PACIFIC ACE SAVINGS BANK

STATEMENTS OF FINANCIAL POSITION

PACIFIC ACE SAVINGS BANK
Subic Bay Metropolitan Authority
COMPARATIVE STATEMENT OF FINANCIAL POSITION

	As at December 31	
	2020	2019
ASSETS		
Cash on Hand and in Vault (Note 6.1)	**P 11,341,153**	P 6,140,477
Due from BSP (Note 6.2)	**179,946,565**	30,261,346
Due from Other Banks (Note 6.2)	**300,916,646**	329,887,309
Debt Securities Measured at Amortized Cost, Net (Note 7)	**32,274,649**	13,319,449
Loans & Receivable, Net (Note 8)	**82,141,758**	80,417,837
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 9)	**34,120,020**	20,146,285
Investment Properties, Net (Note 10)	**1,333,784**	1,403,989
Right of Use Asset (Note 21)	**3,197,640**	4,488,881
Other Assets (Note 11)	**4,984,611**	5,040,017
TOTAL ASSETS	**650,256,827**	491,105,590
LIABILITIES & SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 12)	**491,033,588**	364,473,856
Accrued Interest, Taxes and Other Expenses Payable (Note 13)	**465,836**	428,027
Income Tax Payable (Note 23)	**308,740**	319,199
Other Liabilities (Note 14)	**60,749,471**	39,795,203
TOTAL LIABILITIES	**552,557,635**	405,016,285
SHAREHOLDERS' EQUITY		
Share Capital (Note 15)		
Ordinary Share	**68,117,500**	68,117,500
Retained Earnings	**29,581,692**	17,971,802
TOTAL SHAREHOLDERS' EQUITY	**97,699,192**	86,089,302
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**P 650,256,828**	P 491,105,587
BOOK VALUE PER SHARE:	143.43	126.38

See accompanying Notes to Financial Statements.

PACIFIC ACE SAVINGS BANK

STATEMENTS OF COMPREHENSIVE INCOME

PACIFIC ACE SAVINGS BANK
Subic Bay Metropolitan Authority
COMPARATIVE STATEMENT OF COMPREHENSIVE INCOME

	For the Years Ended December 31	
	2020	2019
INTEREST INCOME		
Loans & Receivables (Note 8)	**P 21,031,719**	P 18,414,166
Due from Other Banks (Note 6.2)	**5,338,743**	11,785,863
Debt Securities Measured at Amortized Cost	**735,448**	841,637
TOTAL INTEREST INCOME	**27,105,910**	31,041,666
INTEREST EXPENSE		
Savings Deposits (Note 12)	**3,571,627**	2,951,737
Time Deposits (Note 12)	**129,394**	14,359
TOTAL INTEREST EXPENSE	**3,701,022**	2,966,096
NET INTEREST INCOME	**23,404,889**	28,075,570
PROVISIONS FOR CREDIT LOSSES	**3,092,665**	10,646,922
NET INTEREST INCOME AFTER PROVISION	**20,312,224**	17,428,648
OTHER INCOME (Note 16)	**15,781,767**	18,420,831
TOTAL INCOME BEFORE OPERATING EXPENSES	**36,093,991**	35,849,479
OTHER OPERATING EXPENSE		
Compensation and Fringe Benefits (Note 17)	**8,439,788**	10,981,023
Other Operating Expenses (Note 19)	**7,740,876**	9,803,739
Depreciation and Amortization (Note 20)	**6,025,999**	4,954,539
Taxes and Licenses (Note 25)	**1,387**	45,059
Fees and Commission Expense	**1,837,372**	2,105,274
TOTAL OPERATING EXPENSE	**24,045,421**	27,889,634
NET INCOME BEFORE INCOME TAX	**12,048,569**	7,959,845
INCOME TAX EXPENSE (Note 23)	**753,419**	938,372
NET INCOME AFTER INCOME TAX	**P 11,295,150**	P 7,021,473
EARNINGS PER SHARE	**P 16.58**	P 10.31

See accompanying Notes to Financial Statements.

PACIFIC ACE
SAVINGS BANK

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

PACIFIC ACE SAVINGS BANK
Subic Bay Metropolitan Authority
COMPARATIVE STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
For the Year Ended December 31, 2020 and 2019

	ORDINARY SHARE CAPITAL	RETAINED EARNINGS - FREE		Total
Balance at January 1, 2020	**68,117,500**	**17,971,802**	**P**	**86,089,302**
Issuance of shares	**-**	**-**		**-**
Total comprehensive income for the year	**-**	**11,295,150**		**11,295,150**
Provision and adjustment	**-**	**314,740**		**314,740**
Balance at December 31, 2020	**68,117,500**	**29,581,692**		**97,699,192**
Balance at January 1, 2019	68,117,500	13,244,869		81,362,369
Issuance of shares	-	-		-
Total comprehensive income for the year	-	7,021,473		7,021,473
Provision and adjustment	-	(2,294,540)		(2,294,540)
Balance at December 31, 2019	68,117,500	17,971,802	P	86,089,302

See accompanying Notes to Financial Statements.

PACIFIC ACE SAVINGS BANK

COMPARATIVE STATEMENT OF CASH FLOWS

PACIFIC ACE SAVINGS BANK
Subic Bay Metropolitan Authority
COMPARATIVE STATEMENT OF CASH FLOWS

	For the Years Ended December 31	
	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Income before tax	**P 12,048,569**	P 7,959,845
Adjustments for:		
Provision for Credit Losses on Loans and Receivables	**3,092,665**	10,646,922
Depreciation and Amortization	**6,025,999**	4,954,539
Interest Income	(27,105,910)	(31,041,666)
Income from Sale of ROPA	-	(369,714)
Interest Expense	3,701,022	2,966,096
Operating income before working capital adjustments		
Loans & Receivables	**(4,816,588)**	(39,398,083)
Other Assets	**(1,271,295)**	756,428
Deposit Liabilities	**126,559,732**	79,356,985
Accrued Interest, Taxes & Other Liabilities	**37,809**	235,710
Other Liabilities	**20,954,268**	13,253,937
Cash Generated from Operations		
Interest Received	27,105,910	31,041,666
Interest Paid	(3,701,022)	(2,966,096)
Income Tax Paid	**(763,878)**	(827,550)
CASH GENERATED FROM OPERATING ACTIVITIES	161,867,281	76,569,019
CASH FLOW FROM INVESTING ACTIVITIES		
Sale (Purchase) of Short-term Investment	**-**	40,176,631
Receipts (Payments) on Debt Securities	**(18,955,200)**	(8,149,991)
Recognition of Right of Use Asset	**-**	(5,780,122)
Proceeds from Investment Properties	**-**	1,349,598
Cash payments on Premises, Furniture, & Equipment	**(17,311,587)**	(438,218)
NET CASH PROVIDED/(USED IN) BY INVESTING ACTIVITIES	(36,266,787)	27,157,898
CASH FLOW FROM FINANCING ACTIVITY		
Net Charges to Surplus/Prior Period Adjustments	**314,740**	(2,294,540)
NET CASH USED IN FINANCING ACTIVITY	314,740	(2,294,540)
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	125,915,234	101,432,377
CASH & CASH EQUIVALENTS - BEGINNING	**366,289,132**	264,856,755
CASH & CASH EQUIVALENTS - ENDING	**P 492,204,364**	P 366,289,132

See accompanying Notes to Financial Statements.

