to Php 35,910,000.00 or 78.13% of the loan releases. On the other hand, Unsecured Loans accounted for 22% of the volume of loan releases which includes APCP Loan amounting to Php 5.5M or 12%, Salary Loans from RBCCI to private employees amounting to Php

1,680,000.00 or 4%, and lastly, loans from MSME which need financial loan assistance amounted to Php 2,070,000.00. As established in the RBCC Policies and Procedures Manual, ceiling for the loan concentration of secured loans is at 80%.

Loan Releases for the year 2021			
	Amount	**No. of Accounts**	
SECURED	**35,910,000.00**	18	**78%**
UNSECURED	**10,050,000.00**	126	**22%**
Unsecured – OAL	550,000.00	6	1%
Unsecured – MSMEs	2,070,000.00	13	5%
Unsecured – OL	200,000.00	1	0%
ACPC Loan	5,550,000.00	84	12%
Salary Loan	1,680,000.00	22	4%
TOTAL:	**45,960,000.00**	**144**	

The Board may adjust the loan concentration for Secured Loans to 90% and 10% for Unsecured Loans.

With regards to RBCCI's performance for its Past Due and Non-performing Loans (NPL) showed encouraging progress as compared to its performance in Yr. 2020. While in Yr. 2021, the Past Due and NPL improved to 25% from 41% for Yr. 2020.

Management is still striving to reach 20% for the Past due and Non-performing Loan.

	2020	**2021**
Current Ratio	59%	75%
Past Due Ratio	15%	1%
NPL Ratio	26%	24%

The Letter of Commitment as required by the Bangko Sentral ng Pilipinas (BSP) started in Yr. 2016 due to the non-compliance of RBCCI to some regulatory requirements way back in Yr. 2012. The BSP directives were not acted upon in Yr. 2012 which resulted to BSP's recommendation in Yr. 2016 for the issuance of a Letter of Commitment from the Bank to comply with the directives for 5 years of which Management slowly complied with all the directives. As of this reporting, only 5 remaining findings need to be addressed for BSP to fully accept RBCCI's corrective actions. Management hopes to close all the findings and exit from BSP's Letter of Commitment this Yr. 2022.

Forecast

RBCCI is gearing to increase its Secured Loans from 80% to 85% to protect the bank from high-risk unsecured loans to lesser risk of secured loans. For the twenty years, the Bank's concentration is on Salary Loans. However, the market for the said loan type is so saturated since all government financing is focused to finance government salary loans. At present. RBCCI cannot compete with government funding capacity. In addition to this, the Commission on Audit likewise disallowed private financing to participate in the government salary loan program.

Secured loans are presently the best choice due the attached collaterals for now are land collaterals. The land market and prices are on an upward swing with an appropriation of 5% to 15% per annum depending on the area. The risk with non-payment is lesser not to mention that the ACL is to recover from bad loans. Thus, the bank can surely recover from non-payment of loans. Land collateral includes agricultural land to help the agri-business and farmers in developing the land.

For Yr. 2022, RBCCI is projecting a Total Income of Php 17,650,000.00 as compared to the pre-pandemic period of Php 18,730,000.00. Core Income is projected to be Php 12,500,000.00 while Non-core Income at Php 4,500,000.00. On the other hand, Direct Expense is targeted at Php 12,606,656.90 while Indirect Expense is targeted at Php 1,809,952.00 for a total of Php 14,416,608.90.

For Yr. 2022, Past Due and Non-performing Loan is targeted at 20%.

Loans

The projected Loan Portfolio for Yr. 2022 is Php 40M with Secured Loans at Php 34M or 90% of the projected loans, while Unsecured Loans will be at Php 6M or 10%, mostly for the ACPC Loan Program. The Php 4M will be released by February 2022 and the remaining will be coming from the business loans and qualified salary loans from the private sectors.

The main drivers for income are the core and non-core and for the expenses the direct and indirect expenses. Quantitative Target

Item	Targets	Comments
Income & Expenses		
Total Expenses	**16,416,608.90**	
*Direct Expenses	14,606,656.90 (88.97%)	
*Indirect Expenses	1,809,952.00 (11.03%)	
Total Income	**17,650,000.00**	
Core Income	13,150,000.00 (75%)	
Non-Core Income	4,500,000.00 (25%)	
Net Income	**1,230,000.00**	
NEW Accounts		
Number of Accounts	450	
Amount	13.5 Million	
LOAN Release		
Total Loans		
Amount	120 Million	
SECURED		
No. of Accounts	25	
Amount	34 Million	
UNSECURED		
No. of Accounts	40	Excluding the ACPC loans
Amount	6 Million	
Past Due Ratio of 20%		

When the new management started in Yr. 2016, the revenue reflected a Loss of Php7,000,000. Now, although the Net Profit Ratio is from 3% to 8%. RBCCI is slowly adjusting to BSP's compliance and financial growth.

Salary of Employees

To improve the workforce of the Bank, there is a dire need to increase the salaries of the employees to the level of the industry. With limited resources for manpower, there is a need to attract employees from other financial institutions to join the Bank. With the increasing inflation rate, the Bank needs to increase the salary or allowances to 3% to 5% per annum to catch up with the inflation cost. The other option is to provide additional employee benefits through performance bonuses and/or the institution of a Pension Fund for employees who have served the Bank for at least five (5) years with a progressive pension program as the employees' tenure with the Bank increases. The Pension Plan shall be thoroughly analyzed, reviewed, and eventually approved by the Board upon its completion.

Dormant Account and Close Account

The Bank generated 390 new accounts, yet only 90 new accounts availed of the loan facility of the bank. Thus, it may be concluded that the new accounts opened were due to the trust and/or need of depositors to use the bank's facilities.

Closing of Accounts in Yr. 2021 totalled 910 closed accounts with 818 accounts closed due to dormancy, only 92 accounts were voluntarily closed due to personal reason. It should be noted that the dormancy problem was generally caused by a previous bank program for students with Tancinco University.

In Closing

In closing, I am proud to inform you that after 18 years, the Bank will give a cash dividend to the Stockholders Php 2.00 pesos per stock share or a total value of Four Hundred Fifty-Six Thousand Six Hundred Forty-Eight pesos (P 456,648.00) as reported to the BSP dividend declaration dated January 07, 2022. This is evidence to the commitment of RBCCI to serve the interest of the stockholders and investors.

RISK MANAGEMENT

The Bank have continuously implemented various ways to manage, if not mitigate, the different risks that are inherent to the Bank in view of maintaining financial soundness. The Bank's risk management culture and philosophy is formulated on the matter of assessing, measuring, monitoring, and reporting risks to manage the exposure to quantifiable risks.

The Bank believes that, as there are opportunities, there are associated risks. The objective is not to avoid risks totally, but to adequately and consistently evaluate, manage, control and monitor the risks, and ensure that the Bank is duly compensated for all risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

RISK APPETITE & STRATEGY

The Bank's risk appetite considers the various risk types and is operationalized via thresholds, policies, processes and controls. Effective thresholds are essential in managing aggregate risks within acceptable levels. Portfolio risk limits for the quantifiable risk types are cascaded and other significant risk aspects are guided by qualitative expression of principles.

RISK GOVERNANCE

The Board of Directors directs the conduct of our activities and provides sound leadership to the President and CEO and Management. The Board of Directors has delegated authority to the Committees to enable them to oversee specific responsibilities based on clearly defined terms of reference. The Board of Directors lays down the general framework for the Bank's risk management by approving risk policies including maximum limits for exposure to the main types of risk. The President and CEO is responsible for managing the risk profile of the bank within the framework set by the Board of Directors and for ensuring that the RBCCI aggregate risk is consistent with its financial resources and willingness to take risk.

BANK-WIDE RISK GOVERNANCE STRUCTURE

The Board of Directors, which is responsible for establishing and maintaining a sound risk management system. The Board assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution's tolerance for risks, as well as its business strategy and risk philosophy.

Anti-Money Laundering and Terrorist Financing

The Rural Bank of Calbayog City, Inc. places a high focus on preventing financial crimes because they not only pose a serious risk to the bank's reputation but also weaken the integrity of the bank. To guarantee that its clients follow the law and do not use the Bank for unlawful operations, the Compliance Officer oversees its rules and regulations, and is responsible for monitoring the customer and counterparty transactions in compliance with the Anti-Money Laundering Law.

RBCCI AML Internal Policies

- It shall be priority of RBCCI to practice and engaged business in an ethical standard to protect the bank's integrity not only to its employees, constituencies, and clients but to the entire community.

- Establishing and recording of the client's identity whether individual, partnership or corporate must be the bank's utmost concern in any banking transactions (Know Your Customer or KYC).

- Use of anonymous, fictitious names or coded accounts unless otherwise permitted under any existing laws shall not be allowed nor kept by RBCCI.

- Issuance of cashier's or manager's checks payable to cash, bearer of fictitious payee or number will not be allowed.

- Reasonable measures must be adopted to prevent the use of the bank's facilities for money laundering activities by criminal elements and the like

- Developing bank personnel awareness on money laundering activities and combating the same; and

- Reporting of all covered and suspicious transactions to competent authorities as prescribed in MORB.

CORPORATE GOVERNANCE

The Board of Directors and Management of the Rural Bank of Calbayog City Inc. (RBCCI) believe that corporate governance is a critical component of sound strategic business management and will, therefore, undertake every effort necessary to create awareness within the organization to ensure that the principles of fairness, accountability and transparency are indispensable in conducting the day-to-day business of the bank. RBCCI's operations is managed through properly established organizational structure and adequate policies and procedures embodied in the Rural Bank of Calbayog City, Inc. Policies and Procedures Manual approved by the Board of Directors.

RBCCI's Board of Directors operates with significant independence from its management. The Chairman of the Board is a non-executive position and separately appointed from the President and Chief Executive Officer (CEO).

The Board of Directors consists of five (5) directors, one (1) of whom is classified as an independent or having no interest or relationship with RBCCI at the time of election, appointment, or re-election. Four (4) of the five (5) directors are non-executive officers of RBCCI, and the one executive director is RBCCI's President and CEO.

The members of the Board are elected annually by RBCCI stockholders during its Annual Stockholders Meeting held every January. The Board of Directors convenes regular meetings in accordance with a monthly cycle while special meetings may be called as needed.

The Board of Directors is primarily responsible for approving and overseeing the implementation of RBCCI's strategic objectives, risk strategy, corporate governance and values.

BOARD OF DIRECTORS

The Board is primarily accountable to the stockholders. It should provide them with a balanced/fair and comprehensible assessment. The position and prospects, including interim and other reports on matters that could adversely affect its business, as well as reports to regulators that are required by law;

The principle of fairness refers to the protection of the rights of all shareholders, treatment in share purchases, issuance of reports to all and by and large the specific policies on the treatment of stakeholders;

It also covers the standards used both by the internal and external auditors in reporting their audit findings; and the responsibilities of the board of directors and management are in no way diminished by the existence of a system for the supervision of the bank by BSP or by a requirement for the bank's financial statement to be audited by an external auditor.

Board Composition. Pursuant to Sections 15 and 17 of R.A. No. 8791, there shall be at least five (5), and a maximum of fifteen (15) members of the board of directors of a BANK'S: Provided, That in case of a bank merger or consolidation, the number of directors may be increased up to the total number of the members of board of directors of the merging or consolidating bank as provided for in their respective articles of incorporation, but in no case to exceed twentyone (21). The board of directors shall determine the appropriate number of its members to ensure that the number thereof is commensurate to the size and complexity of the BANK'S's operations.

To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. Non-executive directors, who shall include independent directors, shall comprise at least majority of the board of directors to promote the independent oversight of management by the board of directors.

At least one-third (1/3) but not less than two (2) members of the board of directors shall be independent directors: Provided, That any fractional result from applying the required minimum proportion, i.e., one-third (1/3), shall be rounded up to the nearest whole number: Provided, further, That in the case of RBs, at least one (1) independent director shall be elected to the board of directors: Provided, furthermore, That RBs whose business model is deemed complex by the Bangko Sentral, or as directed by the appropriate supervising department, shall have at least one-third (1/3) but not less than two (2) members of the board of directors as independent directors: Provided, finally, That any fractional result from applying the required minimum proportion, i.e., one-third (1/3) shall be rounded-up to the nearest whole number.

Non-Filipino citizens may become members of the board of directors of a BANK'S to the extent of the foreignparticipation in the equity of said BANK'S: Provided, That pursuant to Section 23 of the Corporation Code of the Philippines (BP Blg. 68), a majority of the directors must be residents of the Philippines

Director Qualifications. He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Sec. 138 (Persons disqualified to become directors).

A director shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using Appendix 101 as guide within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the board of directors.

The Bangko Sentral shall also consider its own records in determining the qualifications of a director.

The members of the board of directors shall possess the foregoing qualifications in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations.

He must have attended a seminar on corporate governance for board of directors. A director shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral-prescribed syllabus on corporate governance for first-time directors and documentary proof of such compliance: Provided, That the following persons are exempted from complying with the aforementioned requirement: (a) Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance; (b) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or (c) Former Chief Justices and Associate Justices of the Philippine Supreme Court:

Provided, further, That this exemption shall not apply to the annual training requirements for the members of the board of directors.

Independent and Non-Executive Directors Qualification.

a) A non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement; and

b) An independent director of a BSFI may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same BSFI, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012

Duties and Responsibilities of the Board of Directors. The board of directors is primarily responsible for defining the Bank's vision and mission. The board of directors has the fiduciary responsibility to the Bank and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives. It shall also approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework. The board of directors shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance.

a) The board of directors shall define the Bank's corporate culture and values;
b) The board of directors shall be responsible for approving BSFI's objectives and strategies and in overseeing management's implementation thereof;
c) The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel;
d) The board of directors shall be responsible for approving and overseeing implementation of the Bnak's corporategovernance framework;
e) The board of directors shall be responsible for approving BSFI's risk governance framework and overseeing management's implementation thereof.

NORMS OF CONDUCT

To remain fit and proper for the position for the duration of his term. A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that RBCC is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training;

To conduct fair business transactions with RBCCI to ensure that personal interest or that of his colleagues does not bias board decisions. Directors should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the Bank cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to RBCCI than those offered to others. The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that would compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a Director, he should fully and immediately disclose it and should not participate in the decision making process. A Director who has a continuing material conflict of interest should seriously consider resigning from his position.

To act honestly and in good faith with loyalty and in the best interest of the RBCCI its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public. A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders;

To act judiciously after thorough consideration of all aspect of each matter for resolution. Before deciding on any matter brought before the Board of Directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary;

To contribute significantly to the decision-making process of the board. Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board;

To exercise independent judgment. A director should view each problem or situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollary, he should support plans and ideas that he thinks will be beneficial to RBCCI;

To have a working knowledge of the statutory and regulatory requirements affecting RBCCI, including the contents of its Amended Articles of Incorporation and Amended By-Laws, the requirements of the BSP, SEC and where applicable, the requirements of other regulatory agencies. A director should also keep himself informed of the industry developments and business trends in order to safeguard the bank's competitiveness; and

To observe confidentiality. Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. Director should not reveal confidential information to unauthorized persons without the authority of the Board.

Board Composition

As of Dec 31, 2021

Name of Director	Type of Director	No. of Years as Director	No. of Shares	% of Shares
Alfred Dennis B. Ancheta	Chairman/Non-Executive	10	146	0.06%
Alan Giles Mary S. Sarmiento	President and CEO	7	35,327	15.47%
Ma. Rosario R. Santos	Director	11	13,400	5.87
Reynaldo M. Prudenciado Jr.	Director	3	2	0.00%
Estephanie Guia G. Zilmar	Independent Director	1	2	0.00%

BOARD OF DIRECTORS

Alfred Dennis B. Ancheta

Position: Chairman

Tenure

- Vice President, 2015-2018
- Chairman, 2018-present

Education

He received his B.A. Philippine Studies at the University of the Philippines in 1988.

BOARD OF DIRECTORS

Alan Giles Mary S. Sarmiento

Position: President and CEO

Tenure

- Director, 2015-2016
- President and CEO, 2016-present

Education

He Graduated at the University of San Jose Recoletos in Cebu City and studied law in Adamson in 1999.

BOARD OF DIRECTORS

Ma. Rosario R. Santos

Position: Director

Tenure

- President, 2014-2015
- Vice-President, 2015-2016
- Director, 2016-present

Education

She earned her degree in College of Holy Spirit for Bachelor of Science in Commerce degree in 1981 and Business Administration course in U21 Global in 2008.

BOARD OF DIRECTORS

Atty. Reynaldo M. Prudenciado, CPA

Position: Director

Tenure

- Director 2018-present

Education

He holds a degree for Bachelor of Science in Accountancy year 2009 at Christ the King College-Calbayog City and studied Bachelor of Laws in Arellano University year 2015.

BOARD OF DIRECTORS

Ms. Estephanie Guia G. Zilmar, CPA

Position: Independent Director

Tenure

- Independent Director, 2021-2022

Education

She holds a degree for Bachelor of Science in Accountancy year 2013 at University of the Philippines-Tacloban City and currently studied Masters in Business Adminstration at UP Virata School of Business.

RBCCI BOARD AND BOARD LEVEL COMMITEES

Board Commitees. The Board has established Committees to heighten the efficiency of Board operations and assist in exercising its authority for oversight of internal and compliance and performance monitoring of the Bank.

Internal Control And Audit (Compliance) Committee (ICACC).

Composed of at least three (3) members of the Board, two (2) of whom shall be Directors and one (1) Independent Chairman. The Committee is responsible for providing oversight in the bank's compliance and audit functions.

Meetings and Attendance

Conduct of Meetings. The Chairman presides over meetings of the Board. Board and committee meetings are conducted consistent with the Bank's Amended By-Laws

	Board	ICACC
Number/Composition of Commitees	5	5
Frequency of Meetings	Monthly	Quartely
Name of Members		
Alfred Dennis B. Ancheta	✓	
Alan Giles Mary S. Sarmiento	✓	
Ma. Rosario R. Santos	✓	✓
Reynaldo M. Prudenciado Jr.	✓	✓
Estephanie Guia G. Zilmar	✓	✓
Total No. of Meetings held during year	12	4

Scheduling of Meetings. In accordance with its By-Laws, the Board schedules and holds monthly regular meetings and convenes for special meetings as needed by business exigencies. Prior to each meeting, the directors are provided with the notice, agenda, and other relevant meeting materials, and the meeting is duly minuted.

Commitee		Attendance /Meetings	%
BOARD	**Alfred Dennis B. Ancheta**	12/12	100%
	Alan Giles Mary S. Sarmiento	12/12	100%
	Ma. Rosario R. Santos	12/12	100%
	Reynaldo M. Prudenciado Jr.	12/12	100%
	Estephanie Guia G. Zilmar	7/12	88%
ICACC	**Ma. Rosario R. Santos**	4/4	100%
	Reynaldo M. Prudenciado Jr.	4/4	100%
	Estephanie Guia G. Zilmar	2/4	50%

Meetings Held Remotely. Since the onset of the COVID-19 pandemic in 2020, the Bank has adopted virtual meeting platforms and invested in the necessary equipment, video and web conferencing software.

These alternative means of communication for Board and board committee meetings follow BSP and SEC guidance on the conduct of meetings held remotely by electronic means.

RBCCI'S OFFICERS AND SENIOR MANAGEMENT

To set the tone of good governance from the top. Bank officers shall promote the good governance practices within the bank by ensuring that policies on governance as approved by the board of directors are consistently adopted across RBCCI;

To oversee the day-to-day management of the bank. Bank officers shall ensure that bank's activities and operations are consistent with the bank's strategic objectives, risk strategy, corporate values and policies as approved by the board of directors. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across RBCCI;

To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency. RBCCI officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the board of directors for the performance of the bank; and

Name	Position
Alan Giles Mary S. Sarmiento	President/CEO
Mara S. Mahusay	Corporate Secretary
Jaelyn D. Arboiz	Treasurer
Sarah Caparas	Compliance Officer
2021 Section Heads and Branch Heads	
Teresa Bebia R. Flores	Branch Head
Jocelyn C. Gelomio	Branch Head-Allen Branch
Ma. Imelda C. Roño	Branch Head- Sta. Margarita
Jaelyn D. Arboiz	Branch Head- Oquendo
Karl Joshua Añora	Cash Management Head
Sherlyn S. Sabar	Internal Auditor

To promote and strengthen checks and balances systems in RBCCI, bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

PERFORMANCE ASSESSMENT PROGRAM

As performance evaluation of the RBCCI's BODs is central to corporate governance, the BODs values inputs and suggestions that feedback mechanisms to assist them as reflected in their performance as individual directors and as a governing body.

The assessment aims to evaluate the performance of the BODs as an individual director, a body, and a Board Committee. The assessment also serves as a means to appraise a director's attendance at Board and Committee meetings, participation in boardroom discussions, and manner of voting on material issues raised and is established to ensure that strategic goals and objectives flow from the top of the organization to the personal objectives of each employee.

POLICY

1. Self-assessment shall be in the form of a questionnaire to be provided to each directors on a yearly basis.
2. The accomplishment of the assessment forms/questionnaire must be done individually, on a per director basis to secure an honest, unbiased, independent and anonymous view from each director rather than a collective assessment, which is subject to filtering and pre-agreement.
3. The Board-level Committee shall be evaluated by the BODs.
4. The President and CEO, as well as the appointed bank Officers shall be evaluated by the BODs.
5. The BODs shall be given five (5) banking days to accomplish the self-assessment forms/questionnaire.

PERFORMANCE CRITERIA

The self-assessment questionnaire covers a thorough evaluation criteria focused on (a) competence and independence reflecting the efficiency and effectiveness of the BODs; (b) commitment to corporate governance; and (c) the specific duties, responsibilities and accountabilities of each Board member, if any, in line with RBCCI's By-laws, Policies and Procedures Manual, and other regulations as provided.

The following performance rating scale shall be used as the standard scoring for self-assessment and performance evaluation for Board-level Committee, President and CEO, and appointed bank Officers.

4	3	2	1
Excellent	Very Satisfactory	Satisfactory	Needs Improvement

TABULATION OF RESULTS

The Compliance Officer shall be responsible in calculating the results of the evaluation using the following computation:

1. Average score for each line item / question – the sum of all the rates divided by the total number of directors.
2. Average score for each category – the sum of the average score for each line item divided by the total number of questions per category.
3. Average total score for each director – the sum of the average score for each category divided by the number of categories.

ORIENTATION AND EDUCATION

To make sure that all personnel are properly trained, supervised, and made aware of the existence of specific laws, rules, and regulations as well as the ethical standards of the RBCCI, the Compliance Officer/Internal Audit Head has provided internal orientation and trainings for both the existing staff and the newly hired employees.

Qualified staff will have access to initial training in compliance standards and procedures from the Compliance Officer/Internal Audit Head, as well as enhanced training through online education programs and attendance at banking seminars, training sessions, and compliance workshops.

RETIREMENT AND SUCCESSION

Retirement. The employee submits his/her Retirement Letter to the President and CEO as endorsed by the employee's immediate superior (as applicable). The Retirement Letter shall be forwarded to the Cashier who will review the employee's records for the retirement pay computation. The final computation shall be submitted to the President and CEO for review and endorsement to the BoD for approval. Upon final approval of the retirement computation by the BoD, the employee's final pay may be issued and released.

In able to ensure the continuous carrying of duties and functions that are critical to the operation of the Rural Bank of Calbayog City, Inc. (RBCCI) and its services to clients, the Board of Directors (BoD) is adopting policies and procedures for the temporary appointment of Director/s and President and CEO, as well as other officers, in the event of absence, unplanned and extended of the aforementioned officer/s.

In addition, the top management of RBCCI also believes that due diligence in exercising its governance functions requires that this succession plan is in place. This succession plan is expected to safeguard continuity in external relationships and in staff functioning.

POLICIES

The termination of employment initiated by the Company for employees who have reached the age of sixty-five (65) years. Retired employees who have rendered at least ten (10) years of service shall be entitled to a retirement benefit to half month per year of service based on the employee's final daily salary. However, the retired employee has the option to re-apply for a position in the company. For purposes of computation of the retirement benefit based on number of years of service, a fraction of at least six (6) months shall be considered as one (1) whole year. Computation of length of service shall commence from the most recent unbroken period of active service rendered by the employee. For monthly paid employees, the equivalent daily salary is arrived at by multiplying the Monthly Basic Salary (MBS) by 12 and dividing the product by 313. The final MBS shall be the latest, prior to the effective date of retirement or resignation. The MBS shall not include any type of emoluments or benefits such as bonuses, overtime pay, incentives, work-related allowances, or other forms of monetary benefits which are not part of the basic salary of the covered year.

An act or omission of an employee that constitutes just cause for termination of employment shall automatically disqualify the employee from entitlement any benefits under this policy. The benefits that will be issued to the qualified employee will be included in the computation and processing of the employee's final accountabilities. The benefit under this policy shall be paid to the qualified employee in lump sum.

- An unplanned absence is one that arises unexpectedly, in contrast to a planned leave, such as a vacation or sabbatical.
- A temporary absence is one in which it is expected that the director or officer will return to his position once the events precipitating the absence are resolved.
- A short-term absence is expected to last in Three (3) months or less.
- A long-term absence is more than Three (3) months.

President and CEO. The Board of Directors shall choose within its membership through a majority vote not later than second (2nd) regular session immediately from the session to which the President is absent.

Director. In the event a Member of the Board is incapable or unavailable, the Board of Directors may choose prior to the Annual Stockholders' Meeting from within the list of stockholders of the bank through its majority vote. However, in the event the BoD decides not to select or fails to choose within the term of the absentee, the Presiding Officer shall prevent to cast his vote in the decision-making of the BoD to maintain the odd number and arrive to a certain decision.

Independent Director. In the event the Independent Director of the Board is incapable or unavailable. The Board of Directors shall choose within the list of stockholders of the bank through its majority vote, a stockholder with minor shareholdings and qualified based on the Manual of Regulations for Bank (MORB).

Compliance Officer/ Internal Auditor. The Compliance Assistant shall immediately assume the position of the Compliance Officer in acting capacity. The Internal Auditor Assistant shall immediately assume the position of the Internal Auditor in acting capacity. In the event that the Compliance Assistant and the Internal Auditor Assistant is incapable or unavailable, the Board of Directors shall select within the operation an officer, through a majority vote of the BoD, to assume the position of the Compliance Officer and the Internal Auditor in acting capacity. Provided however, that the appointee shall relieve from the duties and functions of the position prior to the appointment of the BoD.

Cashier. The Cashier Assistant shall immediately assume the position of the Cashier in acting capacity. In the event the Cashier Assistant is incapable or unavailable, the President and CEO shall choose within the operation an officer on non-officer to assume the position of the Cashier in acting capacity. Provided however, that the appointment of the officer or non-officer shall be reported by the appointing officer to the BOD.

Branch Head. The President and CEO shall choose within the operation an officer or non-officer to assume the position of the Branch Head in acting capacity.

Upon the affectivity of the appointment of the appointee, in case of vacancy of the President and CEO's position, the appointee shall communicate the temporary position structure of RBCCI to concerned institutions or agencies, government or non-government, as necessity arises. In general, the President and CEO or his substitute shall make the necessary communication. The appointee shall have the full authority for the decision-making in line with the duties and functions of the assigned position. Any restriction of a particular duty and function may be expressly applied by the appointing authority.

A permanent absence is one in which it is firmly determined that the concerned director or officer will not be returning to the position. The procedures and conditions shall be the same as mentioned. In addition, the Board of Directors shall appoint a Director, President and CEO or Cashier in permanent capacity within Three (3) months of service of the appointee in acting capacity. The Succession Plan shall be approved by the full Board of Directors through its unanimous decision and signed by the Board of Directors, Corporate Secretary, and President and CEO. Copies of the signed Succession Plan shall be maintained by the Chairman of the Board, Corporate Secretary, President and CEO, and Compliance Officer / Internal Auditor.

REMUNERATION POLICY

Directors And Officers. The RBCCI's Amended By-Laws provides that Officers and Directors shall receive such compensation for their services as may from time to time be fixed by the stockholders subject to the limitations set forth in Section 29 of the Corporation Code. Each director shall also be entitled to a reasonable per diem, as may be determined by the Board. The officers' salary or compensation elected or appointed by the Board of Directors shall be fixed by the Board

RELATED PARTY TRANSACTIONS

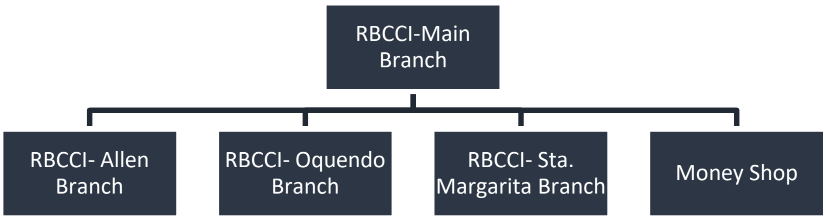
A potential area of abuse arises from granting credit to connected and related parties/interests, whether companies or individuals. Related parties/interests typically include major shareholders, directors, and executive/management officers. The relationship includes the ability to exert control over or influence the bank policies and decision-making, especially concerning credit decisions.

RBCCI's ability to systematically identify and track extensions of credit to insiders is crucial. The issue is whether credit decisions are made on a rational basis and according to approved policies and procedures. An additional concern is whether credit is based on market terms or is granted on terms that are more favourable with regard to amount, maturity, rate, and collateral, than those provided to the general public. Transactions with related parties/interest will not be allowed by the board of directors.

We maintain a registry of related parties (RPs) which is regularly updated based on the results of RP analyses, as part of the Know-Your-Customer process, conducted by the Cash Section.

We are committed in ensuring strict compliance with laws, regulations, and reporting requirements relating to DOSRI and RPTs by instituting rigorous vetting processes and establishing adequate controls and oversight mechanisms.

RBCCI CONGLOMERATE STRUCTURE



SELF-ASSESSMENT FUNCTION

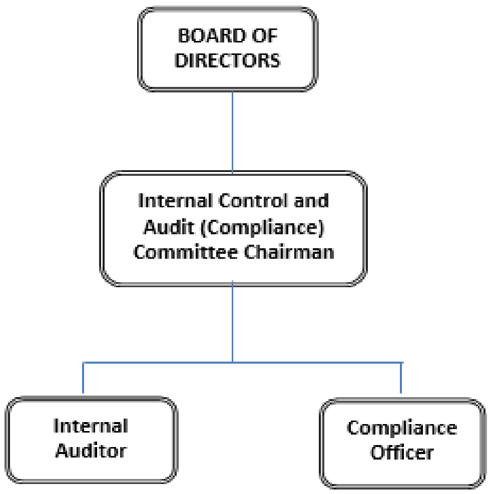
The Internal Control and Audit(Compliance) Committee, which shall be composed of an independent board member, preferably with accounting and finance experience the audit committee provides oversight of RBCCI’s auditors. It shall monitor and evaluate the adequacy and effectiveness of the internal control system. The Board of Directors shall ensure that the Internal Control and Audit (Compliance) Committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions. Overall Roles and Responsibilities of the Internal Control and Audit (Compliance) Committee recommends policies and processes to the board related to:

a) The organization’s financial statements and other financial information provided to governmental bodies, financial institutions, rating agencies, and the public.

b) The organization’s systems of internal controls for finance, accounting, legal compliance and ethics, according to policies that management and the board of directors have established.

c) The organization’s auditing, accounting, financial reporting, and compliance processes. Consistent with this function, the Internal Control and Audit (Compliance) Committee should encourage continuous improvement of, and promote adherence to, the organization’s policies, procedures, and practices for accountability, transparency, and integrity. Throughout its work, the Internal Control and Audit (Compliance) Committee will serve as an independent and objective party to monitor the organization’s financial reporting process, internal control systems and ethics.

ICACC ORGANIZATIONAL STRUCTURE



The committee will provide an open avenue of communication among the independent auditor, financial and senior management, the internal audit, and the governing body.

The Internal Control and Audit (Compliance) Committee meets at least every quarter or when necessary at the call of the committee chair. The Internal Control and Audit(Compliance) Committee shall be composed of at least three (3) members of the board of directors, including the chairperson, preferably with accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the bank. To the greatest extent possible, the audit committee shall be composed of a sufficient number of independent and non-executive board members. Further, the President and Chief Executive Officer, Treasurer or officers holding equivalent positions, shall not be appointed as members of the audit committee.

The Internal Audit and Compliance Assessment Program provide the policies and procedures in the implementation of the activities relative to Internal Audit as well as that of the Compliance Assessment.

Compliance Officer. Oversight of the Compliance by the bank, ensuring that it runs in compliance with external legal and regulatory requirements, compliance with external requirements, internal policies, and rules and the enforcement of its observance.

Compliance Officer is set up to include Corporate Compliance and Regulatory Governance, compliance with anti-money laundering laws, Compliance Monitoring, and the Office for Data Privacy. In light of the quick changes in the regulatory environment, as well as the increasing complexity of the Bank's services and products, the Compliance Office develops in its operations, transactions, and anticipating coverage of compliance practice areas and overcome new challenges. The domain and scope of the compliance function are modified for fresh and developing compliance risk sources.

Internal Audit. shall cover the audit/evaluation of activities, processes, work areas and services being rendered. Such evaluation shall also include RBCCI practices, policies, procedures, processes, systems and instructions.

Our Internal Audit is a separate organization that aids the ICAC Committee incarrying out its duties for oversight by offering a neutral evaluation of the suitability and efficacy of The Bank's internal controls, risk management, and through defined risk-based audit programs that focus on governance mechanisms.

The Compliance Officer/Internal Auditor shall determine the purpose of the Internal Audit and Compliance Assessment activities of RBCCI and the general scope of each activity such as what regulations, standards or documents shall be used in the audit/assessment as norms. The Compliance Officer/Internal Auditor shall inform the RBCCI personnel about the objectives and scope of the audit/assessment for the same to cooperate with the internal auditor /compliance assessor to permit the audit/assessment objective/s to be achieved.

DIVIDEND POLICY

Represents the amount of the dividend declared by the Board of Directors or be paid at a determined future date. Declaration of dividend shall also be subject from MORB requirement under Section 124.

Payment of dividends. Dividend declaration is ultimately the responsibility of our Bank and our Board which has the authority to declare dividends as it may deem appropriate. Under BSP regulations, no bank shall declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. The net amount available for dividends shall be the amount of unrestricted or free retained earnings less loss provisioning which takes into account relevant capital adjustments including losses, bad debts, and unearned profits or income.

As approved by the Board, a cash dividend to the Stockholders Php 2.00 pesos per stock share or a total value of Four Hundred Fifty-Six Thousand Six Hundred Forty-Eight pesos (P 456,648.00) as reported to the BSP dividend declaration dated January 07, 2022. This is evidence to the commitment of RBCCI to serve the interest of the stockholders and investors.

SOCIAL RESPONSIBILITY

The Management is currently connected to the government like Department of Agriculture through ACPC and DTI for their programs. Since then, the bank helped numerous small farmers, fisherfolks, Micro and small business entrepreneurs who are not qualified by big commercial banks.

Now the bank participates in helping the local agricultural and aquaculture industry. Moreover, the bank is in process in participating the Department of Agriculture's Programs through ACPC - Expanded SURE Aid and Recovery Project, ANYO and KAYA to help micro and small enterprises and small marginal farmers and fishers adversely affected by the COVID-19 Pandemic.

CONSUMER PROTECTION

RBCCI employees ensure that the clients have a reasonable holistic understanding of the products and services, which they may be acquiring or availing. Thus, any information given to consumer whether in writing, electronically or orally should be fair, clear, transparent, and easily comprehensible for them to make an informed choice about a product or service. This is made possible by providing the consumer with ready access to information that accurately represents the nature and structure of the product or service, its terms and conditions, as well as its fundamental benefits and risks. RBCCI employees adhere to the following principles:

- Ensures that offering documents of products and services contain the information necessary for customers to be able to make an informed judgment of the product or service. All key features and risks of the products are highlighted prominently in a succinct manner. Where a product is being offered on a continuous basis, it's offering documents is updated in accordance with the RBCCI's existing policies.

- Readily and consistently makes available to the customer a written copy of the Terms and Conditions that apply to a product or service. The contents are fully disclosed and explained to customers before initiating a transaction. Where and when warranted, reference to the Terms and Conditions are made while transacting with the consumer and before consummating the transaction, if such reference is material to the understanding of the consumer of the nature of the product or service, as well as its benefits and risks. As a written document, the Terms and Conditions are complete but concise, easily understandable, accurate, and presented in a manner that facilitates the consumer's comprehension.

The Terms and Conditions includes at least the following:

The full price or cost to the customer including all interest, fees, charges, and penalties. The Terms and Conditions clearly state whether interest, fees, charges, and penalties can change over time. The method for computing said interest, fees, charges, and penalties are presented in accordance with Truth in Lending dated 20 July 2011. The Bank may only charge interest based on the outstanding balance of a loan at the beginning of an interest period. For a loan where principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

- General information about the operation of the products or services including the customer's obligations and liabilities;
- Cancellation, return and exchange policies, and any related cost;
- The actions and remedies which the Bank may take in event of a default by the customer;
- Procedures to report unauthorized transactions and other contingencies, as well as the liabilities of parties in such case; and
- A summary of the Bank's complaints handling procedure.

Advises customers to read and understand the applicable Terms and Conditions, when considering a product or service.
Communicates in such a manner that clients can understand the terms of the contract, their rights and obligations. Staff communicates with techniques that address literacy limitations, e.g., (1) where a consumer is unable to understand English, provide an oral explanation in a language the consumer understands; or (2) where a consumer is unable to understand written information, explain orally to the consumer the written information.

Provides customer adequate time to review the Terms and Conditions of the product or service, asks questions and receives additional information prior to signing contracts or executing the transaction. The staff is available to answer the questions and clarifications from the financial customer.

Fully knowledgeable about the products and services marketed, including statutory and regulatory requirements, and can explain the nuances to the consumer.

Uses a variety of communication channels to disclose clear and accurate information. Such communication channels is available to the public without need for special access requirements, which may entail additional expense. Communication channels should be sufficiently.

GUIDELINES IN HANDLING CUSTOMER COMPLAINTS

Complaints shall be written or electronically given will be accepted. However, RBCCI shall place suggestion and complaints box for every branch and shall be placed were people can clearly see the sign for customer may drop their concern.

Process in handling a complaint.

- The concern department will be the one to provide the answer within 5 banking days from the receipt.

- The President and CEO and Chief Compliance Officer will be given a copy of the answer within 5 banking days.

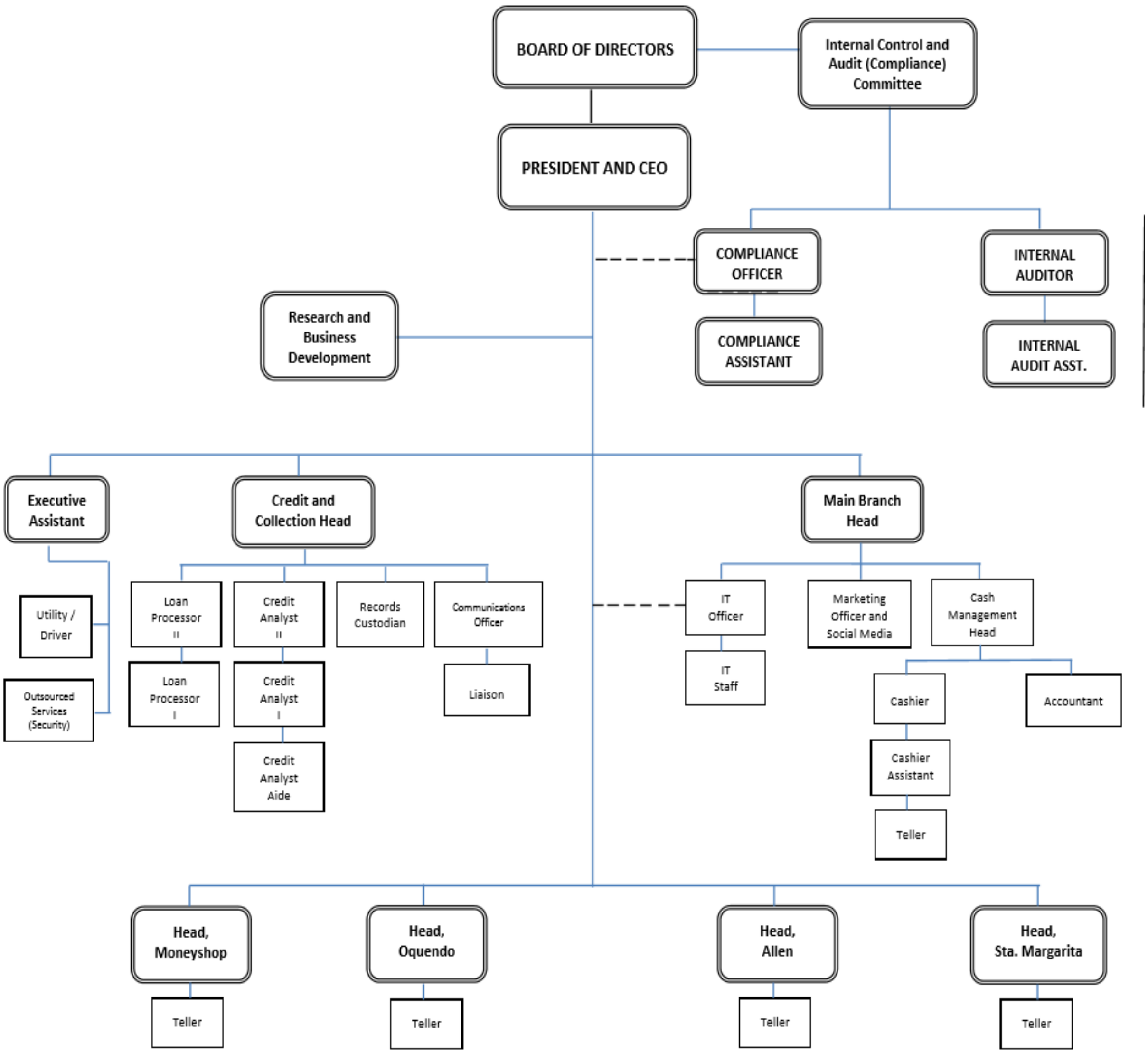
- The President and CEO will determine if the complaint needs board action or not and will be submitted in the next board of director's meeting. The answer will be given to the via email or mail to the complainant, if the complaint is resolved.