PACIFIC ACE SAVINGS BANK
Subic Bay Metropolitan Authority
NOTES TO FINANCIAL STATEMENTS
For the years Ended December 31, 2020 and 2019

1. CORPORATE INFORMATION

PACIFIC ACE SAVINGS BANK was duly registered with the Securities and Exchange Commission (SEC) on November 6, 1998 under SEC Registration No. A199816569. The Bank was granted authority by the Bangko Sentral ng Pilipinas (BSP) to engage in and carry on the general business of a savings/thrift bank, to exercise all the rights, attributes, powers, and privileges together with all the assumption of all duties and obligations of a savings/thrift bank as provided for the Thrift Banking Act of 1995 (Republic Act No. 7906) and other related laws, and to transact and do all matters and things incidental thereto or which may at any time hereafter be usual in connection with the business of a savings or thrift bank.

The Bank is registered with Subic Bay Metropolitan Authority (SBMA) as a Subic Bay Freeport (SBF) enterprise under Republic Act 7227, otherwise known as the bases conversion and development act of 1992. As a SBF registered enterprise the Bank is subject to 5% preferential tax rate on gross entitled to the privileges and benefits provided for under RA 7227 and its implementing rules and regulations such as not limited to tax and duty free importation of raw materials, capital equipment and household and personal items for use and only within SBF Zone. The Bank is 100.00% owned by Filipino Citizens.

On October 9, 2018, SBMA issued Certificate of Registration and Tax Exemption with No. 2001-2044, granting the Bank the rights, privileges, and benefits of a SBF. The Certificate is automatically renewed under Section 23 of the Implementing Rules from the set forth above until October 8, 2021.

The Bank's Board of Directors (BOD) is composed of Three (3) members and two (2) of them are independent directors.

The registered office, which is also its principal place of business, is located at Retail 1, Times Square, Cinema Complex, Subic Bay Freeport Zone, Olongapo City.

Approval of Financial Statements
The accompanying financial statements of the Bank for the year ended December 31, 2020 were authorized for issue by its Board of Directors on April 8, 2021.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The significant accounting policies applied in the preparation of these financial statements are set out separately below or explained in the respective notes to these financial statements. These policies have been consistently applied to the periods presented, unless otherwise stated.

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivate financial instruments, if any, that have been measured at fair value. The financial statements are presented in Philippine peso ("₱") and all values are rounded to the nearest peso except when otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements provide comparative information in respect to previous period. In addition, the Bank presents an additional statement of financial position at the beginning of the earlier period presented when there is retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements. An additional statement of financial position at January 1, 2018 is presented in these financial statements due to retrospective application of certain accounting policies.

Statement of Compliance

The Bank's financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and relative laws, regulations and industry practices applicable to rural banks. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), Interpretations of the Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) which have been approved and adopted by the Financial Reporting Standards Council (FRSC) and adopted by the SEC. Also, the Bank adopted the new Financial Reporting Package (FRP) prescribed by the Bangko Sentral ng Pilipinas (BSP) as per BSP Circular No 512 dated February 3, 2006 which is updated as of May 31, 2019.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial years, except that the Bank has adopted the following new accounting pronouncements beginning January 1, 2020. Adoption of these pronouncements did not have significant impact on the Bank's financial position or performance unless otherwise stated.

New Standards, Amendments, and Interpretations Adopted

Amendments

- Amendments to PFRS 3, Definition of a Business
- Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material
- Amendments to PFRS 9, PAS 39 and PFRS 7, Interest Rate Benchmark Reform
- Amendment to PFRS 16, Covid-19-Related Rent Concessions

Pronouncement issued but not yet effective
The Bank will adopt the following pronouncement when these become effective except as otherwise indicated; the Bank does not expect that the future adoption of these pronouncements will have a significant impact on its financial statements.

Effective beginning on or after January 1, 2021

- PFRS 17, *'Insurance contracts'*
  This standard replaces PFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. PFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Effective beginning on or after January 1, 2022

- *Annual Improvements to PFRS Standards 2018-2020 Cycle issued in August 2020*
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract*
- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds before Intended Use*
- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent ' test for derecognition financial liabilities*
- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to PFRS 17, *Insurance Contracts*

Financial Instruments

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

Initial Recognition and Subsequent Measurement

Financial assets and financial liabilities are recognized in the Statement of Financial Position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Immediately after recognition, an expected credit allowance (ECL) is recognized for financial assets measured at amortized cost.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognizes the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that used only data from observable markets, the difference is recognized as a gain or loss.

b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial Assets

Classification and Subsequent Measurement

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

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

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Bank. The Bank measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

The Bank's cash and cash equivalents, loans receivable and held to maturity financial assets fall in this category of financial instruments

Cash and Cash Equivalents

Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) Cash on Hand Cash on hand represents the total amount of cash in the bank's vault in the form of notes and coins under the custody of the cashier/cash custodian. This is measured at face value. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash and other cash items, unrestricted balances with BSP and due from other banks which are subject to insignificant risk of changes in value. Cash and cash equivalents are highly liquid and readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are valued at face amount. Cash denominated in foreign currency is translated in peso using the closing rate as of the financial date. If a bank or financial institution 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.

Cash on Hand

Cash on hand represents the total amount of cash in the bank's vault in the form of notes and coins under the custody of the cashier/cash custodian. This is measured at face value.

Due from Bangko Sentral ng Pilipinas

This represents the balance of the deposit account in local currency maintained with the Bangko Sentral to meet reserve requirement subject to existing rules and regulations. This is measured at face value.

Due from Other Banks

This represents the balance of the deposit accounts maintained with other resident banks. These are stated in the Statement of Financial Position at their face value. Income on interest bearing deposits are credited to and included in the determination of income in the Statement of Comprehensive Income.