- Cases cannot be resolved the president shall report to the board of director for approval additional policies or procedures, not limited to written reprimand in cases RBCCI's employees are at fault. Furthermore, the written reprimand will be forward to the employee and to the CCO for proper performance evaluation action.

Moreover, in connection with the Truth in Lending Act, the management established a tool which links to the disclosure and amortizations recognized by the system, clarified by the Credit and Collection Officer and acknowledged by the borrower. The management provide a suggestion/complaints box to identify the clients concerns for further improvement. The new system (CyberOne) is used and generates the correct EIR computation that was already disclosed. Adopted policy for the consumer protection practices is included in RBCC Policies and Procedures.

ORGANIZATIONAL STRUCTURE

ORGANIZATIONAL CHART



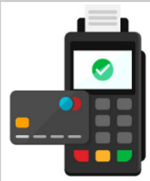
MAJOR STOCKHOLDERS

Stockholders Name	Citizenship	No. of Shares	% of Stockholdings
ANCHETA, Ma. Ines S.	Filipino	4,080	1.79%
CORRALES, Felipa Maxima Viloria	Filipino	10,000	4.38%
MORALES, Maria Isabel Dolores S.	Filipino	6,580	2.88%
PEREZ, Ma. Lourdes S.	Filipino	4,080	1.79%
ROSALES, Olivia Chanco	Filipino	27,682	12.12%
SANTOS, Ma. Fatima R.	Filipino	9,080	3.98%
SANTOS, Ma. Margarita R.	Filipino	5,080	2.22%
SANTOS, Ma. Rosario R.	Filipino	13,400	5.87%
SANTOS, Maria Milagros R.	Filipino	6,580	2.88%
SANTOS, Milagros R.	Filipino	24,486	10.72%
SCHNABLE, Carmina R.	Filipino	22,462	9.84%
SARMIENTO, Alan Giles Mary S.	Filipino	35,327	15.47%
ROSALES, Augusto	Filipino	2,530	1.11%
ROSALES, Bienvenido P.	Filipino	10,436	4.57%
ROSALES, Teresita	Filipino	4,589	2.01%
ROSALES, Tomas C.	Filipino	2,333	1.02%
SARAO, Felix Domingo	Filipino	3,181	1.39%
SARAO, Luzita	Filipino	2,956	1.29%
GOMEZ, Dominador	Filipino	5,032	2.20%
SANTOS, Silvia	Filipino	4,055	1.78%

KEY OFFICERS

Name	Position
Alan Giles Mary S. Sarmiento	President/CEO
Mara S. Mahusay	Corporate Secretary
Jaelyn D. Arboiz	Treasurer
Sarah Caparas	Compliance Officer
2021 Section Heads and Branch Heads	
Teresa Bebia R. Flores	Branch Head
Jocelyn C. Gelomio	Branch Head-Allen Branch
Ma. Imelda C. Roño	Branch Head- Sta. Margarita
Jaelyn D. Arboiz	Branch Head- Oquendo
Karl Joshua Añora	Cash Management Head
Reynaldo R. Catioc Jr.	Credit and Collection Head
Sherlyn S. Sabar	Internal Auditor

PRODUCTS AND SERVICES



ATM/POS Transactions

Loans

- **Unsecured**
- **Secured**

Opening of New Accounts

https://rbcalbayog.com/

Rural Bank of Calbayog City, Inc

BRANCHES AND BRANCH-LITE UNITS

1. Rural Bank of Calbayog City, Inc. – Head Office - 82 T. Bugallon Street, Calbayog City, Samar
2. Rural Bank of Calbayog City, Inc. – Sta. Margarita Branch - Brgy. Cautod, Maharlika Highway, Sta. Margarita, Samar
3. Rural Bank of Calbayog City, Inc. – Allen Branch - Sabang 1, Allen, Northern Samar
4. Rural Bank of Calbayog City, Inc. – Moneyshop Extension Office - Calbayog New Public Market, Brgy. Bagacay, Calbayog City, Samar
5. Rural Bank of Calbayog City, Inc. – Oquendo Extension Office - Oquendo Public Market, Oquendo District, Calbayog City, Samar

FINANCIAL STATEMENTS 2021

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number: 0 0 0 0 0 0 1 4 9 5 2

COMPANY NAME

RURAL BANK OF CALBAYOG CITY,
INC.

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

82 T. BUGALLON STREET,
CALBAYOG CITY, WESTERN SAMAR
PHILIPPINES 6710

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
rbcalbayog.wsamar@gmail.com	(055) 209-1265	09657462763
No. of Stockholders	**Annual Meeting (Month / Day)**	**Calendar Year (Month / Day)**
82	Every 3rd Saturday of January	December 31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Alan Giles Mary S. Sarmiento	rbcalbayog.wsamar@gmail.com	(055) 209-1265	09178957798

CONTACT PERSON's ADDRESS

Brgy. Payahan. Calbayog City, Samar, Philippines 6710

***NOTE 1**: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***NOTE 2**: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of **RURAL BANK OF CALBAYOG CITY, INC.** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2021. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited to, the value added tax and/ or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2021 and the accompanying Annual Income Tax Return are in accordance with the books and records of **RURAL BANK OF CALBAYOG CITY, INC.**, complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Bank's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) the **RURAL BANK OF CALBAYOG CITY, INC.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

ALFRED DENNIS B. ANCHETA
Chairman of the Board

ALAN GILES MARY S. SARMIENTO
President and Chief Executive Officer

Gmahusay
MARA S. MAHUSAY
Corporate Treasurer

Signed this 18th day of April 2022.

82 T. BUGALLON ST.,CALBAYOG CITY,WESTERN SAMAR, PHILIPPINES 6710
Head Office: Fax(055)209-1136 Tel (055)209-1265 / 209-1407 Globe(055) 533-9101 / 0917-3160126 Smart 0920-8340065
Money Shop(055) 209-1425 Globe(055) 533-9852 • **Oquendo**(055) 209-4266 • **Sta. Margarita**(055) 209-8004 • **Allen**(055) 300-2301 / 300-2302

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **RURAL BANK OF CALBAYOG CITY, INC.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

UHY M.L. AGUIRRE & CO., CPAs, the independent auditor appointed by the stockholders for the years ended December 31, 2021 and 2020, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its reports to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

ALFRED DENNIS B. ANCHETA
Chairman of the Board

ALAN GILES MARY S. SARMIENTO
President and Chief Executive Officer

MARA S. MAHUSAY
Corporate Treasurer

Signed this 18th day of April 2022.

82 T. BUGALLON ST., CALBAYOG CITY, WESTERN SAMAR, PHILIPPINES 6710
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UHY M.L. Aguirre & Co., CPAs

1806 Cityland
Pasong Tamo Tower
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Makati City
Metro Manila, 1231
Philippines

Phone +63 2 8555 0834
Email ask@mlaguirre.org
Web www.mlaguirre.org

INDEPENDENT AUDITOR'S REPORT

Stockholders and Board of Directors
RURAL BANK OF CALBAYOG CITY, INC.
82 T. Bugallon Street, Calbayog City
6710 Western Samar, Philippines

Opinion

We have audited the financial statements of **RURAL BANK OF CALBAYOG CITY, INC.** (the "Bank"), which comprise the statements of financial position as of December 31, 2021 and 2020 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of **RURAL BANK OF CALBAYOG CITY, INC.** as of December 31, 2021 and 2020 and its financial performance and cash flows for the year then ended in accordance with Philippine Financial Reporting Standards – (PFRS).

Basis for Opinion

We concluded our audit 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 ethical requirements that are relevant to our audit of the financial statements in the Philippines, the Code of Ethics for Professional Accountants in the Philippines, and we have fulfilled our responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards – (PFRS) 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 misstatements, 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 reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Further descriptions of the auditor's responsibilities for the audit of the financial statements are indicated in the Appendix I of this auditor's report.

Report on the Supplementary Information Required Under Revenue Regulations and BSP Circular 1074

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010, Revenue Regulations 34-2020 and BSP Circular 1074 to the financial statements are presented for purposes of filing with Bureau of Internal Revenue and the Bangko Sentral ng Pilipinas, respectively, and are not required parts of the basic financial statements. Such information is the responsibility of the Management of **RURAL BANK OF CALBAYOG CITY, INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

UHY M.L. AGUIRRE & CO., CPAs
Tax Identification No. 006-533-775
BOA Accreditation No. 4511
July 9, 2021 valid until May 14, 2024
BIR Accreditation No.08-005582-000-2021
September 13, 2021 valid until September 12, 2024
BSP Accredited
Valid for Financial Audit Report For the Years 2019, 2020, 2021, 2022 and 2023
SEC Group B Accreditation No. 4511-SEC
October 28, 2021 valid until October 27, 2022
NEA Accreditation No. 2020-12-00069
December 11, 2020 valid until December 10, 2023
CDA Accreditation No. 038-AF
April 21, 2021 valid until April 20, 2024
IC Accreditation No. 4511-IC
September 3, 2021 valid until September 2, 2025

By:

MICHAEL L. AGUIRRE
Partner
CPA Certificate No. 097376
PRC ID Expiry Date September 11, 2024
BOA Accreditation No. 4511
July 9, 2021 valid until May 14, 2024
BSP Accredited
Valid for Financial Audit Report For the Years 2019, 2020, 2021, 2022 and 2023
SEC Group B Accreditation No. 97376-SEC
October 28, 2021 valid until October 27, 2022
Tax Identification No. 182-084-772
BIR Accreditation No. 08-005582-001-2021
October 11, 2021, valid until October 10, 2024
IC Accreditation No. 97376-IC
September 3, 2021 valid until September 2, 2025
PTR No. 8853949
Issued on January 5, 2022
Makati City

April 18, 2022
Makati City, Philippines

APPENDIX I

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.

UHY M.L. Aguirre & Co., CPAs

1806 Cityland
Pasong Tamo Tower
2210 Chino Roces Ave.
Makati City
Metro Manila, 1231
Philippines

Phone +63 2 8555 0834
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Web www.mlaguirre.org

INDEPENDENT AUDITOR'S REPORT
TO ACCOMPANY INCOME TAX RETURN

Stockholders and Board of Directors
RURAL BANK OF CALBAYOG CITY, INC.
82 T. Bugallon Street, Calbayog City
6710 Western Samar, Philippines

We have audited the financial statements of **RURAL BANK OF CALBAYOG CITY, INC.** for the year ended December 31, 2021 on which we have rendered the attached report dated April 18, 2022.

In compliance with Revenue Regulation V-20, we are stating the following:

1. The schedule of taxes paid and accrued by the above Bank for the year ended December 31, 2021 is attached to the Annual Income Tax Return.

2. We are not related by consanguinity or affinity to the president, manager or principal stockholders of the Bank.

UHY M.L. AGUIRRE & CO., CPAs
Tax Identification No. 006-533-775
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By:

MICHAEL L. AGUIRRE
Partner
CPA Certificate No. 097376
PRC ID Expiry Date September 11, 2024
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April 18, 2022
Makati City, Philippines

UHY M.L. Aguirre & Co., CPAs

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Pasong Tamo Tower
2210 Chino Roces Ave.
Makati City
Metro Manila, 1231
Philippines

Phone +63 2 8555 0834
Email ask@mlaguirre.org
Web www.mlaguirre.org

SUPPLEMENTAL WRITTEN STATEMENT OF AUDITOR

Stockholders and Board of Directors
RURAL BANK OF CALBAYOG CITY, INC.
82 T. Bugallon Street, Calbayog City
6710 Western Samar, Philippines

We have audited the financial statements of **RURAL BANK OF CALBAYOG CITY, INC.** for the year ended December 31, 2021 on which we have rendered the attached report dated April 18, 2022.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has a total number of sixty-six (66) stockholders owning one hundred (100) or more shares each.

UHY M.L. AGUIRRE & CO., CPAs
Tax Identification No. 006-533-775
BOA Accreditation No. 4511
July 9, 2021 valid until May 14, 2024
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December 11, 2020 valid until December 10, 2023
CDA Accreditation No. 038-AF
April 21, 2021 valid until April 20, 2024
IC Accreditation No. 4511-IC
September 3, 2021 valid until September 2, 2025

By: Michael L. Aguirre
MICHAEL L. AGUIRRE
Partner
CPA Certificate No. 097376
PRC ID Expiry Date September 11, 2024
BOA Accreditation No. 4511
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Issued on January 5, 2022
Makati City

April 18, 2022
Makati City, Philippines

RURAL BANK OF CALBAYOG CITY, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

(In Philippine Peso)

	Notes	2021	2020
ASSETS			
Cash and other cash items	9	**4,440,945**	4,053,719
Due from Bangko Sentral ng Pilipinas	10	**5,645,750**	5,726,328
Due from other banks	10	**87,526,876**	88,909,706
Financial assets at amortized cost	11	**673,752**	1,651,105
Loans and other receivables - net	12	**76,551,383**	65,470,000
Bank premises, furniture, fixtures and equipment - net	13	**885,327**	754,854
Right-of-use asset - net	14	**98,565**	321,428
Intangible asset - net	15	**475,009**	496,003
Investment properties - net	16	**1,568,175**	661,875
Deferred tax asset	30	**25,457**	421,189
Other assets	17	**419,716**	412,354
TOTAL ASSETS		**178,310,955**	168,878,561
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Deposit liabilities			
Savings deposits	18	**126,974,858**	114,103,619
Time deposits	18	**7,338**	7,329
		126,982,196	114,110,948
Bills payable	19	**4,905,328**	9,999,850
Retirement liability	20	**1,623,064**	1,623,064
Lease liability	21	**103,162**	327,999
Income tax payable		**76,401**	16,705
Accrued interest payable	22	**43,394**	17,531
Other liabilities	23	**839,152**	325,162
TOTAL LIABILITIES		**134,572,697**	126,421,259
STOCKHOLDERS' EQUITY			
Common Stock	24	**20,000,000**	20,000,000
Preferred Stock	24	**2,832,400**	2,832,400
Surplus Free		**20,905,858**	19,624,902
TOTAL STOCKHOLDERS' EQUITY		**43,738,258**	42,457,302
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**178,310,955**	168,878,561

(See Accompanying Notes to Financial Statements)

RURAL BANK OF CALBAYOG CITY, INC.

STATEMENTS OF COMPREHENSIVE INCOME

For The Years Ended December 31, 2021 and 2020

(In Philippine Peso)

	Notes	2021	2020
INTEREST INCOME			
Loans and other receivables	12,25	**10,661,435**	8,495,996
Sales contract receivable	12,25	**483,455**	563,082
Due from other banks	10,25	**165,583**	246,475
Financial assets at amortized cost	11,25	**12,153**	65,648
		11,322,626	9,371,201
INTEREST EXPENSE AND FINANCE CHARGES			
Deposit liabilities	18,26	**640,761**	577,249
Lease liability	21,26	**15,163**	16,251
Bills payable	19,26	-	31,389
		655,924	624,889
NET INTEREST INCOME		**10,666,702**	8,746,312
Provision for credit losses		-	-
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**10,666,702**	-
OTHER INCOME			
Fees and commission	27	**487,892**	225,467
Other income	27	**2,864,432**	1,972,000
		3,352,324	2,197,467
TOTAL OPERATING INCOME		**14,019,026**	10,943,779
OPERATING EXPENSES	28	**12,063,169**	10,656,301
PROFIT BEFORE INCOME TAX		**1,955,857**	287,478
PROVISION FOR INCOME TAX	30	**455,428**	69,970
PROFIT		**1,500,429**	217,508
OTHER COMPREHENSIVE INCOME (LOSS)		-	-
TOTAL COMPREHENSIVE INCOME		**1,500,429**	217,508

(See Accompanying Notes to Financial Statements)

RURAL BANK OF CALBAYOG CITY, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For The Years Ended December 31, 2021 and 2020
(In Philippine Peso)

	Notes	Common Stock	Preferred Stock	Surplus Free	Total
Balance at January 1, 2020	24	20,000,000	2,832,400	18,016,815	40,849,215
Prior period adjustments	35	-	-	1,390,579	1,390,579
Balance at January 1, 2020 - as restated		20,000,000	2,832,400	19,407,394	42,239,794
Total comprehensive income		-	-	217,508	217,508
Balance at December 31, 2020		20,000,000	2,832,400	19,624,902	42,457,302
Balance at January 1, 2021	24	20,000,000	2,832,400	19,624,902	42,457,302
Prior period adjustments	35	-	-	237,175	237,175
Balance at January 1, 2021 - as restated		20,000,000	2,832,400	19,862,077	42,694,477
Payment of cash dividends	24	-	-	(456,648)	(456,648)
Total comprehensive income		-	-	1,500,429	1,500,429
Balance at December 31, 2021		**20,000,000**	**2,832,400**	**20,905,858**	**43,738,258**

(See Accompanying Notes to Financial Statements)

RURAL BANK OF CALBAYOG CITY, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2021 and 2020
(In Philippine Peso)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**1,955,857**	287,478
Adjustments for:			
Interest expense	26	**655,924**	593,500
Depreciation and amortization	29	**349,183**	344,152
Prior period adjustments	35	**237,175**	1,390,579
Interest income	25	**(177,736)**	(312,123)
Operating cash flows before working capital changes		**3,020,403**	2,303,586
Changes in operating assets and liabilities			
Decrease (increase) in:			
Loans and other receivables - net		**(11,081,383)**	(10,745,549)
Other assets		**(668,800)**	658,524
Increase (decrease) in:			
Deposit liabilities		**12,871,248**	9,450,324
Accrued interest payable		**25,863**	(2,067)
Other liabilities		**513,990**	(2,099,389)
Cash generated from (used in) operations		**4,681,321**	(434,571)
Income tax paid		**(16,705)**	(129,857)
Interest paid		**-**	(579,316)
Interest received	25	**177,736**	312,123
Net cash generated from (used in) operating activities		**4,842,352**	(831,621)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal on maturities of financial asset at amortized cost	11	**977,353**	1,464,645
Proceeds from disposal of investment properties	16	**(906,300)**	700,000
Acquisition of bank premises, furniture, fixtures and equipment	13	**(198,417)**	(300,000)
Acquisition of intangible asset	15	**-**	(185,500)
Net cash generated from (used in) investing activities		**(127,364)**	1,679,145
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of cash dividends	19	**(456,648)**	-
Proceeds from (payment of) bills payable	19	**(5,094,522)**	7,499,850
Payment of lease liability	21	**(240,000)**	(192,000)
Net cash generated from (used in) financing activities		**(5,791,170)**	7,307,850
NET INCREASE (DECREASE) IN CASH		**(1,076,182)**	8,155,374
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**98,689,753**	90,534,379
CASH AND CASH EQUIVALENTS AT END OF YEAR		**97,613,571**	98,689,753

(See Accompanying Notes to Financial Statements)

RURAL BANK OF CALBAYOG CITY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020
(In Philippine Peso)

1. CORPORATE INFORMATION

RURAL BANK OF CALBAYOG CITY, INC. ("the Bank") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 6, 1959 with Registration No. 14952 and granted by the Bangko Sentral ng Pilipinas (BSP) an authority to operate on February 7, 1959.

The Bank was organized under Rural Bank Act of 1952 (Republic Act No. 720, as amended by Republic Act No. 7353) primarily to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises; to have and exercise all authority and powers, to do and perform all acts, and to transact all business which may legally be had or done by Rural Banks organized under and in accordance with the Rural Banks' Act, as it exists or may be amended, and to do all other things incident thereto and necessary and proper in connection with said purpose within such territory as may be determined by the Monetary Board of the Central Bank of the Philippines. The Bank is also subject to the provisions of Republic Act (RA) No.8791, otherwise as the General Banking Law of 2000.

The Bank's principal address which is also its registered address located at 82 T. Bugallon Street, Calbayog City, Samar and is domiciled in the Philippines. The Bank currently holds its main office at Calbayog City, Samar.

Other than the main office, it has currently two (2) branches and one (1) extension office located at:

No.	Branches/ Extension Office	Address
1	Allen *(Branch)*	Rizal St. Sabang I, Allen, Northern Samar
2	Sta. Margarita *(Branch)*	Brgy. Monbon, Sta. Margarita, Samar
3	Moneyshop *(Extension Office)*	Stall #170 New Public Market, Brgy. Bagacay, Calbayog City, Samar

2. FINANCIAL REPORTING FRAMEWORK, BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) which includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations issued by the Philippine Interpretations Committee (PIC), Standard Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

Basis of Preparation

The accompanying financial statements have been prepared in accordance with PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC in response to the COVID-19 pandemic: 1.) Staggered booking of allowance for credit losses (ACL); and 2.) Exclusion of eligible loans from past due and non-performing classification until December 31, 2021.

Pursuant to the BSP M-2020-08 dated March 14, 2020, the Bank with the approval of the BSP dated April 28, 2021, availed the financial reporting relief for the staggered booking of its ACL computed under Sec. 143 (Credit Classification and Provisioning) of the MORB, over a maximum period of five years (2021-2025), for all types of credits extended to individuals and business directly affected by COVID-19 pandemic amounting to ₱1,606,307, covering 42 loan accounts as of December 31,2020.

(In Philippine Peso)

However, based on the Bank's update, the approved ACL decreased to ₱923,013 as of December 31, 2021 with 12 loan accounts turning current. Hence, the adjusted balance of ACL for staggered booking pertains to the remaining 30 loan accounts.

Set out below are the amounts by which each of the following financial statement line items is affected as of and for the year ended December 31, 2021 as a result of the staggered booking of allowance for credit losses for COVID-19. The table below shows what the amounts would have been had the foregoing relief not been adopted as well as the amounts after considering impact of such relief measure.

2021		Loans and Other Receivables – net		Retained Earnings		Provision for (Benefit from) Income Tax		Deferred Tax Assets
Balance at December 31, 2021*	₱	75,119,679	₱	19,474,154	₱	169,087	₱	(260,884)
Adjustments**:								
ACL as approved by BSP for staggered booking related to COVID-19		1,431,704		1,431,704		286,341		286,341
Adjusted Balance***	₱	76,551,383	₱	20,905,858	₱	455,428	₱	25,457

*Without regulatory relief.
**Unrecognized portion of the BSP-approved ACL in view of the application of the regulatory relief on staggered booking of ACL.
***With regulatory relief.

By applying the credit-related regulatory relief measures enumerated above, the Bank was given more leeway to manage the adverse impact of the COVID-19 on its financial position particularly on its loan portfolio and it was able to extend financial reliefs to individuals and businesses affected by the COVID-19 pandemic.

The amounts of the recognized (amortized) and the remaining (unamortized) BSP-approved ACL in response to COVID-19 pandemic are as follows:

		2021
Balance, January 1	₱	923,013
Less:		
Recognized during the year		184,603
Balance, December 31	₱	738,410

Presentation and Functional Currency

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

The Bank chose to present its financial statements using its functional currency.

Use of Judgments and Estimates

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

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

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

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

Going Concern Assumption

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

3. ADOPTION OF NEW AND REVISED REPORTING STANDARDS

Changes in Accounting Policies and Disclosures

The Bank adopted all accounting standards and interpretations as at December 31, 2021 and 2020. The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the new and revised accounting standards starting January 1, 2021. Adoption of these standards did not have any significant impact on the Bank's financial position or performance unless otherwise indicated.

These new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and approved by the FRSC in the Philippines, were assessed to be applicable to the Bank's financial statements, are as follows:

New and Revised PFRSs effective for annual periods 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; and
  - 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 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.

The amendments have no impact on the Bank's financial statements.

- Amendments to PFRS 16, Covid-19-*Related Rent Concessions beyond June 30, 2021*

  In the prior year, Covid-19-Related Rent Concessions (Amendment to PFRS 16) provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to PFRS 16. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before June 30, 2021.

  Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendment to PFRS 16) extend the practical expedient to apply to reduction in lease payments originally due on or before June 30, 2022.

  The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying PFRS 16 as if the change was not a lease modification.

  The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

  - the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
  - any reduction in lease payments affects only payments originally due on or before June 30, 2022 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2022 and increased lease payments that extend beyond June 30, 2022); and
  - there is no substantive change to other terms and conditions of the lease.

  The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

  This amendment in standard has no impact on the Bank's financial statements as there are no rent concessions.

New and Revised PFRSs in Issue but Not Yet Effective

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.

The Bank is currently examining the impact of adopting the amendments to PFRS 3 on its financial reporting.

- 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 before that asset is available for use, i.e. proceeds 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's current financial reporting.

- 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.

  The Bank is currently examining the impact of adopting the amendments to PAS 37 on its financial reporting.

- *Annual Improvements* to PFRSs 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's current financial reporting.

- 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 the lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchange on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendment is effective for annual 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 Bank is currently examining the impact of adopting the amendments to PFRS 9 on its financial reporting.

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

  The amendment removes the requirement in PAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in PAS 41 with the requirements of PFRS 13 *Fair Value Measurement* to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

  The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

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

- Amendments to PFRS 16, *Lease Incentives*

  The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted.

The Bank is currently examining the impact of adopting the amendments to PFRS 16 on its financial reporting.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1 *Presentation of Financial Statements* and PFRS Practice Statement 2 *Making Materiality Judgments—Disclosure of Accounting Policies*

  The amendments change the requirements in PAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

  The supporting paragraphs in PAS 1 are also amended to clarify that accounting policy information that relates that immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

  The amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted and are applied prospectively. The amendments to PFRS Practice Statement 2 do not contain an effective date or transition requirements.

  The Bank is currently examining the impact of adopting the amendments to PFRS 1 and PFRS Practice Statement 2 on its financial reporting.

- Amendments to PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates Deferred Effectivity*

  The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

  The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:
  - a change in accounting estimate that results from new information or new developments is not the correction of an error;
  - the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

  The amendments are effective for annual periods beginning on or after January 1, 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

  The Bank is currently examining the impact of adopting the amendments to PAS 8 on its financial reporting.

- Amendments to PAS 12 *Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

  Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying PFRS 16 at the commencement date of a lease.

  Following the amendments to PAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in PAS 12.

  The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

  - A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:

    - Right-of-use assets and lease liabilities
    - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset

  - The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

  The Bank is currently examining the impact of adopting the amendments to PAS 12 on its financial reporting.

Effective beginning on or after January 1, 2024

- 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 of a liability;
  - 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; and
  - 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, 2024 and must be applied retrospectively.

The amendments are not expected to have a material impact on the Bank's current financial reporting.

Effective beginning on or after January 1, 2025

- 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); and
  - 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, 2025, with comparative figures required. Early application is permitted.

  The Bank is currently examining the impact of adopting the amendments to PFRS 17 on its financial reporting.

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 FRSC deferred the original effective date of January 1, 2016 of the said amendments until the 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.

  The amendments are not expected to have a material impact on the Bank's current financial reporting.

(In Philippine Peso)

- Deferral of Certain Provisions of PIC Q&A 2018-12, PFRS 15 *Implementation Issues Affecting the Real Estate Industry (as amended by PIC Q&As 2020-02 and 2020-04)*

  On February 14, 2018, the PIC issued PIC Q&A 2018-12 which guides on some PFRS 15 implementation issues affecting the real estate industry. On October 25, 2018, and February 08, 2019, the Philippine Securities and Exchange Commission (SEC) issued SEC MC No. 14-2018 and SEC MC No. 3-2019, respectively, providing relief to the real estate industry by deferring the application of certain provisions of this PIC Q&A for three years until December 31, 2020. On December 15, 2020, the Philippine SEC issued SEC MC No. 34-2020 which further extended the deferral of certain provisions of this PIC Q&A until December 31, 2023. A summary of the PIC Q&A provisions covered by the SEC deferral and the related deferral period follows:

	Deferral Period
Assessing if the transaction price includes a significant financing component as discussed in PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04)	Until December 31, 2023
Treatment of land in the determination of the POC discussed in PICQ&A 2018-12-E	Until December 31, 2023

  The SEC Memorandum Circulars also provided the mandatory disclosure requirements should an entity decide to avail of any relief. Disclosures should include:

  a. the accounting policies applied;
  b. discussion of the deferral of the subject implementation issues in the PIC Q&A;
  c. qualitative discussion of the impact on the financial statements had the concerned application guidelines in the PIC Q&A been adopted; and
  d. should any of the deferral options result in a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular) such accounting change will have to be accounted for under PAS 8, i.e., retrospectively, together with the corresponding required quantitative disclosures.

  In November 2020, the PIC issued the following Q&As which provide additional guidance on the real estate industry issues covered by the above SEC deferrals:

  - PIC Q&A 2020-04, which provides additional guidance on determining whether the transaction price includes a significant financing component.
  - PIC Q&A 2020-02, which provides additional guidance on determining which uninstalled materials should not be included in calculating the POC.

  After the deferral period, real estate companies have an accounting policy option of applying either the full retrospective approach or a modified retrospective approach as provided under SEC MC 8-2021.

The amendments are not expected to have a material impact on the Bank's current financial reporting.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Financial Instruments

The Bank recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument.

Financial Assets

Initial Measurement of Financial Assets

Financial assets are recognized initially at fair value, which is the fair value of the consideration given or received. Except for those classified or designated at fair value through profit or loss (FVPL), initial measurement includes transaction costs that are directly attributable to the acquisition of financial assets. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The classification depends on the purpose for which the financial assets are acquired and whether the instruments are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent Measurement of Financial Assets

Subsequent measurement of financial assets depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

The Bank classifies its financial assets in the following measurement categories:

- Amortized cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVPL).

Debt Instrument

- Amortized cost - Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in statements of comprehensive income when the asset is derecognized or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method.

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

  Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVPL.

The details of the above conditions are as follows:

The Sole Payment of Principal Interest (SPPI) Test

The Bank assesses the contractual terms of financial assets to identify whether it meets the SPPI test.

'Principal' for the purpose of this test 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/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

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 solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Business model assessment

The Bank determines the business model at the level that best reflects how the Bank 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 and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of our assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from our 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.

The Bank's financial assets at amortized cost include debt instruments at amortized cost, cash and cash equivalents and loans and other receivables as of December 31, 2021 and 2020.

- FVOCI - Debt instruments that are held for collection of contractual cash flows and for sale, and where the assets' cash flows represent solely payments of principal and interest, are classified as FVOCI. Movements in fair values are recognised in other comprehensive income (OCI) and accumulated in fair value reserve, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in statements of comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statements of comprehensive income and presented in "Other gains and losses". Interest income from these financial assets is recognised using the effective interest rate method and presented in "Interest income".

The Bank has no financial asset at FVOCI as of December 31, 2021 and 2020.

- FVPL - Debt instruments that are held for trading as well as those that do not meet the criteria for classification as amortized cost or FVOCI are classified as FVPL. Movement in fair values and interest income is recognised in statements of comprehensive income in the period in which it arises and presented in "other gains and losses".

  The Bank has no financial asset at FVPL as of December 31, 2021 and 2020.

The Bank reclassifies debt instruments when and only when its business model for managing those assets changes.

Cash and cash equivalents
For purposes of cash flows reporting and presentation, cash and cash equivalents include cash and other cash items and amounts due from BSP and other banks and that are subject to insignificant risk of changes in value.

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

Due from Bangko Sentral ng Pilipinas represents deposit of the Bank to the Bangko Sentral ng Pilipinas as part of its legal reserve requirement for monitoring of its deposit liabilities.

Due from other banks represents deposits with other banks to monitor and safeguards its funds. This fund earned an interest at the prevailing market rate.

Loans and other receivables
These financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as FVPL financial assets. Loans and other receivables are recognized when cash is advanced to the borrowers. These are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

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

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

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

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

Sales Contract Receivable (SCR)

This refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on instalment basis whereby the title to the said property is transferred to the buyer upon full payment of the agreed selling price. This shall be recorded initially at the present value of the instalment receivable discounted at the imputed rate of interest. Discount shall be accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of applicable standards.

Accrued Interest Income

Refers to the amortized cost of interest in arrears which are recognized periodically based on the given terms of the loan. Credit loss is recognized when the corresponding loan becomes impaired.

Impairment of Financial Assets

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

ECLs are recognized in 2 stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL)

The provision matrix for loan and other receivables adopted by the Bank is based on the basic guidelines in setting up of allowance for credit losses (ACL) permitted by the BSP as set forth in the Appendix 15 (Appendix to Sec.143, *Credit Classification and Provisioning*) of the Manual of Regulations of the Banks (MORB).

(In Philippine Peso)

The Bank reviews the quality of its loan portfolio and prepares a quantitative classification of its risks assets including loans. Accordingly, loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with ACL based on the number of days of missed payment as follows:

1. Individually assessed loans and other credit exposures

For unsecured loans and other credit exposures:

No. of Days Unpaid/ with Missed Payment	Classification	Minimum ACL	Stage
31-90 days	Substandard (underperforming)	10%	2
91-120 days	Substandard (non-performing)	25%	3
121-180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

For secured loans and other credit exposures:

No. of Days Unpaid/ with Missed Payment	Classification	Minimum ACL	Stage
31-90 days*	Substandard (underperforming)	10%	2
91-180 days*	Substandard (non-performing)	10%	3
181-365 days	Substandard (non-performing)	25%	3
Over a year- 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3

**When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%*

Loans and other credit exposures that exhibit the characteristics for classified accounts described under BSP MORB, Sec. 143 shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Loans especially mentioned	5%	2
Substandard – secured	10%	2 or 3
Substandard – unsecured	25%	2 or 3
Doubtful	50%	3
Loss	100%	3

2. Collectively assessed loans and other credit exposures

For unsecured loans and other credit exposures:

No. of Days Unpaid/ with Missed Payment*	Classification	Minimum ACL	Stage
1-30 days	Especially mentioned	2%	2
31-60 days/ 1st restructuring	Substandard	25%	2 or 3
61-90 days	Doubtful	50%	3
91 days and over/ 2nd restructuring	Loss	100%	3

**PAR for microfinance loans*

(In Philippine Peso)

For secured loans and other credit exposures:

No. of Days Unpaid/ with Missed Payment	Classification	Minimum ACL: Other types of collateral	Minimum ACL: Secured by real estate	Stage
31-90 days	Substandard (underperforming)	10%	10%	2
91-120 days	Substandard (non-performing)	25%	15%	3
121-360 days	Doubtful	50%	25%	3
361 days – 5 years	Loss	100%	50%	3
Over 5 years	Loss	100%	100%	3

The Bank recognizes a general loan loss provision equivalent to one percent (1%) of all outstanding stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under the existing BSP regulations.

Non-derivative Financial Liabilities

These financial liabilities are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations and borrowings. The Bank classifies all its financial liabilities as subsequently measured at amortized cost, except unless otherwise stated. These liabilities are classified as current liabilities unless payment is not due within 12 months after the reporting period. Otherwise, these are classified as noncurrent liabilities.

Included in these other financial liabilities are the Bank's deposit liabilities, bills payable, dividends payable and other liabilities that meet the above definition, other than liabilities covered by other PFRSs (such as income tax payable, provision, etc.).

Derecognition of financial liabilities

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

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted 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 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses

Equity Instruments

The Bank subsequently measures all its equity investments at their fair values. Equity investments are classified as FVPL with movements in their fair values recognized in statements of comprehensive income in the period in which the changes arise and presented in "other gains and losses", except for those equity securities which are not held for trading in which the Bank has elected as FVOCI as these are strategic investments and the Bank considers this to be more relevant.

Movements in fair values of investments classified as FVOCI are presented as "fair value gains/losses in OCI. Dividends from equity investments are recognized in comprehensive income statement as "dividend income".

Offsetting Financial Instruments
Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Bank has an enforceable legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

Significant increase in credit risk
In order to determine whether an instrument is subject to 12-month or Lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk (SICR) since initial recognition. The criteria for determining whether credit risk has increased significantly vary by portfolio and include classification of loans as set out in BSP MORB Sec. 143: *Guidelines on Sound Credit Risk Management Practices*. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well- defined credit weaknesses, that is, when the loan is tagged as substandard, as a minimum, based on the rules as set out in BSP Circular 1011: Guidelines on the Adoption of PFRS 9. These may include adverse trends or developments of financial, managerial, economic or political nature, or a significant weakness in collateral. Credit weakness may be manifested by unfavorable record or unsatisfactory characteristics or may only be potential that deserves Management's close attention and may lead to significant losses or may result in collection or liquidation of the outstanding loan amount to be highly improbable. Exposures with missed payment for more than thirty (30) days is also an indicator of SICR.

Other financial assets at amortized cost
ECLs for other financial assets at amortized cost are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

Policies applicable for all financial assets at amortized cost:

a) Staging assessment

For non-credit-impaired financial assets:

- Stage 1 is comprised of credit exposures that are considered "performing" and with no SICR since initial recognition or with low credit risk.

- Stage 2 is comprised of credit exposures that are considered "under-performing" or not yet non-performing but with SICR since initial recognition.\

For credit-impaired financial assets:

- Stage 3 is comprised of credit exposures with objective evidence of impairment, thus, considered as "non-performing".

b) Definition of "default" and "cure"
The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record. The Bank shall transfer the exposures from Stage 3 to Stage 1 when there is sufficient evidence to support their full collection. As a general rule, full collection is probable when payments of interest and/or principal are received for at least six (6) months.

Non-performing restructured exposures that have exhibited improvement in creditworthiness of the counterparty may only be transferred from Stage 3 to Stage 1 after a total of one (1) year probation period (i.e. six (6) months in Stage 3 before transferring to Stage 2, and another six months in Stage 2 before transferring to Stage 1; or directly from Stage 3 to Stage 1, without passing through Stage 2, after twelve (12) months). Restructured accounts classified as "performing" prior to restructuring shall be initially classified under Stage 2. The transfer from Stage 2 to Stage 1 will follow the six (6)-month rule.

The resulting allowances are presented against their related debt instruments in the statements of financial position. Any adjustments related to such is recorded as 'Provision for credit losses' in the statements of comprehensive income.

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the [Company, Branch, Bank, or any appropriate alternative] has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings

'Day 1' Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions of the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where no observable data is used, the difference between the transaction price and model value is only recognized in profit or loss 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' profit amount.

Financial liabilities and equity

Initial Recognition and Measurement of Financial Liabilities

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

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

Subsequent Measurement of Financial Liabilities

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

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

Gains or losses on liabilities held for trading are recognized in the statements of comprehensive income. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied.

The Bank has no any financial liability as at FVTPL.

Financial Liabilities at Amortized Cost. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included under "Finance costs" account in the statements of comprehensive income.

Classified under this category are trade and other payables, interest-bearing loans and borrowings, obligations for program rights, convertible note and customers' deposits (included under "Other noncurrent liabilities" account).

Fair Value Measurement and Valuation Techniques

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes, when necessary, based on the market values, being the estimated amount for which an asset could be exchanged on the date of the valuation after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The different levels of fair value of financial instruments carried at fair value, by valuation method have been defined as follows:

- Level 1: quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2: inputs other than quoted prices include within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Bills payable
This account represents funding received from Agricultural Credit Policy Council (ACPC) to finance the need of marginalized farmers and fisherfolks.

Deposit liabilities
This account pertains to amount of money deposited in the Bank for safekeeping and to earn a certain percentage of interest.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:
- the amount of the obligation under the contract, as determined in accordance with PFRS 9, *Financial Instruments*; and
- the amount initially recognized less, where appropriate, cumulative amount of income recognised in accordance with the principles of PFRS 15 *Revenue from Contracts with Customers*.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

Equity

The term 'equity' shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits.

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

Surplus free
Surplus free is the accumulated earnings of the Bank during the current years and prior years that are free and not restricted for use by the Bank.

Revenue Recognition

Revenue is recognized to depict the transfer of promised services to customers in an amount that reflects the consideration which the Bank expects to be entitled to in exchange for those goods or services. PFRS 15 prescribes a five-step model to be followed in the recognition of revenue, wherein the Bank takes into consideration the performance obligations which it needs to perform in the agreements the Bank has entered into with our customers. Revenue is measured by allocating the transaction price, which includes variable considerations, to each performance obligation on a relative stand-alone selling price basis, taking into account contractually defined terms of payment and excluding value-added tax, or (VAT), where applicable. Transaction prices are based on third-party pricing, arm's length pricing and cost-plus arrangement, as applicable. These are further adjusted by inputting the related time value of money on contract assets with more than one year of amortization. When determining the Bank's performance obligations, the Bank assesses its revenue arrangements against specific criteria to determine if the Bank is acting as principal or agent. The Bank considers both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. The Bank is acting as a principal when it has control over the respective services before the Bank renders those. When the Bank's role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

Revenues within the scope of PFRS 15, Revenue from Contracts with Customers

Revenue from contract with customers is recognized upon transfer of promised goods or services to customers at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for transferring goods or services to a customer. The Bank exercises judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the five-step model to contracts with customers.

The following specific recognition criteria must be met before revenue is recognized for contracts within the scope of PFRS 15:

Fees and commissions
Fees and commissions related to acquisition and origination of loan are amortized and recognized using the effective interest rate method as income over the term of the loan.

Profit from Asset Sold
Profit from asset sold is recognized when all the following conditions are satisfied:

- the Bank has transferred to the buyer the significant risks and rewards of ownership of the asset;
- the Bank retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the assets sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Bank; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Profit from assets sold encompasses gain on disposal of real and other properties acquired and bank premises, furniture, fixtures and equipment.