Loans Receivables

Loans receivable account includes loans extended to clients classified as small and medium enterprise loan, real estate loans, other loans, micro finance loans, and agrarian reform and other agricultural loans. Loans receivables are recognized when cash is advanced to borrowers. These are recognized initially at fair value plus transaction costs that are directly attributable to the receivable. These are subsequently measured at amortized costs using effective interest method less provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as "Interest Income" in the Statement of Comprehensive Income. The losses arising from impairment are recognized in profit or loss.

Loans & Discounts

Receivables from customers are stated at the outstanding balance reduced by an allowance for probable loan losses.

Interest income on non-discounted term loan is accrued monthly as earned, except in the case of non-accruing loans.

Unearned discounts are recognized as income over the period for which such discount has been collected using the effective interest method. In accordance with the existing BSP regulations no interest income is accrued on accounts classified as past due.

Under existing BSP regulations, non-accruing loans are those that have been defined as being past due and items in litigations, or those for which, in the opinion of management, collection of interest or principal is doubtful. Interest income on these loans is recognized only to the extent of amount collected. Loans are not classified as accruing until interest and/or principal due are collected and the loans are brought to current or are restructured in accordance with existing BSP regulations and future payments appear assured. Collaterals of restructured loans exceeding ₱1 million shall be revalued by an independent appraiser acceptable to BSP.

Sales Contract Receivable

Sales Contract Receivable (SCR) shall be recorded based on the present value of the installments receivables discounted at the imputed rate of interest. Discount shall be accrued 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 PFRS 15“Revenue”. Provided, furthermore, that SCR shall be subject to impairment provisions of PFRS 9.

SCRs that meet all the requirements or conditions enumerated below are considered performing assets:

1. That there has been a down payment of at least twenty percent (20%) of the agreed selling price or in the absence thereof, the installment payments on the principal had already amounted to at least twenty percent (20%) of the agreed selling price;
2. That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one (1) year;
3. That any grace period in the payment of principal shall not be more than two (2) years; and
4. That there is no installment payment in arrear either on principal or interest: Provided, That an SCR account shall be automatically classified “Substandard” and considered non-performing in case of non-payment of any amortization due. Provided, further, that an SCR which has been classified “Substandard” and considered non-performing due to non-payment of any amortization due may only be upgraded/restored to unclassified and/or performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established.

Debt Securities Measured at Amortized Cost

This are non-derivative financial assets with fixed determinable payments and fixed maturities. The Bank classifies its debt securities measured at amortized cost as a financial instruments at amortized cost where it has the positive intention and ability to hold up to maturity and to collect contractual cash flows that are solely payments of principal and interest.

Debt securities measured at amortized cost is measured upon recognition at its fair value plus transaction costs that are directly attributable to the acquisition of the security. After initial measurement, debt securities measured at amortized cost is measured at amortized cost using effective interest method, less any impairment losses. The EIR amortization is included in finance income in the Statement of Comprehensive Income. The losses arising from impairment are recognized in the Statement of Comprehensive Income in finance cost.

Financial assets at fair value through OCI with recycling of cumulative gains or losses

The Bank measures debt instruments at fair value through OCI if both of the following conditions are met:

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

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

As of December 31, 2020 and 2019, the Bank does not have financial assets that are classified under this category.

Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)

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

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

As of December 31, 2020 and 2019, the Bank does not have financial assets that are classified under this category.

Financial Assets at fair value through profit or loss

Financial assets that are held within a different business model other than 'to hold the financial assets to collect contractual cash flows' are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

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

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

As of December 31, 2020 and 2019, the Bank does not have financial assets that are classified as FVTPL

Reclassification
When, and only when, the Bank changes its business model for managing financial assets, it shall reclassify all affected financial assets prospectively from reclassification date. The Bank shall not restate any previously recognized gains, losses or interest.

If the Bank reclassifies a financial asset from amortized cost into FVTPL, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

If the Bank reclassifies a financial asset from amortized cost into FVOCI, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. The EIR and the measurement of expected credit losses are not adjusted as a result of reclassification.

If the Bank reclassifies a financial asset from FVTPL into amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

If the Bank reclassifies from FVTPL into FVOCI, the financial asset continues to be measured at fair value.
If the Bank reclassifies a financial asset from FVOCI into amortized cost, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The EIR and the measurement of expected credit losses are not adjusted as a result of reclassification.

If the Bank reclassifies as financial assets from FVOCI into FVTPL, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as reclassification adjustment at the reclassification date.

Financial Liabilities

Classification and Measurement

A financial liability is any liability that is:

a. A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or

b. Contract that will or may be settled in the entity's own equity instruments and is:
   i. A non-derivative for which the entity is or may be obliged to deliver a favorable number of the entity's own equity instruments; or
   ii. A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Initially, financial liabilities are measure at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated financial liability at fair value through profit or loss.

In both the current and prior period, financial liabilities subsequently measured at amortized cost using effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in the Statement of Comprehensive Income (other than derivative financial instruments that are designated and effective as hedging instruments). No reclassification shall be made to financial liabilities.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the Statement of Comprehensive Income are included within finance cost or finance income

The Bank's financial liabilities include deposit liabilities and other payables arising from contractual obligations (except for tax related liabilities and retirement benefit obligations).

Deposit Liabilities

The deposit liability account includes savings deposits and term deposits. Savings deposits are interest bearing or non-interest bearing and are withdraw-able upon presentation of properly accomplished withdrawal slip and passbook. Term deposits refer to interest-bearing deposits with specific maturity dates and evidenced by certificate issued by the Bank.

Accrued Expenses and Other Liabilities

These refer to obligations already incurred by the Bank which are not yet paid as of the balance sheet date. These are normally measured at actual costs.

Dividends distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank's Board of Directors and subject to the requirements of Section 124 of the Manual Regulations for Banks (MORB) December 2018 Edition

As of December 31, 2020 and 2019, the Bank has not designated any financial liabilities upon initial recognition as at FVTPL

Classification as Debt or Equity Instruments

Debt and equity instruments issued by the Bank are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instruments.

Equity Instruments

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

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Compound Instruments

The component parts of compound instruments (convertible notes) issued by the Bank are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium or other equity. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings or other equity. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the EIR method.

Other Payables arising from contractual obligations

Other Payables arising from contractual obligations include accounts payable, lease liabilities and other accrued payables excluding those pertaining to obligations as mandated by law such as taxes payable, SSS payables and the like. These other payables qualifying into the definition of financial liabilities under PFRS 9 are subsequently measured at the expected settlement amounts. The short-term nature of such payables renders the effect of discounting to be immaterial.