Other Income
Other income arise from miscellaneous income, and the likes. Other income is recognized upon completion of the earning process and the collectability is reasonably assured.

Revenues outside the scope of PFRS 15

The following specific recognition criteria must be met before revenue is recognized for contracts outside the scope of PFRS 15:

Interest on loans and other receivables
Interest income on loans and discount with advanced interest are recognized periodically using the effective interest method of amortization. On the other hand, interest income on loans and discount with no advanced interest are recognized on accrual basis. The accrual basis of recognition of interest income however ceases when the loans and discount account is already past due.

The Bank shall only charge interest based on the outstanding balance of a loan at the beginning of an interest period. For a loan where the principal is payable in instalments, interest per instalment period shall be calculated based on the outstanding balance of the loan at the beginning of each instalment period.

Interest Income on bank deposits, financial assets at amortized cost
Interest on bank deposits, held-to-maturity financial assets are recognized using the effective interest method.

Cost and Expense Recognition

Cost and expense encompass losses as well as those expenses that arise in the course of the ordinary activities of the Bank.

The Bank recognizes expenses in the statements of comprehensive income when a 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. Revenues and expenses that relate to the same transaction or other event are recognized when incurred.

Interest Expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statements of comprehensive income using the effective interest rate of the financial liabilities to which they relate to.

Leases

- Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). 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. Unless it is reasonably certain that the Bank obtains ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are derecognized every month subject to impairment.

- 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 include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating a lease, if the lease term reflects exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

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 and leases of low-value assets

The Bank applies the short-term lease recognition exemption to our short-term leases (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). The Bank also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

- Significant judgment in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has the option, under some of its leases to lease the assets for additional terms of three to five years. The Bank applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

The Bank as Lessee

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

Leases in which the significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to operating expenses in the statements of comprehensive income on a straight-line basis over the period of the lease.

When the Bank enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset or is dependent on the use of a specific asset or assets, the Bank assesses whether the arrangement is, or contains, a lease.

Employee Benefits

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

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

Retirement Benefits
The retirement obligations recognized are computed on the basis of the provisions of R.A. 7641. The minimum retirement pay due to covered employees is equivalent to one-half month salary for every year of service, a fraction of at least six (6) months being considered as one whole year.

"One-half month salary" includes all of the following:

a. 15 days salary based on the latest salary rate;
b. Cash equivalent of 5 days or service incentive leave (or vacation leave); and
c. One-twelfth of the 13th month pay (where the 13th month pay is the total basic salary for the last twelve months of service divided by twelve).

Taxation

Current Tax
Current tax assets and liabilities for the current period 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 statements of financial position date.

Deferred Income Tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

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

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

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

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

Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

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

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

Events After the End of the Reporting Period

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

Prior Period Adjustments

The Bank corrects material prior period adjustments retrospectively in the first set of financial statements authorized for issue after their discovery by: (a) restating the comparative amounts for the prior period presented in which the error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical Judgments in Applying Accounting Policies

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

Going concern uncertainty issue

When preparing financial statements, Management shall make an assessment of the Bank's ability to continue as a going concern. The Bank shall prepare financial statements on a going concern basis unless management either intends to liquidate the Bank or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Bank's ability to continue as a going concern, the Bank shall disclose those uncertainties. When the Bank does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the Bank is not regarded as a going concern.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When the Bank has a history of profitable operations and ready access to financial resources, the Bank may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

The Management shall evaluate whether relevant conditions and events, considered in the aggregate, indicate that it is probable that the Bank will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The evaluation initially shall not take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date that the financial statements are issued.

When evaluating the Bank's ability to meet its obligations, the management shall consider quantitative and qualitative information about the following conditions and events, among other relevant conditions and events known and reasonably knowable at the date that the financial statements are issued:

- The Bank's current financial condition, including its liquidity sources at the date that the financial statements are issued such as available liquid funds and available access to credit.
- The Bank's conditional and unconditional obligations due or anticipated within one year after the date that the financial statements are issued.
- The funds necessary to maintain the Bank's operations considering its current financial condition, obligations and other expected cash flows within one year after the date that the financial statements are issued.

The other conditions and events, when considered in conjunction with the immediately preceding paragraphs that may adversely affect the Bank's ability to meet its obligations within one year after the date that the financial statements are issued.

When relevant conditions or events, considered in the aggregate, initially indicate that it is probable that the Bank will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (and therefore they raise substantial doubt about the Bank's ability to continue as a going concern), management shall evaluate whether its plans that are intended to mitigate those conditions and events, when implemented, will alleviate substantial doubt about the Bank's ability to continue as a going concern.

The mitigating effect of management's plans shall be considered in evaluating whether the substantial doubt is alleviated only to the extent that information available, as of the date that the financial statements are issued, indicates both of the following:

a) It is probable that management's plans will be effectively implemented within one year after the date that the financial statements are issued.

b) It is probable that management's plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the Bank's ability to continue as a going concern within one year after the date that the financial statements are issued.

The evaluation of whether it is probable that management's plans will be effectively implemented within one year after the date that the financial statements are issued shall be based on the feasibility of implementation of management's plans in light of the Bank's specific facts and circumstances. Generally, to be considered probable of being effectively implemented, management (or others with the appropriate authority) must have approved the plan before the date that the financial statements are issued.

The mitigating effect of management's plans that are not probable of being effectively implemented within one year after the date that the financial statements are issued shall not be considered in evaluating whether substantial doubt about a Bank's ability to continue as a going concern is alleviated.

Revenue and Expense Recognition

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

Classification of financial instruments

The Bank exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

In addition, the Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair Value of Financial Instruments

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

Classification of leases

Beginning January 1, 2019, the application of PFRS 16 resulted to capitalization of significant long-term leases. Management exercises judgment in determining whether it is reasonably certain that an extension or termination option will be exercised. Management also exercises judgment in identifying

the appropriate rate to discount the lease payments. Lease contracts which are short-term and has low-value are considered as operating leases and rental payments are treated as expense.
Rent expense of the Bank for the years ended December 31, 2021 and 2020 amounted to ₱11,700 and to ₱46,800, respectively, as disclosed in Note 28.

The Bank recognized right-of-use asset, net of accumulated depreciation, amounting to ₱98,565 and ₱321,428 as at December 31, 2021 and 2020, respectively, as disclosed in Note 14; and lease liability amounting to ₱103,162 and ₱327,999 as at December 31, 2021 and 2020, respectively, as disclosed in Note 21.

The Bank's interest expense on lease liability for the years ended December 31, 2021 and 2020 amounted to ₱15,163 and ₱16,251 respectively, as disclosed in Note 26.

Classifying Financial Assets Measured at Amortized Cost

The Bank follows the guidance of PFRS 9 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as financial asset measured at amortized cost. This classification requires significant judgement. In making this judgement, the Bank considers its intention and ability to hold such investments to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Bank fails to keep these investments at maturity (other than for the allowed specific circumstances, e.g., selling more than an insignificant amount close to maturity), it will be required to reclassify. The investments would therefore be measured at fair value and not at amortized cost through profit or loss or fair value through other comprehensive income.

Amortized cost of financial instruments

The determination of amortized cost on financial instruments includes estimating future payments or receipts from such financial instruments. The Bank assesses annually whether new information warrants revisions to such estimates which will require adjusting the carrying amounts of financial instruments, except for reclassified financial assets, to reflect actual or revised estimates of cash flows. The Bank recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognized in the statements of comprehensive income as income or expense.

The Bank's financial assets at amortized cost as of December 31, 2021 and 2020 amounted to ₱673,752 and ₱1,651,105, respectively, as disclosed in Note 11.

Impairment of Financial Assets

The Bank follows the guidance of PFRS 9 in determining when an investment is permanently impaired. This determination requires significant judgement. In making this judgement, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near –term business outlook for the investee, including factors such as industry and sector performance, charges in technology and operational and financing cash flow.

Income tax

Judgment is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognizes liabilities for expected tax issues based on estimates of whether additional taxes are due.

Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the profit and loss in the period in which such determination is made.

Provisions and Contingencies

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

Fair Value of Investment Properties

Fair values of investment properties are determined using valuation methodologies acceptable under PFRS and valuation standards. Management determines the applicable valuation model based on the related income generated from the asset.

Change in Use of Assets

PAS 40 requires Management to use its judgment to determine whether a property qualifies as an investment properties. The Bank has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Bank is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand-alone asset are accounted for as bank premises, furniture, fixtures and equipment. The Bank assesses the accounting on an annual basis.

Post-employment Benefits

The Bank does not have an existing retirement plan. However, it is subject to the minimum retirement benefit under the Republic Act (R.A.) No. 7641, "The Retirement Pay Law", which provides for retirement pay to qualified employees in the absence of retirement plan.

R.A. 7641 requires that private employees should provide minimum retirement benefits to employees who have reached age 60 with at least five (5) years of service with the Bank.

Management has recognized an accrual for retirement benefit cost as of December 31, 2021 and 2020 based on the requirements of R.A. 7641 as it believes that expected retirement is significant based on employees' average and years of service to the Bank. Retirement liability amounted to ₱1,623,064 as of December 31, 2021 and 2020, as disclosed in Note 20.

Key Sources of Estimation Uncertainty

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

Impairment Losses on Loans and Receivable, Financial Assets at Amortized Cost

The Bank reviews its loans and receivable and financial assets at amortized cost portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statements of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditioned that correlate with defaults on assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amount of changes in fair value would differ if the Bank utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity. As of December 31, 2021 and 2020, the Management believes that the allowance provided by the Bank is sufficient to cover BSP requirements.

As of December 31, 2021 and 2020, loans and other receivables amounted to ₱76,551,383 and ₱65,470,000, respectively, net of allowance for credit losses, as disclosed in Note 12. Financial assets at amortized cost as of December 31, 2021 and 2020 amounted to ₱673,752 and ₱1,651,105, respectively, as disclosed in Note 11.

Asset Impairment

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

Based on Management's estimate, the Bank has not recorded any impairment losses for these financial assets for both 2021 and 2020.

Estimation of Useful Lives of Asset

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

The Bank has bank premises, furniture, fixtures and equipment stated at carrying value of ₱885,327 and ₱754,854 as of December 31, 2021 and 2020, respectively, as disclosed in Note 13. Intangible asset, net of accumulated amortization, amounted to ₱475,009 and ₱496,003 as of December 31, 2021 and 2020, respectively, as disclosed in Note 15. Carrying amount of investment properties amounted to ₱1,568,175 and ₱661,875 as of December 31, 2021 and 2020, respectively, as disclosed in Note 16.

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

The Management believes that it is highly probable they will generate taxable profit to allow all deferred tax assets to be utilized. The Bank's deferred tax assets amounted to ₱25,457 and ₱421,189, as of December 31, 2021 and 2020, respectively, as disclosed in Note 30.

Estimating Allowances for Credit Losses

The Bank reviews its loans and receivables at each statements of financial position date to assess whether an allowance for credit losses should be recorded in the statements of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimate is based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The carrying value of loans and receivables and allowance for credit losses on loans and other receivables are disclosed in Note 12.

Estimating the Incremental Borrowing Rate (IBR) for Lease Liabilities

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment.
The carrying values of the Bank's right-of-use asset and lease liability are disclosed in Notes 14 and 21, respectively.

6. COVID-19 AND ITS IMPACT ON JUDGMENT AND ESTIMATE

The impact of the COVID-19 pandemic has changed the business environment and affected all aspects of business operations. Judgements and estimates now need to take into account these new changes. Management refocused their judgements and estimate relative to almost every reporting period and certain statements of comprehensive income accounts while considering the latest accounting and audit guidance from numerous public and private boards and government agencies. While not inclusive of every account that may be impacted, summarized below are some key areas Management examined as they evaluate their current judgement and estimates:

a) Revenue

Revenue estimates can be affected by many factors, but the changes in business environment resulting from COVID-19 can lead to changes in variable consideration included in ongoing customer contracts. Accounting for revenue is covered in, "Revenue from Contracts with Customers." At the inception of the contract, it is management's responsibility to estimate the value of variable consideration to which it will be entitled.

In 2021, the Bank's revenue increased by 20.82%% compared to the prior year. As the Bank operates, the loan services have increased and is expected to continue.

At this stage, the impact on the business and results has significant and based on experience to date it is expected to remain the case or may even yield more positive results in the succeeding year. The Bank will continue to follow the various government policies and advice and, in parallel, will do its utmost to continue operations in the best and safest way possible without jeopardising the health of its people.

b) Loans and Other Receivables

The Bank has considered the financial condition of customers to help determine if loans and receivables will just take longer to collect compared to historical trends or if specific reserves and/or general reserves are needed above and beyond typical reserve levels.

The Bank granted borrower credit terms ranges from 30 to 60 days. The balances of loans and other receivables are within the credit terms given, thus represents currently maturing collectibles from borrowers. However, due to the provision of the government for relief through the issuance of Republic Act No. 11494, otherwise known as the "Bayanihan to Recover as One Act" or Bayanihan 2 that provides concessions to various obligations, receivable may take longer to collect upon customer availment and negotiate any concession.

The Management assessed that realizability of receivables are probable without loss contingencies and without the necessity to set allowance for probable loss.

The Bank effectiveness in its credit and collection efforts in allowing credit to reputable borrowers, as well as its ability to collect cash from them in a timely manner is at par.

c) Bank Premises, Furniture, Fixtures and Equipment

During the period of the enhance community quarantine implemented by the government, bank premises, furniture, fixtures and equipment might mean under-utilized or not utilized. Bank premises, furniture, fixtures and equipment require that depreciation continues to be charged in the statements of comprehensive income while an asset is temporarily idle. The Bank premises, furniture, fixtures and equipment, whether utilized or unutilized, is depreciated on a regular basis over its estimated useful lives during the period.

In addition, it is crucial to assess long-lived assets to determine if the carrying value is recoverable. It is important to consider factors outside those historically relied upon when making this judgment as changes in how these assets will be used in the future, relative to the pandemic, may result in necessary adjustments to the depreciable lives of those assets.

During the year, the Bank assessed the necessity to test for impairment due to a triggering event such as the change in business climate due to the pandemic and it has determined that no allowance for impairment is necessary.

d) Other Liabilities and Finance Lease

The Bank has assessed settlement of its other liabilities and finance leases with regard to supplier negotiations for considerable payment terms in relation to the provision of the government for relief through the issuance of Republic Act No. 11494, otherwise known as the "Bayanihan to Recover as One Act" or Bayanihan 2 that provides concessions to various obligations during the height of the pandemic and imposed restrictions. The Bank has considered its financial condition to determine if the aforementioned obligations will take longer to settle compared to historical trends in terms of expected cash flows. Despite of the current situation, the Bank has managed an efficient and effective approach to supplier payments that doesn't affect essential business needs as the Bank assessed that future operations will remain and with favorable expectation.

As of the reporting period, the Bank assessed that current obligations can be settled within the normal credit terms based on expected cash flows.

e) Going Concern

Management has considered the potential implications of COVID-19 and the measures taken to control it in assessing the Bank's ability to continue as a going concern. The Management neither intends to liquidate the bank nor to cease operations. Management has considered the impact of measures taken by governments in its assessment of going concern. Management has also considered any adjusting events after the reporting date that may indicate that the Bank is no longer a going concern. Although there are inconsiderable uncertainties, however it does not cast significant doubt upon the Bank's ability to continue as a going concern in accordance with accordance with PAS 1. The Bank determined that the financial statements is prepared on a going concern basis and; there are no material uncertainties related to events or conditions that cast significant doubt over the Bank's ability to continue as a going concern.

f) Income Taxes

In response and recovery interventions to the coronavirus pandemic, the government particularly the Bureau of Internal Revenue issued Revenue Regulations 25- 2020 which provides that the net operating loss for the current year, if any, is to be carried over as deduction from gross income the next (5) five consecutive taxable years immediately following the current year as provided by the Rules and Regulations Implementing Section 4 (bbbb) of Republic Act No. 11494, otherwise known as the "Bayanihan to Recover as One Act" or Bayanihan 2 relative to Net Operating Loss Carry-Over (NOLCO) under section 34 (D)(3) of the NIRC, as amended.

g) Employee benefits

Management have considered whether any of the assumptions used to measure employee benefits should be revised. Also, Management have considered whether it has a legal or constructive obligation to its employees in connection with the virus, for example sick pay or payments to employees that self-isolate, for which a liability should be recognized.

Management might be considering reducing its work-force as a result of the virus. PAS 19 Employee benefits requires that a liability for employee termination is recognized only when the Bank can no longer withdraw the offer of those benefits or the costs of a related restructuring are recognized in accordance with PAS 37. PAS 19 requires extensive disclosure of the assumptions used to estimate employee benefit liabilities, together with sensitivities and change in those assumptions.

(In Philippine Peso)

In 2021, the Bank did not recognize any termination benefits since the outbreak.

Events after the Reporting Date

The Bank identifies subsequent events as events that occurred after the reporting date but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the Bank's position at the reporting date, adjusting events, are reflected in the financial statements, while subsequent events that do not require adjustments, non-adjusting events, are disclosed in the notes to financial statements when material.

Prior Period Errors

The Bank corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: (a) restating the comparative amounts for the prior period presented in which the error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

7. RISK MANAGEMENT OBJECTIVES AND POLICIES

General Risk Management Principles

The Bank's financial instruments comprise cash, financial assets at amortized cost, loans and other receivables, other assets, and other financial liabilities such as savings deposits, bills payable and accrued expenses to finance the Bank's operations.

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

		2021		2020
Financial assets				
Cash and other cash items	₱	**4,440,945**	₱	4,053,719
Due from Bangko Sentral ng Pilipinas		**5,645,750**		5,726,328
Due from other banks		**87,526,876**		88,909,706
Financial assets at amortized cost		**673,752**		1,651,105
Loans and other receivables – net		**76,551,383**		65,470,000
Other assets*		**5,000**		42,205
	₱	**174,843,706**	₱	165,853,063
Financial liabilities				
Deposit liabilities	₱	**126,982,196**	₱	114,110,948
Bills payable		**4,905,328**		9,999,850
Lease liability		**1,623,064**		327,999
Accrued interest payable		**43,394**		17,531
Other liabilities**		**161,407**		101,678
	₱	**133,715,389**	₱	124,558,006

**Excluding non-financial assets amounting to ₱414,716 and ₱370,149 as of December 31, 2021 and 2020, respectively.*

***Excluding non-financial liabilities amounting to ₱ 677,745 and ₱ 223,484 as of December 31, 2021 and 2020, respectively.*

(In Philippine Peso)

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

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

The CPM defined, among others, the following:
a. the Bank's credit structure;
b. target market;
c. credit evaluation, administration, monitoring, and collection guidelines; and
d. remedial management.

The Bank likewise manages risk by setting limits such as:
a. approving authority limits;
b. individuals and borrower group limits; and
c. concentration limits as to facility and industry segments.

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

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

Maximum Exposure to Credit Risk before Collateral Held or Other Credit Enhancements
An analysis of the maximum exposure to credit risk relating to on-balance sheet assets without taking into account of any collateral held or other credit enhancements is shown below:

		2021		2020
Financial assets				
Due from Bangko Sentral ng Pilipinas	₱	**5,645,750**	₱	5,726,328
Due from other banks		**87,526,876**		88,909,706
Financial assets at amortized cost		**673,752**		1,651,105
Loans and other receivables*		**95,666,104**		84,469,425
Other assets**		**5,000**		42,205
	₱	**189,517,482**	₱	180,798,769

**Gross of allowance for credit losses and unamortized discount amounting to ₱19,114,721 and ₱18,999,425 as of December 31, 2021 and 2020, respectively.*
***Excluding non-financial assets amounting to ₱414,716 and ₱370,149 as of December 31, 2021 and 2020, respectively.*

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

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

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Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets as of December 31, 2021 and 2020.

		Neither past due nor impaired		Past due but not impaired		Past due and Impaired		Total
2021								
Due from Bangko Sentral ng Pilipinas	P	5,645,750	P	-	P	-	P	5,645,750
Due from other banks		87,526,876		-		-		87,526,876
Financial assets at amortized cost		673,752		-		-		673,752
Loans and other receivables*		60,556,037		34,668,421		441,646		95,666,104
Other assets**		5,000		-		-		5,000
	P	154,407,415	P	34,668,421	P	441,646	P	189,517,482
2020								
Due from Bangko Sentral ng Pilipinas	P	5,726,328	P	-	P	-	P	5,726,328
Due from other banks		88,909,706		-		-		88,909,706
Financial assets at amortized cost		1,651,105		-		-		1,651,105
Loans and other receivables*		53,874,900		30,152,124		442,401		84,469,425
Other assets**		42,205		-		-		42,205
	P	150,204,244	P	30,152,124	P	442,401	P	180,798,769

**Gross of allowance for credit losses and unamortized discount amounting to ₱19,114,721 and ₱18,999,425 as of December 31, 2021 and 2020, respectively.*

***Excluding non-financial assets amounting to ₱414,716 and ₱370,149 as of December 31, 2021 and 2020, respectively.*

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The credit quality of the financial assets was determined as follows:

i. Neither past due nor impaired

(a) Loans and receivables

The credit quality of the portfolio of loans and receivables can be assessed by reference to the historical experience of the Bank with the borrower. All loans and receivables neither past due nor impaired are considered high grade and can withstand weak economic conditions. These are borrowers with strong repayment capacity, have excellent liquidity and low leverage. Mostly, these are the accounts with updated amortization payments.

The credit risk grading for loans and other receivables shall be applicable for both new and existing borrowers.

(b) Financial assets at amortized cost

The Bank invest in fixed rate treasury bills and retail treasury bonds which are fully guaranteed by the Philippine government.

(c) Due from BSP and other banks

The Bank has various deposits with other banks and financial institutions. Cash transactions are limited to financial institutions with credit standing. The Bank has policies that limit the amount of credit exposure to any financial institution. The Bank's existing deposit arrangements are with universal and commercial banks, which are considered top tier banks in terms of capitalization as categorized by the BSP. Overall credit risk, if any, is not assessed to be significant.

ii. Past due but not impaired

Late processing and other administrative delays can lead to a financial asset to become past due. Therefore, loans and other receivables up to 180 days are not usually considered impaired, unless other information is available to indicate the contrary.

iii. Impaired

Impaired loans and receivables and investment securities are loans and receivables and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory notes and securities agreements.

Aging Analysis

An aging analysis of the Bank's loans receivable as of December 31, 2021 and 2020 are as follows:

		2021		2020
Outstanding receivables:				
Current accounts	**₱**	**66,824,312**	₱	53,874,900
Past due accounts:				
31-90 days past due		**5,311,161**		9,489,987
91-180 days past due		**2,021,587**		5,886,362
over 180 days past due		**21,509,044**		15,218,176
	₱	**95,666,104**	₱	84,469,425

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Liquidity Risk

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

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

The table below summarizes maturity profile of the Bank's financial assets and liabilities as of December 31, 2021 and 2020 based on undiscounted contractual cash flows.

2021	On Demand	Due Within 1 Year	Due Beyond 1 Year but Not More than 5 Years	Due Beyond 5 years	Total
Financial Assets:					
Cash and other cash items	4,440,945	-	-	-	4,440,945
Due from Bangko Sentral ng Pilipinas	5,645,750	-	-	-	5,645,750
Due from other banks	87,526,876	-	-	-	87,526,876
Financial assets at amortized cost	-	673,752	-	-	673,752
Loans and other receivables*	9,750,530	6,867,467	60,491,943	18,556,164	95,666,104
Other assets**	5,000	-	-	-	5,000
	107,369,101	7,541,219	60,491,943	18,556,164	193,958,427
Financial Liabilities:					
Deposit liabilities	126,982,196	-	-	-	126,982,196
Bills payable	-	4,905,328	-	-	4,905,328
Finance lease liability	-	103,162	-	-	103,162
Accrued interest payable	43,394	-	-	-	43,394
Other liabilities***	161,407	-	-	-	161,407
	127,186,997	4,905,328	-	-	132,195,487

**Gross of allowance for credit losses and unamortized discount amounting to ₱19,114,721 and ₱18,999,425 as of December 31, 2021 and 2020, respectively.*

***Excluding non-financial assets amounting to ₱414,716 and ₱370,149 as of December 31, 2021 and 2020, respectively.*

****Excluding non-financial liabilities amounting to ₱677,745 and ₱223,484 as of December 31, 2021 and 2020, respectively.*

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2020	On Demand	Due Within 1 Year	Due Beyond 1 Year but Not More than 5 Years	Due Beyond 5 years	Total
Financial Assets:					
Cash and other cash items	4,053,719	-	-	-	4,053,719
Due from Bangko Sentral ng Pilipinas	5,726,328	-	-	-	5,726,328
Due from other banks	88,909,706	-	-	-	88,909,706
Financial assets at amortized cost	-	1,651,105	-	-	1,651,105
Loans and other receivables*	8,431,994	18,055,942	42,064,910	15,916,579	84,469,425
Other assets**	5,000	37,205	-	-	42,205
	107,126,747	19,744,252	42,064,910	15,916,579	184,852,488
Financial Liabilities:					
Deposit liabilities	114,110,948	-	-	-	114,110,948
Bills payable	-	9,999,850	-	-	9,999,850
Finance lease liability	-	224,871	103,128	-	327,999
Accrued interest payable	17,531	-	-	-	17,531
Other liabilities***	101,678	-	-	-	101,678
	114,230,157	10,224,721	103,128	-	124,558,006

**Gross of allowance for credit losses and unamortized discount amounting to ₱19,114,721 and ₱18,999,425 as of December 31, 2021 and 2020, respectively.*

***Excluding non-financial assets amounting to ₱414,716 and ₱370,149 as of December 31, 2021 and 2020, respectively.*

****Excluding non-financial liabilities amounting to ₱677,745 and ₱223,484 as of December 31, 2021 and 2020, respectively.*

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange, interest rates and equity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

Interest Rate Risk

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

Sensitivity analysis on interest rate risk is not readily estimable as interest is unpredictable.

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

Operational Risks

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

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

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are submitted to the Board of Directors. The BOD will call a meeting together with the Compliance Officer, Internal Control Head and Senior Management to resolve the issue.

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8. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table presents a comparison by category of carrying amounts and estimate fair value of the Bank's financial instruments as of December 31, 2021 and 2020:

2021	Carrying Value	Fair Value: Quoted (Unadjusted) Prices in Active Markets (Level 1)	Fair Value: Significant Observable Inputs (Level 2)	Fair Value: Significant Unobservable Inputs (Level 3)	Total
Financial assets at amortized cost for which fair value is disclosed:					
Cash and other cash items	4,440,945	-	4,440,945	-	4,440,945
Due from Bangko Sentral ng Pilipinas	5,645,750	-	5,645,750	-	5,645,750
Due from other banks	87,526,876	87,526,876	-	-	87,526,876
Financial assets at amortized cost	673,752	-	673,752	-	673,752
Loans and other receivables – net	76,551,383	-	-	76,551,383	76,551,383
Other assets*	5,000	5,000	-	-	5,000
	174,843,706	87,531,876	10,760,447	76,551,383	174,843,706
Financial liabilities at amortized cost for which fair value is disclosed:					
Deposit liabilities	126,982,196	126,982,196	-	-	126,982,196
Bills payable	4,905,328	-	4,905,328	-	4,905,328
Finance lease liability	103,162	-	-	103,162	103,162
Accrued interest payable	43,394	-	-	43,394	43,394
Other liabilities**	161,407	-	-	161,407	161,407
	132,195,487	126,982,196	4,905,328	307,963	132,195,487

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2020	Carrying Value	Fair Value: Quoted (Unadjusted) Prices in Active Markets (Level 1)	Fair Value: Significant Observable Inputs (Level 2)	Fair Value: Significant Unobservable Inputs (Level 3)	Fair Value: Total
Financial assets at amortized cost for which fair value is disclosed:					
Cash and other cash items	4,053,719	4,053,719	-	-	4,053,719
Due from Bangko Sentral ng Pilipinas	5,726,328	5,726,328	-	-	5,726,328
Due from other banks	88,909,706	88,909,706	-	-	88,909,706
Financial assets at amortized cost	1,651,105	1,651,105	-	-	1,651,105
Loans and other receivables – net	65,470,000	-	-	65,470,000	65,470,000
Other assets*	42,205	5,000	-	37,205	42,205
	165,853,063	100,345,858	-	65,507,205	165,853,063
Financial liabilities at amortized cost for which fair value is disclosed:					
Deposit liabilities	114,110,948	114,110,948	-	-	114,110,948
Bills payable	9,999,850	-	9,999,850	-	9,999,850
Finance lease liability	327,999	-	-	327,999	327,999
Accrued interest payable	17,531	-	-	17,531	17,531
Other liabilities**	101,678	-	-	101,678	101,678
	124,558,006	114,110,948	9,999,850	447,208	124,558,006

**Excluding non-financial assets amounting to ₱414,716 and ₱370,149 as of December 31, 2021 and 2020, respectively.*

***Excluding non-financial liabilities amounting to ₱677,745 and ₱223,484 as of December 31, 2021 and 2020, respectively.*

The fair values of financial assets and financial liabilities measured at amortized cost approximates their carrying values either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is immaterial.

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9. CASH AND OTHER CASH ITEMS

The account consists of cash on hand and cash in vault amounting to ₱4,440,945 and ₱4,053,719 as of December 31, 2021 and 2020, respectively. Cash on hand and in vault consist primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers.

10. DUE FROM BANGKO SENTRAL NG PILIPINAS (BSP) AND OTHER BANKS

The "Due from BSP" account represents the aggregate balance of non-interest bearing peso deposit accounts with BSP which the Bank maintains primarily to meet reserve requirements and to serve as a clearing account for interbank claims.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. Due from other banks earn interest at the prevailing bank deposit rates. Deposits earn interest for savings deposits are 0.18% and 0.36% as of December 31, 2021 and 2020, respectively.

Due from BSP and other banks consist of:

		2021		2020
Due from BSP	₱	**5,645,750**	₱	5,726,328
Due from other banks		**87,526,876**		88,909,706
	₱	**93,172,626**	₱	94,636,034

Interest earned on due from other banks for the years ended December 31, 2021 and 2020 amounted to ₱165,583 and ₱246,475, respectively, as disclosed in Note 25.

11. FINANCIAL ASSETS AT AMORTIZED COST

This account consists of investments in bond and bills issued by Land Bank of the Philippines amounting to ₱673,752 and ₱1,651,105 as of December 31, 2021 and 2020, respectively.

Under current bank regulations, investments in bonds and other debt instruments shall not exceed 50% of adjusted statutory net worth. As of December 31, 2021 and 2020, the Bank is within the prescribed limit.

Interest earned from these investments amounted to ₱12,153 and ₱65,648 for 2021 and 2020, respectively, with interest rates ranging from 2% to 4% and 2% to 8% in 2021 and 2020, respectively as disclosed in Note 25.

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12. LOANS AND OTHER RECEIVABLES – NET

The account consists of the following:

		2021		2020
Loans receivables:				
Agricultural and agrarian loans	₱	**15,926,796**	₱	6,289,692
Salary loans		**6,004,864**		5,218,958
Other loans		**70,360,204**		68,707,431
	₱	**92,291,864**	₱	80,216,081
Less:				
Unamortized discount – Loans		**1,338,115**		616,595
Allowance for credit losses – Loans		**17,776,606**		17,487,257
Net loans receivables	₱	**73,177,143**	₱	62,112,229
Other receivables:				
Sales contract receivable	₱	**3,374,240**	₱	4,253,344
Less:				
Unamortized discount – SCR		-		895,573
Net other receivable	₱	**3,374,240**	₱	3,357,771
	₱	**76,551,383**	₱	65,470,000

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

Total interest income earned on loans amounted to ₱10,661,435 and ₱8,495,996 for the years ended December 31, 2021 and 2020, respectively, at interest rates ranging from 8% to 30% for years 2021 and 2020 as disclosed in Note 25.

Sales contract receivable (SCR) refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price. Unamortized discounts amounted to nil and ₱895,573 in 2021 and 2020, respectively, and no allowance for credit losses on SCR was recognized as of December 31, 2021 and 2020.

The Bank earned interest income on SCR at an average interest rate of 8% per annum amounted to ₱483,455 and ₱563,082 in 2021 and 2020, respectively.

The breakdown of the Bank's loans and other receivables as to status and per product line as of December 31, 2021 and 2020 are shown below:

	2021			2020		
	Performing	**Non-performing**	**Total**	Performing	Non-performing	Total
Agricultural and agrarian loans	**9,823,836**	**6,102,960**	**15,926,796**	689,948	4,529,009	5,218,957
Salary loans	**2,729,198**	**3,275,666**	**6,004,864**	1,875,963	8,194,994	10,070,957
Other loans	**55,415,529**	**14,944,675**	**70,360,204**	56,721,323	8,204,844	64,926,167
	67,968,563	**24,323,301**	**92,291,864**	59,287,234	20,928,847	80,216,081
Sales contract receivable	**3,374,240**	**-**	**3,374,240**	4,253,344	-	4,253,344
	71,342,803	**24,323,301**	**95,666,104**	63,540,578	20,928,847	84,469,425

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Movements during 2021 and 2020 for loans from borrowers follows:

2021	**Stage 1**	**Stage 2s**	**Stage 3**	**Total**
Agricultural and agrarian loans				
Balance at January 1, 2021	₱ 1,221,477	₱ 654,485	₱ 4,413,730	₱ 6,289,692
New assets originated or purchased	9,350,000	-	-	9,350,000
Assets derecognized or repaid	(723,771)	(224,697)	(447,959)	(1,396,427)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(20,870)	20,870	-	-
Transfers to/(from) Stage 2	76,438	(291,329)	214,891	-
Transfers to/(from) Stage 3	328,128	255,977	(584,105)	-
Others	(407,566)	(125,889)	2,216,986	1,683,531
Balance at December 31, 2021	₱ **9,823,836**	₱ **289,417**	₱ **5,813,543**	₱ **15,926,796**
Other loans				
Balance at January 1, 2021	₱ 45,815,841	₱ 14,686,746	₱ 8,204,844	₱ 68,707,431
New assets originated or purchased	34,870,000	60,000	-	34,930,000
Assets derecognized or repaid	(39,004,494)	(2,946,721)	11,781,295	(30,169,920)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(4,402,647)	8,574	4,394,073	-
Transfers to/(from) Stage 2	3,421,302	(4,597,763)	1,176,461	-
Transfers to/(from) Stage 3	1,998,755	431,912	(2,430,667)	-
Others	1,930,006	(6,791,298)	1,753,985	(3,107,307)
Balance at December 31, 2021	₱ **44,628,763**	₱ **851,450**	₱ **24,879,991**	₱ **70,360,204**
Salary loans				
Balance at January 1, 2021	₱ 600,145	₱ 89,804	₱ 4,529,009	₱ 5,218,958
New assets originated or purchased	2,925,859	-	(1,245,859)	1,680,000
Assets derecognized or repaid	(950,838)	(104,611)	(181,638)	(1,237,087)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(53,474)	53,474	-	-
Transfers to/(from) Stage 2	11,608	(38,468)	26,860	-
Transfers to/(from) Stage 3	157,863	22,800	(180,663)	-
Others	38,035	53,274	251,684	342,993
Balance at December 31, 2021	**2,729,198**	**76,273**	**3,199,393**	**6,004,864**
	₱ **57,181,797**	₱ **1,217,140**	₱ **33,892,927**	₱ **92,291,864**

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2020	Stage 1	Stage 2	Stage 3	Total
Agricultural and agrarian loans				
Balance at January 1, 2020	₱ 2,370,478	₱ 502,470	₱ 1,604,176	₱ 4,477,124
New assets originated or purchased	1,850,000	-	-	1,850,000
Assets derecognized or repaid	(1,869,568)	-	(318,275)	(2,187,843)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(1,129,433)	241,841	887,592	-
Transfers to/(from) Stage 2	-	(502,834)	502,834	-
Transfers to/(from) Stage 3	-	-	-	-
Others	-	413,008	1,737,403	2,150,411
Balance at December 31, 2020	₱ 1,221,477	₱ 654,485	₱ 4,413,730	₱ 6,289,692
Other loans				
Balance at January 1, 2020	₱ 42,245,285	₱ (3,215,368)	₱ 8,545,030	₱ 47,574,947
New assets originated or purchased	29,080,000	-	-	29,080,000
Assets derecognized or repaid	(17,846,787)	-	(812,792)	(18,659,579)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(7,662,657)	6,303,977	1,358,680	-
Transfers to/(from) Stage 2	-	(2,067,539)	2,067,539	-
Transfers to/(from) Stage 3	-	1,902,225	(1,902,225)	-
Others	-	11,763,451	(1,051,388)	10,712,063
Balance at December 31, 2020	₱ 45,815,841	₱ 14,686,746	₱ 8,204,844	₱ 68,707,431
Salary loans				
1Balance at January 1, 2020	₱ 3,190,442	₱ 3,990,215	₱ 9,239,942	₱ 16,420,599
New assets originated or purchased	895,000	-	-	895,000
Assets derecognized or repaid	(2,126,423)	-	(570,883)	(2,697,306)
Amounts written off		-	-	-
Transfers to/(from) Stage 1	(1,358,874)	341,833	1,017,041	-
Transfers to/(from) Stage 2	-	(2,697,747)	2,697,747	-
Transfers to/(from) Stage 3	-	-	-	-
Others	-	(1,544,497)	(7,854,838)	(9,399,335)
Balance at December 31, 2020	₱ 600,145	₱ 89,804	₱ 4,529,009	₱ 5,218,958
	₱ 47,637,463	₱ 15,431,035	₱ 17,147,583	₱ 80,216,081

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BSP Reporting

The movements in the allowance for credit losses as of December 31, 2021 and 2020 are summarized as follows:

		2021		2020
Balance at beginning of year	₱	17,487,257	₱	17,487,257
Provision for credit loss		184,603		-
Adjustment		104,746		-
Balance at end of year	₱	17,776,606	₱	17,487,257

Classification of allowance for credit losses for loans receivable follows:

		2021		2020
Specific	₱	17,085,006	₱	16,795,657
General		691,600		691,600
	₱	17,776,606	₱	17,487,257

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

In compliance with the regulations of the BSP, the Bank strictly adheres to the setting up of allowance for credit losses.

The Bank recognizes a general loan loss provision equivalent to one percent (1%) of all outstanding stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations.

The BSP mandated the BSFIs to adopt the ECL model in measuring credit impairment, in accordance with the provisions of PFRS 9. The BSFIs shall recognize credit impairment/ allowance for credit losses even before an objective evidence of impairment becomes apparent. BSFIs shall consider past events, current conditions, and forecasts of future economic conditions in assessing impairment.

However, BSFIs with simple operations are encouraged to adopt a simple loan loss methodologies fundamentally anchored on the principle of recognizing ECL. In this respect, BSFIs shall look beyond the past due/ missed amortizations in classifying exposures and in providing allowance for credit losses. On the other hand, BSFIs with credit operations that may not economically justify adoption of said simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed under the Appendix 15 of the MORB.

The Bank adopted the said simple loan loss computation in computing allowance for credit losses. The provision matrix for loans and other receivables adopted by the Bank is disclosed in Note 4.

(In Philippine Peso)

The breakdown of loans receivables from borrowers as to the following:

a) *Secured and unsecured*

		2021	%		2020	%
Secured	₱	**64,782,617**	**70.19%**	₱	56,896,617	70.93%
Unsecured		**27,509,247**	**29.81%**		23,319,464	29.07%
	₱	**92,291,864**	**100.00%**	₱	80,216,081	100.00%

b) *As to type of security*

		2021	%		2020	%
Loans secured by:						
Chattel Mortgage	₱	**1**	**0.00%**	₱	7,000,001	8.73%
Other Collateral		**1,500,000**	**1.63%**		4,852,140	6.05%
REM – Residential		**40,729,583**	**44.13%**		24,128,947	30.08%
REM – Commercial		**4,570,397**	**4.95%**		8,429,102	10.51%
REM – Agricultural		**17,982,636**	**19.48%**		12,486,427	15.56%
Secured	₱	**64,782,617**	**70.19%**	₱	56,896,617	70.93%
Unsecured		**27,509,247**	**29.81%**		23,319,464	29.07%
	₱	**92,291,864**	**100.00%**	₱	80,216,081	100.00%

Past Due Loans

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

BSP Manual of Regulations for Banks Sec. 304 defined the classification of past due loans as follows:

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

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

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

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

(In Philippine Peso)

Non-Performing Loans

BSP Manual of Regulations for Banks, Sec. 304, defined non-performing loans (NPLs) as follows:

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

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

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

Non-performing loans investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests are probable and payments of interests and/or principal are received for at least six (6) months; or (b) written-off.

Breakdown of non-performing loans based on days outstanding are as follows:

		2021		2020
Past due accounts				
31 – 90 days past due	₱	**815,428**	₱	1,307,881
91 – 180 days past due		**2,321,590**		2,877,967
Over 180 days past due		**21,186,283**		16,742,999
	₱	**24,323,301**	₱	20,928,847

The breakdown of non-performing loans from borrowers as to secured and unsecured and as to type of security are as follows:

		2021	%		2020	%
Loans secured by:						
REM – Residential	₱	**2,540,626**	**10.45%**	₱	1,976,695	9.44%
REM – Agricultural		**649,450**	**2.67%**		649,450	3.10%
REM - Commercial		**4,394,073**	**18.07%**		-	-
Chattel mortgage		**1**	**0%**		-	-
Secured	₱	**7,584,150**	**31.19%**	₱	2,626,145	12.55%
Unsecured		**16,739,151**	**68.81%**		18,302,702	87.45%
	₱	**24,323,301**	**100.00%**	₱	20,928,847	100.00%

(In Philippine Peso)

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

		2021		2020
Gross NPLs	₱	**24,323,301**	₱	20,928,847
Ratio of gross NPLs to gross TLP (%)		**26.35%**		26.09%
Net NPLs		**1,894,680**		6,492,420
Ratio of net NPLs to gross TLP (%)		**2.05%**		8.09%
Ratio of total allowance for credit losses to gross NPLs (%)		**73.08%**		83.56%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)		**70.24%**		80.25%

As of December 31, 2021 and 2020, the Bank complied with BSP Circular 941 requirements.