Borrowing Cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period or time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the Statement of Comprehensive Income in the period in which they are incurred.

Derecognition of Financial Instruments

Financial Assets
The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party and meets the qualification parameters for derecognition.

The Banks had transferred a financial asset if, and only if, it either transfers the contractual rights to receive the cash flows of the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients. When the Bank retains the contractual rights to receive the cash flows of a financial assets but assumes a contractual obligation to pay those cash flows, the Bank treats the transaction as a transfer of financial asset if the following conditions are met:

a) The Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from original asset;
b) The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security as security to the eventual recipients for the obligation to pay them cash flows; and
c) The Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay

Where the Bank has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred the control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could required to repay.

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

Impairment of Financial Instruments
At each reporting date, the Bank measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instruments has increased significantly since initial recognition.

If at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The Bank recognizes in the Statement of Comprehensive Income the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date. Loss allowance for financial assets at FVOCI are recognized in other comprehensive income and does not reduce the carrying amount of the financial asset in the Statement of Financial Position.

The Bank shall measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables or contract assets that result from transactions that are within the scope of PFRS 15.

The Bank measures expected credit losses of a financial instrument in a way that reflects:

a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b) The time value of money; and
c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect expected collectability of the future cash flows of the instruments.
In applying this forward-looking approach, a distinction is made between:

i. financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
ii. financial instruments that have not deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Bank shall directly reduce the gross carrying amount of a financial asset when the Bank has no reasonable expectations of recovering a financial asset on its entirety or a portion thereof. A write-off constitutes a derecognition event.

Restructured Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement or new loan conditions. Once the terms have been recognized, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in Statement of Comprehensive Income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there's an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of the business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank shall not offset the transferred asset and the associated liability.

Other Assets

Other assets represent residual accounts which were not classified as a separate line item in the Financial Reporting Package (FRP) - Manual of Accounts issued by the Bangko Sentral ng Pilipinas.

Premises, Furniture, Fixtures and Equipment's

Premises, furniture, fixtures, and equipment except land, are carried at cost less accumulated depreciation and amortization and any impairment value. Land is stated at cost less any impairment value.

The initial cost of premises, furniture, fixtures and equipment's comprises its purchase price including import duties, borrowing costs (during the construction period), and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes the cost of replacing the part of such asset when the recognition criteria are met and the estimated cost of dismantling and removing the asset and restoring the site.

Expenditures incurred after the premises, furniture, fixtures, and equipment have been put into operation, such as repairs and maintenance, are normally charged against income in the period the costs are incurred. In situations where it can be clearly determined that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs.

When major improvement is performed, its cost is recognized in the carrying amount of the premises, furniture, fixtures, and equipment as a replacement if the recognition criteria are satisfied.

Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful lives of improvements or the term of the lease, whichever is shorter. Land is not depreciated.

The estimated useful lives of Bank Premises, Furniture, Fixtures and Equipment are as follows:

Buildings	25 years
Furniture and fixtures	1 – 10 years
Transportation equipment	5 years
Information Technology Equipment	1 years

The useful lives and depreciation or amortization method are being reviewed by the Bank periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of premises, furniture, fixtures, and equipment. The residual value, if any, is also reviewed and adjusted if appropriate, at each balance sheet date.

Fully depreciated assets are retained in the accounts at one peso (₱ 1.00) net value until they are no longer in use and no further charge for depreciation is made with respect to those assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the account and any resulting gain or loss are reflected in the income for the period. Any disposal or deletion of property and equipment from the Bank's book of accounts should be approved by the management.

Investment Properties

The Bank's investment properties comprise of acquired assets in settlement of loans. Investment properties held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business or for administrative purposes.

In accounting for investment properties, the Bank considers the provision under Section 382 of the MORB (December 2018 Edition). Real and Other Properties Acquired (ROPA) in settlement of loans through foreclosure or dation in payment are booked under investment properties:

a. Upon entry of judgment in case of judicial foreclosure;
b. Upon execution of the Sheriff's Certificate of Sales in case extrajudicial foreclosure; and
c. Upon notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

ROPA are booked initially at the carrying amount of the loan (i.e. outstanding loan balance adjusted for any unamortized premium discount less allowance for credit losses computed based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PFRS 9 provisioning requirements) plus transaction cost incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property: Provided, that the carrying amount of ROPA exceed P5,000,000, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

Subsequent to initial recognition, depreciable items of ROPA are carried at cost less accumulated depreciation and any impairment losses.

ROPA are derecognized when it has either been disposed of or permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of ROPA is recognized in the Statement of Comprehensive Income in the year of retirement or disposal.

Transfers are made to ROPA when there is a change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending construction or development. Transfers are made from ROPA when, and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view sell.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets.

The Bank assesses impairment on assets whenever events changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

a. Significant underperformance relative to expected historical or projected future operating results;
b. Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
c. Significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets.

The Bank discloses the fair values of its investment properties in accordance with PAS 40.

Up to the date when an owner-occupied property becomes an investment property carried at fair value, the Bank depreciates the property and recognizes any impairment losses that have occurred. The Bank treats any difference at the date between the carrying amount of property as follows:

a. Any resulting decrease in the carrying amount of the property is recognized in the Statement of Comprehensive Income. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is recognized in other comprehensive income and reduces revaluation surplus within equity.
b. Any resulting increase in the carrying amount is treated as follows:
    i. To the extent that the increase reverses a previous impairment loss for that property, the increase is recognized in Statement of Comprehensive Income. The amount recognized in Statement of Comprehensive Income does not exceed the amount needed to restore the carrying amount that would have been determined (net depreciation) had no impairment loss been recognized.
    ii. Any remaining part of the increase is recognized in other comprehensive income and increases the revaluation surplus within equity. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to general fund. The transfer from revaluation surplus to general fund is not made through profit or loss.

Intangible Assets

An intangible asset pertains to acquired information technology software capitalized on the basis of the cost incurred to acquire and bring to use the specific software. This asset is stated at historical cost less amortization. However, costs for licenses incurred for maintaining the software are charged to operations. Costs that are directly attributable to the development phase of new customized software for information technology and telecommunications systems are recognized as intangible assets provided they meet the following recognition requirements:

- Demonstration of technological feasibility of the prospective product for internal use or sale;
- The intangible asset will generate probable economic benefits through internal use or sale;
- Sufficient technical, financial and other resources are available for completion; and
- The intangible asset can be reliably measured.