Disclosure as to industry/ economic sector is as follows:

		2021	%		2020	%
Wholesale and Retail Trade Repair of Motor Activities of household as employer and undifferentiated goods and services producing of household for personal use	₱	**32,603,826**	**35.33%**	₱	23,797,980	30%
Construction		**13,568,157**	**14.70%**		12,215,167	15%
Agriculture, fishing and forestry		**14,815,328**	**16.05%**		10,070,956	13%
Real estate, renting and business activities		**13,781,065**	**14.93%**		9,698,403	12%
Food service activities		**-**	**-**		5,910,776	7%
Consumption purpose		**5,989,789**	**6.49%**		5,218,958	6%
Transportation		**4,733,875**	**5.13%**		2,344,611	3%
Other community, social and personal		**-**	**0%**		-	0%
Communication		**3,935,482**	**4.26%**		1,450,069	2%
Other service activities		**2,864,342**	**3.11%**		9,509,161	12%
	₱	**92,291,864**	**100.00%**	₱	80,216,081	100%

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry on economic sector exceeds 30% of the total loan portfolio.

The Bank has a concentration risk on Wholesale and Retail Trade Repair of Motor Activities of household as employer and undifferentiated goods and services producing of household for personal use and Consumption purpose sector as of December 31, 2021 and 2020, respectively. As part of the Bank's risk management system, it addresses this risk exposure by having a more intensive monitoring of loans under this sector.

(In Philippine Peso)

13. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – NET

The composition of and movements in this account for 2021 and 2020 are as follows:

	Land	Building	Leasehold improvement	Furniture and Fixtures	Transportation Equipment	Total
Cost						
At January 1, 2020	₱ 337,500	₱ 584,406	₱ 1,579,290	₱ 3,165,725	₱ 1,719,629	₱ 7,386,550
Adjustment	-	-	-	23,200	-	23,200
Additions	-	-	-	-	300,000	300,000
At December 31, 2020	337,500	584,406	1,579,290	3,188,925	2,019,629	7,709,750
Adjustment	-	-	-	-	37,381	37,381
Additions	-	-	-	133,417	65,000	198,417
At December 31, 2021	**337,500**	**584,406**	**1,579,290**	**3,322,342**	**2,084,629**	**7,945,548**
Accumulated depreciation						
At January 1, 2020	₱ -	₱ 584,406	₱ 1,579,290	₱ 3,042,159	₱ 1,719,629	₱ 6,925,484
Depreciation (Note 29)	-	-	-	63,925	50,000	113,925
Adjustment	-	-	-	(84,513)	-	(84,513)
At December 31, 2020	-	584,406	1,579,290	3,021,571	1,769,629	6,954,896
Depreciation (Notes 29)	-	-	-	94,367	10,958	105,325
At December 31, 2021	**-**	**584,406**	**1,579,290**	**3,078,557**	**1,780,587**	**7,060,221**
Carrying amount- 2020	337,500	-	-	167,354	250,000	754,854
Carrying amount- 2021	**₱ 337,500**	**₱ -**	**₱ -**	**₱ 243,785**	**₱ 304,042**	**₱ 885,327**

Based on Management's assumption which is based on the recoverable amount of the properties, no impairment loss is required to be recognized both in 2021 and 2020. Total depreciation amounted to ₱105,325 and ₱113,925 for the years ended December 31, 2021 and 2020, respectively, as disclosed in Note 29.

As at December 31, 2021 and 2020, no bank premises, furniture, fixtures and equipment have been pledged as collateral or security for any of the Bank's liabilities.

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As at December 31, 2021 and 2020, the Bank has satisfactorily complied with this requirement.

(In Philippine Peso)

14. RIGHT-OF-USE ASSET - NET

The composition of and movements in this account for 2021 and 2020 are as follows:

		Building
Cost		
At January 1, 2020	₱	287,619
Additions		332,886
At December 31, 2020		620,505
Additions		-
At December 31, 2021	**₱**	**620,505**
Accumulated depreciation		
At January 1, 2020	₱	119,735
Depreciation (Note 29)		178,633
Adjustments		709
At December 31, 2020		299,077
Depreciation (Note 29)		222,863
At December 31, 2021	**₱**	**521,940**
Carrying amount – 2020	₱	321,428
Carrying amount – 2021	**₱**	**98,565**

15. INTANGIBLE ASSET – NET

The composition of and movements in this account for 2021 and 2020 are as follows:

		2021		2020
Cost				
January 1	₱	**606,000**	₱	548,501
Additions		-		185,500
Adjustments		-		(128,001)
December 31	**₱**	**606,000**	₱	606,000
Accumulated amortization				
January 1	₱	**109,997**	₱	76,181
Amortization (Note 29)		**20,995**		51,594
Adjustments		**(1)**		(17,778)
December 31	**₱**	**130,991**	₱	109,997
Carrying amount	**₱**	**475,009**	₱	496,003

16. INVESTMENT PROPERTIES – NET

This account consists of the properties acquired through foreclosure or dacion as payment of outstanding loans by delinquent borrowers:

(In Philippine Peso)

		2021		2020
Cost/ carrying amount				
January 1	₱	**661,875**	₱	1,361,951
Additions		**906,300**		-
Disposals		-		(700,000)
Adjustment		-		(76)
December 31	₱	**1,568,175**	₱	661,875

The BSP, based on Sec. 382 of the MORB, requires that foreclosed assets be booked initially at the carrying amount of the loan plus booked accrued interest less allowance for credit losses plus transaction costs incurred upon acquisition.

The Bank recognized gain from disposal of investment properties amounting to nil and ₱850,000 in 2021 and 2020, respectively, and is presented as gain on sale of investment properties under 'Other Income' in the statements of comprehensive income, ad disclosed in Note 27.

The Bank recognized impairment losses amounting to nil in 2021 and 2020.

17. OTHER ASSETS

Other assets are composed of the following:

		2021		2020
Stationery office supplies	₱	**326,860**	₱	270,215
Prepaid expenses		**45,070**		44,450
Petty cash fund		**5,000**		5,000
Accounts receivable		-		37,205
Miscellaneous assets		**42,786**		55,484
	₱	**419,716**	₱	412,354

Prepaid expenses pertain to the Bank's advance payment of administrative expenses related to advertising, marketing, rent, insurance and other expenses.

18. DEPOSIT LIABILITIES

Deposit liabilities consist of:

		2021		2020
Savings deposits	₱	**126,974,858**	₱	114,103,619
Time deposits		**7,338**		7,329
	₱	**126,982,196**	₱	114,110,948

There are no deposits from directors, officers, stockholders and related interests (DOSRI) as of December 31, 2021 and 2020.

Savings deposits have an annual interest rates of ranging from .025% to 1.45% for all years presented while time deposits have interest rate of .065% in 2021 and 2020.

(In Philippine Peso)

Interest expense on deposit liabilities in 2021 and 2020 amounted to ₱640,761 and ₱577,249, respectively, as disclosed in Note 26.

Based on BSP Circular No. 1092 Series of 2020, the prescribed rate of the required reserves against deposit liabilities of rural banks is 2% for demand, savings and time deposits. These reserves requirements of the BSP pertain to the Due from the BSP account. Due from BSP account is non-interest bearing account that also serves as clearing account in interbank claims.

As of December 31, 2021 and 2020, Due from BSP amounting to ₱5,645,750 and ₱5,726,328, respectively, were set aside as reserves for deposit liabilities, as reported to the BSP (Note 10). The Bank has complied with the above regulation for the years ended December 31, 2021 and 2020.

19. BILLS PAYABLE

This account consists of borrowings from Agricultural Credit Policy Council (ACPC) amounting to ₱4,905,328 and ₱9,999,850 as of December 31, 2021 and 2020, respectively.

The maturity analysis of bills payable follows:

2021		**Due in one year**		**Due in more than a year**		**Total**
Agricultural Credit Policy Council (ACPC)	₱	-		**4,905,328**		**4,905,328**

2020		Due in one year		Due in more than a year		Total
Agricultural Credit Policy Council (ACPC)	₱	-	₱	9,999,850	₱	9,999,850

The movements of the account are as follows:

		2021		2020
Balance, January 1	₱	**9,999,850**	₱	2,500,000
Additions		**-**		9,999,850
Payments		**(5,094,522)**		(2,500,000)
Balance, December 31	₱	**4,905,328**	₱	9,999,850

The bills payable to ACPC represents the loan availed for the purpose of funding the loans to be extended to marginalized small farmers and fisherfolk. The loan bears no interest and will mature in 10 years from grant date.

No assets were pledged as securities for these bills payable as of December 31, 2021 and 2020, respectively.

Interest expense on bills payable as of December 31, 2021 and 2020 amounted to nil and ₱31,389, respectively, as disclosed in Note 26.

20. RETIREMENT LIABILITY

The Bank does not have an existing retirement plan. However, it is subject to the minimum retirement benefit under the Republic Act (RA) No. 7641, "The Retirement Pay Law", which provides for retirement pay to qualified employees in the absence of retirement plan.

(In Philippine Peso)

R.A. 7641 requires that private employees should provide minimum retirement benefits to employees who have reached age 60 with at least five (5) years of service with the Bank.

Philippine Accounting Standards No. 19 requires the Bank to determine its retirement cost on the basis of Projected Credit Unit Method (PUM) actuarial computation. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries, among others.

This account consists of retirement liability amounting to ₱1,623,064 as of December 31, 2021 and 2020.

21. LEASE LIABILITY

The following table summarizes all changes to lease liability for the year ended December 31, 2021 and 2020:

		2021		2020
Balance, January 1	₱	**327,999**	₱	172,041
Accretion of interest expense (Note 26)		**15,163**		16,251
Payments		**(240,000)**		(192,000)
Additions		-		338,420
Adjustments		-		(6,713)
Balance, December 31	₱	**103,162**	₱	327,999

22. ACCRUED INTEREST PAYABLE

This account is for accrued interest expense for deposit liabilities amounting to ₱43,394 and ₱17,531 as of December 31, 2021 and 2020 respectively.

23. OTHER LIABILITES

This account consists of:

		2021		2020
Dividends payable	₱	**413,134**	₱	-
Accounts payable		**161,407**		101,678
Withholding tax payable		**77,020**		56,608
Documentary stamp payable		**2,625**		2,625
Risk management fund		-		164,251
Others		**184,966**		-
	₱	**839,152**	₱	325,162

Risk management fund pertains non-interest-bearing fund collected by the Bank related to salary loans set aside by the Management for the purpose of mitigating the risk of non-payment. The Bank collected ₱3 for every ₱1,000 of loan granted and will be used to cover the unpaid portion of defaulted salary loans.

Accounts payable pertains to overpayments of loans from various borrowers, salaries and wages, loss on litigation and other expenses that are unpaid. These are non-interest-bearing.

(In Philippine Peso)

Withholding taxes pertain to expanded withholding tax and withholding tax on compensation that would be remitted to the bureau of internal revenue. These are non-interest-bearing and are normally settled within 10 to 30 days.

24. EQUITY

Capital Stock

The details of the Bank's common stock and preferred stock are as follows:

	2021			2020		
	Stocks		**Amount**	Stocks		Amount
Authorized:						
Common stock at ₱100 par value	**200,000**	**₱**	**20,000,000**	200,000	₱	20,000,000
Preferred stock at ₱100 par value	**50,000**		**5,000,000**	50,000		5,000,000
Subscribed and paid-up:						
Common stock	**200,000**	**₱**	**20,000,000**	200,000	₱	20,000,000
Preferred stock	**28,324**		**2,832,400**	28,324		2,832,400

Common stocks carry one (1) vote per stock and a right to dividends.

Movements of common stock and preferred stock are shown below:

Common stock

	2021			2020		
	Stocks		**Amount**	Stocks		Amount
January 1	**200,000**	**₱**	**20,000,000**	200,000	₱	20,000,000
Issuance	**-**		**-**	-		-
December 31	**200,000**	**₱**	**20,000,000**	200,000	₱	20,000,000

Preferred stock

	2021			2020		
	Stocks		**Amount**	Stocks		Amount
January 1	**28,324**	**₱**	**2,832,400**	28,324	₱	2,832,400
Issuance	**-**		**-**	-		-
December 31	**28,324**	**₱**	**2,832,400**	28,324	₱	2,832,400

Dividends Declared

The Bank declared dividends in the amount of ₱456,648 and nil as of December 31, 2021 and 2020, respectively.

Capital Management

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

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

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

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

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

As of December 31, 2021 and 2020, the Bank is in compliance with the current banking regulation.

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

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

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

Subject to deductions for:
i. deferred income tax.

b. Tier 2 Capital includes:
i. perpetual cumulative preferred stock,
ii. appraisal increment reserve – bank premises
iii. general loan loss provision.

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

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Information regarding the Bank's "unimpaired capital" as of December 31, 2021 and 2020 is shown below.

		2021		2020
Common Equity Tier 1 (CET 1) Capital	₱	**43,644,618**	₱	39,184,456
Tier 1 Capital		**43,644,618**		39,184,456
Tier 2 Capital		**691,600**		3,524,000
Gross qualifying capital		**44,336,219**		42,708.456
Credit Risk-Weighted Assets		**148,791,955**		85,312,501
Operational Risk-Weighted Assets		**22,890,922**		23,958,171
Total risk-weighted assets	₱	**171,682,877**	₱	109,270,672
Total capital ratio		**25.82%**		39.09%
Tier 1 ratio		**25.42%**		35.86%
Tier 2 ratio		**0.40%**		3.23%

As shown in the above information, the Bank has complied with the BSP capital ratio requirements as at December 31, 2021 and 2020.

The Bank's policy is to maintain a strong capital base to maintain stockholders, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

There have been no material changes in the Bank's management of capital during those years.

The BSP sets also another measure of Bank's liquidity by minimum liquidity ratio. Under the existing BSP regulations, the Bank's minimum liquidity ratio is expressed as a percentage of eligible stock of liquid assets to its total qualifying liabilities.

a. The stock of liquid assets shall consists of:
i. cash on hand,
ii. eligible debt securities,
iii. deposits in other banks, and
iv. interbank loans receivables with contractual maturity dates that fall within the next 30 calendar days.

b. The qualifying liabilities shall consists of the following:

- Total liabilities, where the following obligations are subject to the conversion factors as stated below:

i. Retail current and regular savings deposits with outstanding balance per account of ₱500,000 and below subject to 50% conversion factor in 2019.
ii. deposits where the account holder has no contractual or legal discretion to withdraw said deposit or pre-terminate the account within the next 30 calendar days,
iii. borrowings that are non-callable in, or have contractual maturity dates beyond, the next calendar days, and
iv. obligations arising from operation expenses.

(In Philippine Peso)

- Irrevocable obligations under off-balance sheet items, such as:

i. guarantees issued,
ii. trade related guarantees,
iii. letters of credit, and
iv. other committed credit lines.

Information regarding the Bank's "minimum liquidity ratio" and "leverage ratio" as of December 31, 2021 and 2020 is shown below.

		2021		2020
Stock of liquid assets	₱	**98,287,323**	₱	100,340,858
Qualifying liabilities		**100,141,975**		88,855,214
Minimum liquidity ratio		**98%**		113%

		2021		2020
Total capital	₱	**43,738,258**	₱	42,457,302
Total assets		**178,310,955**		168,878,561
Leverage ratio		**25%**		25%

As of December 31, 2021 and 2020, the Bank's minimum liquidity ratio and leverage ratio is in compliance with the regulatory requirements.

25. INTEREST INCOME

This account consists of:

		2021		2020
On loans and other receivables:				
Agricultural and agrarian loans	₱	**941,702**	₱	905,492
Salary loans		**436,958**		888,490
Other loans		**6,100,883**		4,898,328
Past due items and litigation		**3,181,892**		1,803,686
		10,661,435		8,495,996
Sales contract receivable		**483,455**		563,082
		11,144,890		9,059,078
On bank deposits and financial assets at amortized cost:				
Due from other banks (Note 10)		**165,583**		246,475
Financial assets at amortized cost (Note 11)		**12,153**		65,648
		177,736		312,123
	₱	**11,322,626**	₱	9,371,201

Interest rates on loans ranges from 8% to 30% per annum. The 30% is for the other loans since they are subject to high risk. Penalty rate on past due loans is 5% per month.

Interest rates on sales contract receivable ranges from 6% to 78% per annum.

(In Philippine Peso)

Interest income on bank deposits was already subjected to final tax.

26. INTEREST EXPENSE AND FINANCE CHARGES

This account consists of:

		2021		2020
Interest on deposit liabilities (Note 18)	₱	**640,761**	₱	577,249
Interest on lease liability (Note 21)		**15,163**		16,251
Interest on bills payable (Note 19)		-		31,389
	₱	**655,924**	₱	624,889

27. OTHER INCOME

This account consists of:

		2021		2020
Fees and commissions – Deposit	₱	**333,547**	₱	108,403
Fees and commissions – Loans		**154,345**		117,064
Gain on sale of Real and other properties acquired (Note 16)		-		850,000
Miscellaneous income		**2,864,432**		1,122,000
	₱	**3,352,324**	₱	2,197,467

Miscellaneous income consists of amounts from fees for payments made for electricity bills, POS, recovery of written-off accounts, loan processing fees, penalties for past-due accounts, and reclassification from gains recognized for the collection of SCR account.

(In Philippine Peso)

28. OPERATING EXPENSES

This account consists of:

		2021		2020
Other benefits	₱	**2,536,501**	₱	2,274,078
Salaries and wages		**2,522,054**		2,844,776
Directors and committee members fee		**870,000**		900,000
Taxes and licenses		**755,994**		538,777
Management and other professional fees		**736,074**		648,600
Litigation		**670,610**		144,124
Security, messengerial and janitorial services		**458,759**		77,667
Insurance		**441,099**		398,394
SSS, Medicare, Pag-ibig, Philhealth bank's share		**371,225**		367,050
Depreciation and amortization (Note 29)		**349,183**		344,152
Fuel and lubricant		**292,700**		301,829
Power, light and water		**290,065**		238,999
Advertising and publicity		**267,746**		56,710
Traveling		**248,907**		180,141
Repairs and maintenance		**159,795**		426,628
Postage, telephone and telegram		**117,447**		106,532
Stationeries and office supplies		**116,675**		110,701
Donations and charitable contribution		**100,514**		115,780
Information technology		**102,307**		45,575
Fines, penalties and other charges		**67,576**		12,047
Representation and entertainment		**44,850**		17,824
Training		**19,600**		14,000
Supervision and examination fee		**16,262**		14,121
Rent		**11,700**		46,800
Membership fees and dues		**5,520**		5,520
Miscellaneous		**490,006**		425,476
	₱	**12,063,169**	₱	10,656,301

Salaries and other benefits

This account consists of:

		2021		2020
Other benefits	₱	**2,536,501**	₱	2,844,776
Salaries and wages		**2,522,054**		2,274,078
SSS, Medicare, Pag-ibig, Philhealth bank's share		**371,225**		367,050
	₱	**5,429,780**	₱	5,485,904

(In Philippine Peso)

29. DEPRECIATION AND AMORTIZATION

This account consists of:

		2021		2020
Depreciation of:				
Right-of-use asset (Note 14)	₱	**222,863**	₱	178,633
Bank premises, furniture, fixtures and equipment (Note 13)		**105,325**		113,925
Amortization of:				
Intangible asset (Note 15)		**20,995**		51,594
	₱	**349,183**	₱	344,152

30. INCOME TAX

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

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

Under current tax regulations, the applicable income tax rate is thirty percent (25%). Interest allowed as a deductible expense is reduced by an amount equivalent to twenty percent (20%) of interest income subjected to final tax. Also, entertainment, amusement and recreation (EAR) expense is limited to one percent (1%) of net revenues, as defined, for sellers of services beginning September 1, 2002. The current regulations also provide for MCIT of 1% on modified gross income and allow a three year NOLCO. Any excess of the MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability while NOLCO can be applied against taxable income, both in the next three years from the year of occurrence.

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

(In Philippine Peso)

Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

		2021		2020
Current tax expense:				
RCIT at 25% in 2021 and 30% in 2020	₱	**467,339**	₱	169,317
Adjustment due to changes in tax rates		**(42,329)**		-
		425,010		169,317
Deferred tax expense:				
Origination and reversal of temporary differences		**494**		(99,347)
Adjustment due to changes in tax rates		**29,924**		-
		30,418		(99,347)
	₱	**455,428**	₱	69,970

The CREATE Act, which seeks to reduce the Corporate Income Tax Rates and to rationalize the current fiscal incentives by making it timebound, targeted and performance-based, was passed into law on March 26, 2021. The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact to the Bank:

- 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 million and with total assets not exceeding P100 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.