Intangible assets are subject to impairment testing. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install specific software.

Amortization on other computer software is provided on a straight-line method over the estimated useful lives of 5 years.

Impairment of Non-Financial Assets

At each reporting date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exist or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. Where carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing in use, the estimated future cash flows are discounted to its present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Equity

Share Capital

Share Capital is measured at par value for all shares issued and outstanding. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed capital stock is reported in equity less the related subscription receivable not currently collectible. Capital stock consists of common and preferred. Preferred stocks are (a) cumulative, (b) non-voting, and (c) non-redeemable.

Subscribed common stock is recognized at subscribed amount net of subscription receivable.

Subscriptions receivable pertains to uncollected portion of subscribed stocks. The Bank accounted for the subscription receivable as a contra equity account.

Retained Earning

Retained earnings represents the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Dividends

Cash dividends are recognized as liability and deducted from the equity when approved by the Board of Directors (BOD) while stock dividends are deducted from equity when approved by BOD and stockholders. Dividends for the year that are approved after the reporting date are dealt with as subsequent events. Stock issuance costs are accounted for as deduction from equity.

Earnings per Share

Earnings per share (EPS) is computed by dividing net income by the weighted average number of ordinary shares outstanding during the year with retroactive adjustments applicable, if any, to preference shares.

Book Value per Share

The book value per common share is derived from the total stockholders' equity net of preferred shares and dividends (for cumulative shares) divided by the total number of ordinary shares outstanding during the year.

Deposit for Stock Subscription

Deposit for stock subscription (DSS) represents payments made on subscription of shares which cannot be directly credited to ‘Preferred stock’ or ‘Common stock’ pending registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. In accordance with SEC Financial Reporting Bulletin No. 006 issued in 2012 and Section 123 of the MORB, the Bank does consider a deposit for future subscription as an equity instrument unless all of the following elements are present.

a) The deposit for stock subscription meets the definition of an equity instrument under Philippine Accounting Standards (PAS) 32 Financial Instruments: Presentation such that the deposit for stock subscription shall not be interest-bearing nor withdrawable by the subscribe; (b). The unissued authorized capital stocks of the Bank are insufficient to cover the amount of shares classified as deposits for future shares subscriptions; (c). the entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; (d). an application for the approval of the increase in capital stock has been presented for filing or filed with the SEC and BSP and (e). the bank must have obtained approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person, natural or juridical, or by one group of persons as provided in Sec. 122 (Transactions involving voting shares of stocks, Item "b"), if applicable

DSS that does not meet the foregoing provisions is treated as a financial liability.

As of December 31, 2020 and 2019, the Bank has no DSS recorded.

Revenue Recognition
The Bank derives revenue from interest income, loan fees and service charges, interest income from bank deposits, and other income over time and at a point in time.

The Bank primarily derives its revenue from interest income on loans. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those goods or services. The Bank assesses its revenue arrangements against specific criteria in order to determine whether it is acting as principal or as an agent. The Bank is acting principal in its revenue arrangements to its customers, revenue is recognized on a gross basis. However, if the Bank is acting as an agent to its customers, only the amount of net commission retained is recognized as revenue.
The following specific recognition criteria must also be met before revenue is recognized:

Revenue within the scope of PFRS 15:

Loan Fees and Service Charges
Loan fees directly related to acquisition and origination of loans are included in the cost of receivables and are amortized using the effective interest rate method over the term of the loan. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower.

Revenue outside the scope of PFRS 15:

Interest Income

Interest on Loans
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 is already past due.

The Bank shall only charge interest based in the outstanding balance of a loan at the beginning of an interest period. For a loan where the 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.

Interest Income on Bank deposits and Debt Securities measured at Amortized Cost
Interest on bank deposits and held-to-maturity financial assets are recognized using the accrual method.

Other Income
Other income arising from litigation, service charges, membership fee, rental income and others. Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

Cost and Expense Recognition
Cost and expense are decrease in economic benefits in the form of decreases in assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are received or when the expense is incurred.

Other Expense
Interest expense for financial liabilities is recognized in profit or loss on accrual basis using EIR of the financial liabilities to which they relate.

Interest Expense
Other expenses encompass losses as well as expenses that arise in ordinary course of business of the Bank. Other expenses are recognized when incurred.

Leases

Lessee Accounting
Finance Lease - PFRS 16 provides that at the commencement date, a lessee shall recognize a right of use asset and a lease liability. This simply means that a lessee is required to initially recognize a right of use asset for the right to use the underlying asset over the lease term and a lease liability for the obligation to make payments. All leases shall be accounted for by the lessee as finance lease under the new lease standard.

Initial Measurement of right of use asset
A right of use asset is defined as an asset that represents the right of a lessee to use an underlying asset over the lease term in a finance lease.

The cost of right of use asset comprises:
a. The present value of lease payments
b. Lease payments made to lessor such as lease bonus, less any lease incentive received
c. Initial direct costs incurred by the lessee
d. Estimate of cost of dismantling and restoring the underlying asset for which the lessee has a present obligation.

Subsequent measurement of right of use asset
The lessee shall measure the right of use asset applying the cost model. To apply the cost model, the lessee shall measure the right of use asset at cost less any accumulated depreciation and impairment loss.
Presentation of right of use asset
The bank presented the right of use asset as separate line item as noncurrent asset in the statement of financial position.

(As an alternative, the lessee may include the right of use asset in the appropriate line item within which the corresponding underlying asset would be presented if owned.)

Depreciation of right of use asset
The lessee shall apply normal depreciation policy for right of use asset.

PFRS 16 provides that the lessee shall depreciate the right of use asset over the useful life of the underlying asset under the following conditions:

a. The lease transfers ownership of the underlying asset to the lessee at the end of the lease term.
b. The lessee is reasonably certain to exercise a purchase option.

If there is no transfer of ownership to the lessee or if the purchase option is not reasonably certain to exercised, the lessee shall depreciate the right of use asset over the shorter between the useful life of the asset and the lease term.

Measurement of Lease Liability
The lessee shall measure the lease liability at the present value of lease payments.
The lease payments shall be discounted using the interest rate implicit in the lease desired by the lessor.
If the implicit interest rate cannot be readily determined, the incremental borrowing rate of the lessee is used.

Components of lease payments

a. Fixed lease payments or periodic rental.
b. Variable lease payments.
c. Exercise price of a purchase option if the lessee is reasonably certain to exercise the option.
d. Amount expected to be payable by the lessee under a residual value guarantee.
e. Termination penalties if the lease term reflects the exercise of a termination option.