Given that the CREATE Act was signed after December 31, 2020, the Bank used the prevailing tax rate as of December 31, 2020 in determining its current and deferred taxes in its 2020 financial statements and was taken up prospectively in the current period. As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense as presented in the 2020 annual income tax return of the Bank was lower by ₱42,329 than the amount presented in the 2020 financial statements which was charged to 2021 profit or loss.

The recognized deferred tax asset as of December 31, 2020 were also remeasured in 2021 using the new tax rate of 25% under CREATE Law. This resulted in a decrease in the deferred tax asset recognized in 2020 by ₱29,924 which was charged to 2021 profit or loss.

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the tax rate in 2021 and 2020 is as follows:

		2021		2020
Accounting profit	₱	**1,955,857**	₱	287,478
Tax expense at 25% or 30%		**488,964**		86,243
Tax effect of expenses that are not deductible:				
Non-deductible expenses		**23,303**		77,363
Tax effect of income that are not taxable:				
Interest income subjected to final tax		**(44,434)**		(93,636)
Adjustment due to changes in tax rates		**(12,405)**		-
	₱	**455,428**	P	69,970

(In Philippine Peso)

Details of Bank's MCIT which can be claimed as tax credits against regular income tax are as follows:

Year Incurred	Amount	Applied Previous Year	Applied Current Year	Expired	Unapplied	Expiry Date
2020	₱ 98,482	₱ -	₱ (98,482)	₱ -	₱ -	2023
2019	296,105	-	(296,105)	-	-	2022
	₱ 394,587	**₱ -**	**₱ (394,587)**	**₱ -**	**₱ -**	

Deferred tax assets

Details and movements of this account shown below:

	MCIT	Provision for retirement benefit obligation	PFRS 16 application	CREATE impact	Total
alance, January 1, 2020	₱ 296,105	₱ 24,490	₱ -	₱ -	₱ 320,525
ecognized in profit or loss	98,482	-	2,112	-	100,594
alance, December 31, 2020	394,587	24,490	2,112	-	421,189
ecognized in profit or loss	(394,587)	-	28,779	(29,924)	(395,732)
alance, December 31, 2021	**₱ -**	**₱ 24,490**	**₱ 30,891**	**₱ (29,924)**	**₱ 25,457**

31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties include key management personnel, close family members of key management personnel, affiliates (i.e. entities which are controlled, significantly influenced by or for which significant voting power is held by the Bank or key management personnel or their close family members and retirement plan for the benefit of the Bank's employees).

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

As required by BSP, the Bank discloses loan transactions with its associates, affiliates and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70% 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% of total loan portfolio of the Bank or 100% of net worth, whichever is lower.

(In Philippine Peso)

Below are further details of Bank's DOSRI loans as of December 31, 2021 and 2020:

Particulars	DOSRI loans		Related Party Loans (inclusive of DOSRI loans)	
	2021	2020	**2021**	2020
Outstanding loans	**3,395,900**	1,925,671	**3,395,900**	1,925,671
Percent of DOSRI/Related Party loans to total loan portfolio	**3.67%**	2%	**3.67%**	2%
Percent of unsecured DOSRI/ Related Party loans to total DOSRI/Related Party loans	**0.10%**	1%	**0.10%**	1%
Percent of past due DOSRI/ Related Party loans to total DOSRI/Related	**0.00%**	99%	**0.00%**	99%
Percent of non-performing DOSRI/Related Party loans to total DOSRI/Related Party loans	**0.00%**	0%	**0.00%**	0%

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

Sec. 342 of the MORB provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's subsidiaries and affiliates shall not exceed ten percent (10%) of the net worth of the lending bank, provided that the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed twenty percent (20%) of the net worth of the lending bank; and that these subsidiaries and affiliates of the lending bank are not related interest of any of the director, officer and/or stockholder of the lending bank. As of December 31, 2021 and 2020, the Bank is in compliance with these requirements.

Any violation of the provisions under BSP Circular No. 914 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non DOSRI) accounts prior to the issuance of BSP Circular No. 914 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

Remuneration of 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 officers, with the rank of assistant vice president and up to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*.

The compensation of the key management personnel and director's remuneration shown below:

		2021		2020
Key management personnel compensation, salaries and short term benefits	₱	**1,198,900**	₱	1,510,500
Directors' and committee member's fee		**870,000**		900,000
	₱	**2,068,900**	₱	2,410,500

(In Philippine Peso)

32. BASIC QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE

The key financial performance indicators of the Bank are shown below in (%):

	2021	2020
Return on average equity	**3.48%**	0.54%
Return on average assets	**0.86%**	0.15%
Net interest margin	**6.65%**	6.56%
Capital adequacy ratio	**25.82%**	39.09%

As of December 31, 2021, and 2020, there were no outstanding dilutive potential common shares.

33. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

No amount of provision is recognized and no circumstance that gives rise to disclosure of contingent liabilities and contingent assets has been identified as of December 31, 2021 and 2020

No contingencies and commitments arising from off-balance sheet items in years 2021 and 2020.

34. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

Continuing COVID-19 pandemic

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The extent of COVID-19's effect on the Bank's operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Bank's business. However, if the pandemic continues to evolve into a severe worldwide health crisis, the disease could have a material adverse effect on the Bank's business, results of operations, financial condition, and cash flows.

It is not possible to estimate the overall impact of the pandemic's short-term and long-term effects as the scale and duration remain uncertain; however, the Bank expects that this pandemic could have a material impact on the financial position, financial performance, and related cash flows starting in 2021 and years after. The Bank will continue to monitor the situation and assess further impact.

35. PRIOR PERIOD ADJUSTMENTS

This account pertains to the adjustments made in the retained earnings amounting to ₱237,175 and ₱1,390,579 for the years ended December 31, 2021 and 2020, respectively.

36. APPROVAL OF FINANCIAL STATEMENTS

These financial statements for the year ended December 31, 2021 was approved and authorized for issuance by the Board of Directors (BOD) on April 18, 2022.

The BOD is still empowered to make amendments on the financial statements even after the date of issue.

RURAL BANK OF CALBAYOG CITY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020
(In Philippine Peso)

SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 15 – 2010

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

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

Gross Receipts Tax

In lieu of the value-added tax, the Bank is subject to the gross receipts tax (GRT) imposed on all banks and non-bank financial intermediaries pursuant to Section 121.2 of the Philippine tax code.

Gross receipts taxes paid or accrued for the year ended December 31, 2021 consists of:

		2021
Gross receipts tax paid	₱	577,573
Gross receipts tax payable		-
	₱	577,573

Documentary Stamp Tax

The Bank paid documentary stamp tax for the year 2021 amounting to ₱91,845 arising from time deposits, bills payable and lease agreements in pursuant to new DST rates under R.A. 10963 or the TRAIN Law of 2017.

All Other National and Local Taxes

All other local and national taxes paid by the Bank and presented as part of operating expenses for the year ended December 31, 2021 consist of:

		2021
National tax:		
Percentage tax	₱	592,839
Local taxes:		
Business permit		146,822
Real estate property tax		15,933
Annual registration		400
	₱	755,994

(In Philippine Peso)

Withholding Taxes

Withholding taxes paid or accrued for the years ended December 31, 2021 consist of:

		Paid		Accrued		Total
2021						
Withholding tax on compensation	₱	1,939,575	₱	77,020	₱	2,016,595
Expanded and final withholding tax		136,359		-		136,359
	₱	2,075,934	₱	77,020		2,152,954

Tax Cases

The Bank has no outstanding tax cases in any other court or bodies outside of the BIR as of December 31, 2021 and 2020.

Disclosure Requirements for Taxpayers with Related Party Transactions under RR 34 – 2020

Revenue Regulations (RR) No. 34-2020 prescribes the Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation (TPD) and other Supporting Documents, Amending for this Purpose the Pertinent Provisions of Revenue Regulations (RR) Nos. 19-2020 and 21-2002, as amended by RR No. 15-2010.

The Company is not covered by the requirements and procedures for related party transactions provided under this RR.

Gmail   rbcalbayog wsamar <rbcalbayog.wsamar@gmail.com>

Your BIR AFS eSubmission uploads were received

1 message

eafs@bir.gov.ph <eafs@bir.gov.ph>   Tue, May 31, 2022 at 8:45 AM
To: RBCALBAYOG.WSAMAR@gmail.com
Cc: ROX.JUANERIO@rbcalbayogcity.com

boxbe eafs@bir.gov.ph is not on your Guest List | Approve sender | Approve domain

Hi RURAL BANK OF CALBAYOG CITY, INC.,

Valid files

- EAFS004299390ITRTY122021.pdf
- EAFS004299390AFSTY122021.pdf

Invalid file

- <None>

Transaction Code: **AFS-0-21SMPXRW0N121VZ2QN3Q1P4YV0PWZVRMNN**
Submission Date/Time: **May 31, 2022 08:45 AM**
Company TIN: **004-299-390**

Please be reminded that you accepted the terms and conditions for the use of this portal and expressly agree, warrant and certify that:

- The submitted forms, documents and attachments are complete, truthful and correct based on the personal knowledge and the same are from authentic records;
- The submission is without prejudice to the right of the BIR to require additional document, if any, for completion and verification purposes;
- The hard copies of the documents submitted through this facility shall be submitted when required by the BIR in the event of audit/investigation and/or for any other legal purpose.

This is a system-generated e-mail. Please do not reply.

Reference No : 462200047299871
Date Filed : April 18, 2022 01:21 PM
Batch Number : 0

For BIR Use Only: BCS/ Item:

Republic of the Philippines
Department of Finance
Bureau of Internal Revenue

BIR Form No. **1702-RT** January 2018(ENCS) **Page 1**

Annual Income Tax Return

For Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate

Enter all required information in CAPITAL LETTERS. Mark applicable boxes with an "X". Two Copies MUST be filed with the BIR and one held by the taxpayer.

1702-RT 01/18ENCS P1

1 For: Calendar / Fiscal
2 Year Ended (MM/20YY): 12/2021
3 Amended Return? Yes / No
4 Short Period Return? Yes / No
5 Alphanumeric Tax Code (ATC): IC055 Minimum Corporate Income Tax (MCIT); IC010

Part I - Background Information

6 Taxpayer Identification Number (TIN): 004 - 299 - 390 - 000
7 RDO Code: 087
8 Registered Name *(Enter only 1 letter per box using CAPITAL LETTERS)*: RURAL BANK OF CALBAYOG CITY, INC.
9A Registered Address *(Indicate complete registered address)*: 82 BUGALLON ST. BRGY. CENTRAL CALBAYOG CITY
9B Zipcode: 6710
10 Date of Incorporation/Organization (MM/DD/YYYY):
11 Contact Number: 4111800
12 Email Address: rbcalbayog.wsamar@gmail.com
13 Method of Deductions: Itemized Deductions [Section 34 (A-J), NIRC] / Optional Standard Deduction (OSD) - 40% of Gross Income [Section 34(L), NIRC as amended by RA No. 9504]

Part II - Total Tax Payable *(Do NOT enter Centavos)*

14 Total Income Tax Due (Overpayment) *(From Part IV Item 43)*	467,339
15 Less: Total Tax Credits/Payments *(From Part IV Item 55)*	390,938
16 Net Tax Payable (Overpayment) *(Item 14 Less Item 15) (From Part IV Item 56)*	76,401
Add Penalties	
17 Surcharge	0
18 Interest	0
19 Compromise	0
20 Total Penalties *(Sum of Items 17 to 19)*	0
21 TOTAL AMOUNT PAYABLE (Overpayment) *(Sum of Item 16 and 20)*	76,401

If Overpayment, mark "X" one box only *(Once the choice is made, the same is irrevocable)*
To be refunded / To be issued a Tax Credit Certificate (TCC) / To be carried over as tax credit next year/quarter

We declare under the penalties of perjury, that this annual return has been made in good faith, verified by us, and to the best of our knowledge and belief, is true and correct pursuant to the provisions of the National Internal Revenue Code, as amended, and the regulations issued under authority thereof. (If Authorized Representative, attach authorization letter and indicate TIN)

Signature over printed name of President/Principal Officer/Authorized Representative | Signature over printed name of Treasurer/Assistant Treasurer
Title of Signatory | TIN | Title of Signatory | TIN
22 Number of Attachments: 4

Part III - Details of Payment

Particulars	Drawee Bank/Agency	Number	Date *(MM/DD/YYYY)*	Amount
23 Cash/Bank Debit Memo				0
24 Check				0
25 Tax Debit Memo				0
26 Others *(Specify Below)*				
				0

Machine Validation/Revenue Official Receipts Details *(If not filed with an Authorized Agent Bank)*
Stamp of receiving Office/AAB and Date of Receipt (RO's Signature/Bank Teller's Initial)

BIR Form No. **1702-RT** January 2018(ENCS) Page 2	**Annual Income Tax Return** Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate	1702-RT 01/18ENCS P2

Taxpayer Identification Number (TIN)	**Registered Name**
004 - 299 - 390 - 000	RURAL BANK OF CALBAYOG CITY, INC.

Part IV - Computation of Tax *(Do NOT enter Centavos)*

27 Sales/Receipts/Revenues/Fees	11,144,890
28 Less: Sales Returns, Allowances and Discounts	0
29 Net Sales/Receipts/Revenues/Fees *(Item 27 Less Item 28)*	11,144,890
30 Less: Cost of Sales/Services	596,327
31 Gross Income from Operation *(Item 29 Less Item 30)*	10,548,563
32 Add: Other Taxable Income Not Subjected to Final Tax	3,352,324
33 Total Taxable Income *(Sum of Items 31 and 32)*	13,900,887

Less: Deductions Allowable under Existing Law

34 Ordinary Allowable Itemized Deductions *(From Part VI Schedule I Item 18)*	12,031,532
35 Special Allowable Itemized Deductions *(From Part VI Schedule II Item 5)*	0
36 NOLCO *(only for those taxable under Sec. 27(A to C); Sec. 28(A)(1) & (A)(6)(b) of the tax Code) (From Part VI Schedule III Item 8)*	0
37 Total Deductions *(Sum of Items 34 to 36)*	12,031,532
***OR** [in case taxable under Sec 27(A) & 28(A)(1)]*	
38 Optional Standard Deduction *(40% of Item 33)*	0

39 Net Taxable Income/(Loss) *(If Itemized: Item 33 Less Item 37; If OSD: Item 33 Less Item 38)*	1,869,355
40 Applicable Income Tax Rate	25 %
41 Income Tax Due other than Minimum Corporate Income Tax (MCIT) *(Item 39 x Item 40)*	467,339
42 MCIT Due *(2% of Item 33)*	139,009
43 Tax Due *(Normal Income Tax Due in Item 41 OR the MCIT Due in Item 42, whichever is higher) (To Part II Item 14)*	467,339

Less: Tax Credits/Payments (attach proof)

44 Prior Year's Excess Credits Other Than MCIT	25,624
45 Income Tax Payment under MCIT from Previous Quarter/s	0
46 Income Tax Payment under Regular/Normal Rate from Previous Quarter/s	0
47 Excess MCIT Applied this Current Taxable Year *(From Part VI Schedule IV Item 4)*	365,314
48 Creditable Tax Withheld from Previous Quarter/s per BIR Form No. 2307	0
49 Creditable Tax Withheld per BIR Form No. 2307 for the 4th Quarter	0
50 Foreign Tax Credits, if applicable	0
51 Tax Paid in Return Previously Filed, if this is an Amended Return	0
52 Special Tax Credits *(To Part V Item 58)*	0
Other Credits/Payments *(Specify)*	
53	0
54	0

55 Total Tax Credits/Payments *(Sum of Items 44 to 54) (To Part II Item 15)*	390,938
56 Net Tax Payable / (Overpayment) *(Item 43 Less Item 55)) (To Part II Item 16)*	76,401

Part V - Tax Relief Availment

57 Special Allowable Itemized Deductions *(Item 35 of Part IV x Applicable Income Tax Rate)*	0
58 Add: Special Tax Credits *(From Part IV Item 52)*	0
59 Total Tax Relief Availment *(Sum of Items 57 and 58)*	0

BIR Form No. **1702-RT** January 2018(ENCS) **Page 3**	**Annual Income Tax Return** **Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate**	1702-RT 01/18ENCS P3

Taxpayer Identification Number (TIN)	**Registered Name**
004 - 299 - 390 - 000	RURAL BANK OF CALBAYOG CITY, INC.

Schedule I - Ordinary Allowable Itemized Deductions *(Attach additional sheet/s, if necessary)*

1 Amortizations	0
2 Bad Debts	0
3 Charitable Contributions	0
4 Depletion	0
5 Depreciation	126,321
6 Entertainment, Amusement and Recreation	44,850
7 Fringe Benefits	0
8 Interest	0
9 Losses	0
10 Pension Trust	0
11 Rental	251,700
12 Research and Development	0
13 Salaries, Wages and Allowances	2,522,054
14 SSS, GSIS, Philhealth, HDMF and Other Contributions	371,225
15 Taxes and Licenses	755,994
16 Transportation and Travel	248,907
17 Others (Deductions Subject to Withholding Tax and Other Expenses) *(Specify below; Add additional sheet(s), if necessary)*	
a Janitorial and Messengerial Services	0
b Professional Fees	0
c Security Services	458,759
d OTHER BENEFITS	2,536,501
e DIRECTORS AND COMMITTEE MEMBERS FEE	870,000
f MANAGEMENT AND OTHER PROFESSIONAL FEE	736,074
g LITIGATION	670,610
h INSURANCE	441,099
i OTHERS	1,997,438
18 Total Ordinary Allowable Itemized Deductions *(Sum of Items 1 to 17i) (To Part IV Item 34)*	12,031,532

Schedule II - Special Allowable Itemized Deductions *(Attach additional sheet/s, if necessary)*

Description	Legal Basis	Amount
1		0
2		0
3		0
4		0
5 Total Special Allowable Itemized Deductions *(Sum of Items 1 to 4) (To Part IV Item 35)*		0

BIR Form No. 1702-RT January 2018(ENCS) Page 4	**Annual Income Tax Return** Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate	1702-RT 01/18ENCS P4

Taxpayer Identification Number (TIN)	Registered Name
004 - 299 - 390 - 000	RURAL BANK OF CALBAYOG CITY, INC.

Schedule III - Computation of Net Operating Loss Carry Over (NOLCO)

1 Gross Income *(From Part IV Item 33)*	0
2 Less: Ordinary Allowable Itemized Deductions *(From Part VI Schedule I Item 18)*	0
3 Net Operating Loss*(Item 1 Less Item 2) (To Schedule IIIA, Item 7A)*	0

Schedule IIIA - Computation of Available Net Operating Loss Carry Over (NOLCO) *(DO NOT enter Centavos; 49 Centavos or Less drop down; 50 or more round up)*

	Net Operating Loss		B) NOLCO Applied Previous Year
	Year Incurred	A) Amount	
4		0	0
5		0	0
6		0	0
7		0	0

Continuation of Schedule IIIA (Item numbers continue from table above)

	C) NOLCO Expired	D) NOLCO Applied Current Year	E) Net Operating Loss (Unapplied) *[E = A Less (B + C + D)]*
4	0	0	0
5	0	0	0
6	0	0	0
7	0	0	0
8 **Total NOLCO** *(Sum of Items 4D to 7D) (To Part IV, Item 36)*		0	

Schedule IV - Computation of Minimum Corporate Income Tax (MCIT)

	Year	A) Normal Income Tax as adjusted	B) MCIT	C) Excess MCIT over Normal Income Tax
1	2019	0	296,105	296,105
2	2020	57,779	126,988	69,209
3		0	0	0

Continuation of Schedule IV *(Item numbers continue from table above)*

	D) Excess MCIT Applied/Used in Previous Years	E) Expired Portion of Excess MCIT	**F) Excess MCIT Applied this Current Taxable Year**	G) Balance of Excess MCIT Allowable as Tax Credit for Succeeding Year/s [G = C Less (D + E + F)]
1	0	0	296,105	0
2	0	0	69,209	0
3	0	0	0	0
Total Excess MCIT Applied *(Sum of Items 1F to 3F) (To Part IV Item 47)*			365,314	

Schedule V - Reconciliation of Net Income per Books Against Taxable Income *(attach additional sheet/s, if necessary)*

1 Net Income/(Loss) per books	1,955,858
Add: Non-deductible Expenses/Taxable Other Income	
2 NON-DEDUCTIBLE DONATIONS AND GIFTS	45,514
3 OTHERS	45,719
4 Total *(Sum of Items 1 to 3)*	2,047,091
Less: A) Non-Taxable Income and Income Subjected to Final Tax	
5 NON-TAXABLE INTEREST INCOME	177,736
6	0
B) Special Deductions	
7	0
8	0
9 Total (Sum of Items 5 to 8)	177,736
10 Net Taxable Income/(Loss) (Item 4 Less Item 9)	1,869,355