Operating lease model for lessee
PFRS 16 provides that a lessee is permitted to make an accounting policy election to apply the operating lease accounting and not recognize an asset and lease liability in two optional exemptions.

a. Short-term lease
b. Low value lease

Lessor Accounting
PFRS 16 provides that a lessor shall classify leases as either an operating lease or a finance lease.

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract

Under PFRS 16, any of the following situations would normally lead to a lease being classified as a finance lease:

a. The lease transfers ownership of the underlying asset to the lessee at the end of the lease term.
b. The lessee has an option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable. At the inception of the lease, it is reasonably certain that the option will be exercised.
c. The lease term is for the major part of the economic life of the underlying asset even if title is not transferred. Under GAAP, a “major part” means at least 75% of the economic life of an asset.
d. The present value of the lease payments amounts to substantially all of the fair value of the underlying asset at the inception of the lease. Under GAAP, “substantially all” means at least 90% of the fair value of the underlying asset.

Employee Benefits

a. Short term benefits
The Bank provides short term benefits to its employees in the form of salaries and wages, 13th month pay, contributions to SSS/PHIC/HDMF and other short term employee benefits and are presented as part of the operating expenses as compensation and fringe benefits-employees.

b. The Bank has a non-contributory defined benefit retirement plan covering all of its regular employees. The Bank's retirement benefit costs is not accounted for using the projected unit actual actuarial valuation method as prescribed by PAS 19, but determined by observing the minimum legal requirements as stated RA 7641. No significant assumption was used by the Bank that would generally affect the recognized expenses and recorded obligation in the future period. Annually, the Bank assesses the sufficiency of the recorded retirement benefit liability. Any increase or decrease thereto is adjusted through the Bank's Statement of Comprehensive Income.

Income Taxes

Current tax
Current tax assets and current tax 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 reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences with exceptions. Deferred tax assets are 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 carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carry forward of unused excess MCIT over RCIT and unused NOLCO can be utilized.

Deferred 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, affects neither the accounting income nor taxable income or loss.

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

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

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

Current income tax and deferred income tax relating to items recognized directly in equity is recognized in OCI, and not in profit or loss.

Related Party Relationships and 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. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

Provisions
Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available on balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

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

In those cases, where the possible outflow of economic resources as a result of present obligation is considered improbable or remote, or the amount to be provided cannot be measured reliably, no liability is recognized in the financial statements. Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence not recognized in the financial assets.

Contingencies
Contingent liabilities are not recognized in the financial statements but they are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an outflow of economic benefit is probable.

Events after Reporting Date
Post-year-end events up to the date of approval of the BOD of the financial statements that provide additional information about the Bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed in the notes when material to the financial statements.

On March 26, 2021, President Rodrigo Roa Duterte signed into law Republic Act No. 11534 which is now known as the CREATE Act wherein CREATE stands for Corporate Recovery and Tax Incentive for Enterprises.

The CREATE Act is the second package in the Comprehensive Tax Reform Program (CTRP) of the Duterte Administration with the TRAIN Law (Tax Reform for Acceleration and Inclusion) under Republic Act No. 10963 taking effect last January 1, 2018 as the initial package.

The CREATE Act provides tax reduction and relief measures to corporations and also provides for the modernization and rationalization of fiscal incentives granted to investors thereby making the country more competitive in attracting investors and stimulating economic recovery in the face of the COVID pandemic.

Among the salient features of the CREATE Act are the following:

a. Reduction of Corporate Income Tax rate from 30% to 20% for domestic corporations with taxable income not exceeding P5M and total assets not exceeding P100M excluding land on which the entity's office, plant and equipment are situated or otherwise 25% if the said threshold is not met effective July 1, 2020 to June 30, 2023.
b. Reduction of Corporate Income Tax rate of domestic and foreign corporations from 30% to 25% effective July 1, 2020
c. Reduction of Minimum Corporate Income Tax (MCIT) rate from 2% to 1% effective July 1, 2020 to June 30, 2023
d. Repeal of Improperly Accumulated Earnings Tax (IAET)
e. Repeal of 10% Special Income Tax for Regional Operating Headquarters (ROHQ) effective January 1, 2022
f. Tax Exemption of foreign sourced dividends of domestic corporations subject to certain conditions
g. Clarification on types of reorganizations covered by tax free exchanges

With the above provisions of the CREATE Act, the Income Tax Rate (ITR) and Minimum Corporate Income Tax (MCIT) of the Bank are reduced to 25% and 1% respectively from July 1, 2020 to December 31, 2020. Adjustments for the reduced Corporate Income Tax rate provided by the CREATE Act for the period of July 1, 2020 to December 31, 2020 shall be made accordingly subject to the implementing rules and regulations of the CREATE Act.

No material financial impact to the Bank arising from the provisions of the CREATE Act as of December 31, 2020 and there are no other events after the reporting date that were identified to provide evidence of conditions or are indicative of conditions that would have any material financial impact to the Bank.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities, if any. Future events may occur which will cause the judgments used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments 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 on-going 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 revisited 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.

Judgments

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

a. *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.

b. *Determination of Functional currency*

PAS 21, the effects of Changes in Foreign Exchange Rates requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

b.1. The currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);

b.2. The currency in which funds from financing activities are generated; and

b.3. The currency in which receipts from operating activities are usually retained.

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

c. *Recognition of Provision and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are presented in the Notes to the Financial Statements.

d. *Classification of Acquired Properties and Fair Value Determination of Non-current Assets Held for Sale and Investment Property*

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

Estimates

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

a. *Determination of Fair Values of Financial Assets and Liabilities*

PFRS requires certain financial assets and liabilities to be carried and disclosed at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e. foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Bank utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would directly affect the Bank's statement of comprehensive income and statement of changes in equity.

b. *Allowance for Credit Losses*

The allowance for credit losses, which includes both specific and general loan loss reserve represents management's estimate of probable losses inherent in the portfolio, after considering the prevailing and anticipated economic conditions, prior loss experience, estimated recoverable value based on fair market values of underlying collaterals and prospect of support from guarantors, subsequent collections and evaluations made by the BSP. The BSP observes certain criteria and guidelines in establishing specific loan loss reserves for classified loans and other risk assets a provided under Sec. 143 and Appendix 15 of the Manual of Regulations for Banks.

Individually assessed loans and other credit accommodations (which include other credits such as accounts receivables, sales contract receivables, accrued interest receivables and advances):

Loans and other credit accommodation with unpaid principal and/or interest is being classified and provided with allowance for credit losses (ACL) based on the number of days missed payments as follows:

For unsecured loans and credit accommodations:

Number of days Unpaid/with missed payments	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
180 days and over	Loss	100%	3

For secured loans and other credit accommodations:

Number of days Unpaid/with missed payments	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 1 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%			

Provided that where the quality of physical collateral or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances are treated as if unsecured.

Loans and other credit accommodations that exhibit the characteristics for classified account is being provided with allowance for credit losses as follows: Classified Loans

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3*
Substandard – Unsecured	25%	2 or 3*
Doubtful	50%	3
Loss	100%	3
*The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).		

Unsecured loans and other credit accommodations classified as "substandard" in the last two (2) internal credit reviews which have been continuously renewed or extended without reduction in principal and is not in process of collection, is downgraded to "doubtful" classification and provided with 50% allowance for credit losses. Loans and other credit accommodations under litigation which have been classified as "pass" prior to litigation process is classified as 'substandard" and provided with 25% ACL.

Loans and other credit accommodations that were previously classified as "pass" but were subsequently restructured shall have a minimum classification of "especially mentioned" and provided with a 5% ACL, except for loans which are considered non-risk under existing laws, rules and regulations.

have a minimum classification of "especially mentioned" and provided with a 5% ACL, except for loans which are considered non-risk under existing laws, rules and regulations.

Collectively Assessed Loans and Other Credit Accommodations which includes microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other types of loan which fall below the Bank's materiality threshold for individual assessment:

Current "pass" loans and other credit accommodations is provided with ACL based on the number of days of missed payments as follows:

For unsecured loans and other credit accommodations:

Number of days Unpaid/with missed payments	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

For secured loans and other credit accommodations:

No. of Days Unpaid/With Missed Payments	Classification	Allowance for Credit Losses (ACL)		Stage
		Other types of collateral	Secured by real estate	
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

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances is treated as if these are unsecured. Unclassified loans and receivables-General loan loss provision.

For unclassified loans:	
Unclassified restructured loans	5% of the borrower's outstanding loan
Unclassified other than restructured	1% of the borrower's outstanding loan

Outstanding loans that were already subjected to specific provisioning were no longer included in the general loan loss provisioning as shown above.

Other Risk Assets

Other risk assets such as accounts receivable are also given allowance after considering the nature of the transaction and the degree of collectibles of the accounts.

Provisions for losses (expense account) on the above cited risk assets are determined by the required allowance at the end of the year less the beginning allowance for a particular year adjusted by write-off and recovery, if any.

c. *Useful lives of Bank Premises, Furniture, Fixtures & Equipment*

The useful lives of Bank Premises, Furniture, Fixtures and Equipment are estimated based on the period over which these assets are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of Bank Premises, Furniture, Fixtures and Equipment are reviewed periodically and are updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the Bank Premises, Furniture, Fixtures and Equipment. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

There were no changes in the estimated useful lives of Bank Premises, Furniture, Fixtures and Equipment.

d. *Useful life of Depreciable Investment Property*

The assumptions and estimates used by the Bank in the useful life of Investment Property are made to objectively determine the productivity or use of the assets. The BSP however in its Circular 494 provided that Investment Property-building and Investment Property-Other Non-Financial Assets specifically those that were accounted for as Investment Property under PAS 40 shall be depreciated only for a period of not more than 10 and 3 years respectively reckoning from the date of foreclosure. Thus, the lower between the estimate of the Bank and BSP regulation shall prevail.

e. *Determination of Impairment of Non-financial Assets*

An impairment review should be performed when certain impairment indicators are present.

Determining the value in use of Bank Premises, Furniture, Fixtures and Equipment which requires 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 are impaired.

Any resulting impairment loss could have a material adverse impact on the Bank's financial position and financial performance

f. *Recognition of Retirement Costs*

The determination of the obligation and cost for pension and other retirement benefits is dependent on the selection of certain assumptions used by an actuary in calculating such amounts. Those assumptions include among others, discount rates and salary rate increase. Actual results that differ from the assumptions generally affect the recognized expense and recorded obligation in such future periods. While the Bank believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

g. *Recognition of Deferred Tax Assets*

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which the deferred tax assets can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's principal financial instruments consist of cash and cash equivalents, receivables and payables which arise from operations, and long term investments. The Bank's activities are principally related to the profitable use of financial instruments. Risks are inherent in these activities but are managed by the Bank through a rigorous, comprehensive and continuous process of identification measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits, process controls and monitoring, and independent controls. The Bank has placed due importance to expanding and strengthening its risk management process and considers it as a vital component to the Bank's continuing profitability and financial stability. Central to the Bank's risk management process is its adoption of a risk management program intended to avoid unnecessary risks, manage and mitigate unavoidable risks and maximize returns from taking acceptable risks necessary to sustain its business validity and good financial position in the market.

The inherent risks which can arise from the Bank's financial instruments are credit risk, market risk (i. e. interest rate risk, currency risk and price risk) and liquidity risk. The Bank's risk management objective is primarily focused on controlling and mitigating these risks. The Board of Directors reviews and agrees on policies for managing each of these risks and are summarized as follows:

Credit Risk

Credit risk is the risk of financial loss due to the other party's failure to discharge an obligation cited in a binding financial instrument. The Bank faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers and enters into either market-traded or over-thecounter derivatives, through implied or actual contractual agreements. The Bank manages the level of credit risks it accepts through comprehensive credit risk policy setting assessment and determination of what constitutes credit risk for the Bank; setting up exposure limits by each counterparty or group of counterparties, geographical and industry segments; guidelines on obtaining collateral guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2020 and 2019:

2020

	Loans and Receivables	Due from BSP and Other Banks	Debt Securities Measured at Amortized Cost	Total
Agriculture, Forestry and Fishing	P 21,995,925	P -	P -	P 21,995,925
Wholesale and retail trade	21,938,973			21,938,973
Financial Institutions		205,188,352		205,188,352
Government		275,674,860	32,274,649	307,949,509
Construction	8,024,255	-	-	8,024,255
Manufacturing	1,110,256	-	-	1,110,256
Household Consumption	11,666,292	-	-	11,666,292
Arts, Entertainment and Recreational	4,932,742	-	-	4,932,742
Real estate activities	26,509,639	-	-	26,509,639
Total	P 96,178,082	P 480,863,212	P 32,274,649	P 609,315,943

2019

	Loans and Receivables	Due from BSP and Other Banks	Debt Securities Measured at Amortized Cost	Total
Agriculture, Forestry and Fishing	P 17,849,198	P -	P -	P 17,849,198
Wholesale and retail trade	19,944,070	-	-	19,944,070
Financial Institutions	-	327,532,016	-	327,532,016
Government		32,616,639	13,319,449	45,936,088
Construction	16,226,641	-	-	16,226,641
Manufacturing	5,066	-	-	5,066
Household Consumption	10,307,010	-	-	10,307,010
Real estate activities	27,029,509	-	-	27,029,509
Total	P 91,361,494	P 360,148,655	P 13,319,449	P 464,829,598

- High grade – These are financial assets which have a high probability of collection or are invested or deposited with reputable financial institutions. The counterparty has the apparent ability to satisfy its obligation and the securities on the receivables are readily enforceable.
- Standard grade –These are financial assets where collections are probable due to the reputation and the financial ability of the counterparty to pay but with experience of default.

The tables below show the credit quality per class of financial assets (gross of allowance for credit and impairment losses) as at December 31, 2020, and 2019.

2020

	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	P 179,946,565	P -	P -	P -	P 179,946,565
Due from other banks	300,916,646	-	-	-	300,916,646
Debt Securities	32,274,649	-	-	-	32,274,649
Loans Receivable	71,551,701	-	11,405,105	13,221,276	96,178,082
Account Receivable	5,454,618	-	-	-	5,454,618
Accrued Interest Receivable	-	-	-	-	-
	P 590,144,180	P -	P 11,405,105	P 13,221,276	P 614,770,561

2019

	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	P 30,261,345	P -	P -	P -	P 30,261,345
Due from other banks	329,887,310	-	-	-	329,887,310
Debt Securities	13,319,449				13,319,449
Loans Receivable	64,098,602	2,300,941	14,652,527	10,309,424	91,361,494
Account Receivable	5,547,327	-	-	-	5,547,327
Accrued Interest Receivable	1,882,487	-	-	-	1,882,487
	P 444,996,520	P 2,300,941	P 14,652,527	P 10,309,424	P 472,259,412

Past due but not impaired loans and receivable and investment securities

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

Loans with renegotiated terms

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

As of December 31, 2020 and 2019, the Bank has no financial assets whose terms have been renegotiated.

Impaired Loans and receivable and investment securities

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

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, and deposit hold outs over asset. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is assessed to be impaired or during re-loan of the borrower. Collateral usually is not held against investment securities and no such collateral was held as of December 31, 2020 and 2019.

It is the Bank's policy to dispose foreclosed properties acquired in an orderly fashion. The proceed of the sale of the foreclosed asset classified as either "Investment properties" or "Asset held for sale" are used to reduce or repay the outstanding claim.

Aging analysis of past due but not impaired loans and receivables

The following tables show the total aggregate amount of loans and receivables that are contractually past due but not considered impaired per delinquency bucket as at December 31, 2020 and 2019.

	2020		
	less than 90 days	more than 90 days	Total
Receivable from customers:			
Loans receivable	P -	P 24,626,381	P 24,626,381

	2019		
	less than 90 days	more than 90 days	Total
Receivable from customers:			
Loans receivable	P 5,763,861	P 21,499,031	P 27,262,892

Market Risk

Market risk is the risk of loss that may result from the changes in price of a financial product. The value of a financial product may change as a result of changes in interest rates (currency risk) and market prices (price risk). Interest rate risk is the risk that the value of financial instrument will fluctuate because of changes in market interest rates, Currency risk on the other hand is the risk that the value of instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Bank structures levels of market risk it accept through a market risk policy such as (a) determining what constitutes market risk for the Bank; (b) establishing basis to be used to fairly value financial assets and liabilities; (c) asset allocation and portfolio limit structure; (d) diversification benchmarks by type of instrument; (e) setting out the exposure limits by each counterparty or group of counterparties; (f) reporting of market risk exposures, (g) monitoring compliance with market risk policy and (h) reviewing of market risk policy for pertinence and changing environment.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial statements. 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. Also, in order to manage its net interest margin, the Bank places its excess funds in high yield investments and other short-term time deposits. The Bank is not exposed to interest rate risk since its financial assets and financial liabilities are subject to repricing. As of December 31. 2020 and 2019, the Bank's exposure to interest rate risk is minimal.

The Bank's receivables earn interest rates ranging from 1.00% to 3.00% in 2020 and 2019, respectively. The shortest term of loan is three (3) months while the longest term is fifteen (15) years.

For the year 2020 and 2019, savings deposit carries an interest rate of 0.5% to 1.50%. The time deposit carries interest rate ranging from 1.00% to 3.50%, for the year 2020 and 2019.

Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of the financial instruments will fluctuate because of changes in interest rates. The Bank's cash equivalents are mostly invested in fixed interest rates on its duration and therefore exposed to fair value interest rate risk but not to cash flow interest rate risk.

Loan receivables and interest bearing liabilities are sized as to interest rate and maturity to make a reasonable analysis of the degree of risk associated with lending and borrowings.

Cash Flow Interest Rate Risk
This is the risk that future cash flows of the financial instrument will fluctuate because of changes in market interest rates. In the case of a floating rate debt instrument. Fluctuation results in a change in effective interest rate of a financial instrument usually without a corresponding change in its fair value.

Liquidity Risk
Liquidity risk is the risk of not being able to meet funding obligations such as the repayment of liabilities or payment for asset purchases. To ensure sufficient liquidity, the Bank analyzes its net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. It has a set of internal limits which allocates a portion of liabilities into cash, marketable securities and other liquid assets. A balance loan portfolio that is repriced on a regular basis is maintained. Deposits with banks are made on a short-term basis.

Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. In this regard, the Bank adopted measures to limit, determine, and control its liquidity risks.

The tables below summarize the maturity profile based on contractual undiscounted cash flows of the Bank's financial liabilities and related financial assets used for liquidity purposes:

	2020				
	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities:					
Deposit liabilities	P 486,382,820	P 4,198,941	P 451,827	P -	P 491,033,588
Accrued expenses	465,836	-	-	-	465,836
Accounts payable	3,429,422	-	-	-	3,429,422
Total Financial Liabilities	490,278,077	4,198,941	451,827	-	494,928,846
Financial Assets:					
Cash and other cash items	11,341,153	-	-	-	11,341,153
Due from BSP	-	-	-	179,946,565	179,946,565
Due from other banks	300,916,646	-	-	-	300,916,646
Debt Securities	10,000,000	22,274,649	-	-	32,274,649
Loans and receivable	13,072,127	855,692	3,902,941	65,126,046	82,956,806
Accounts receivable	5,454,618	-	-	-	5,454,618
Accrued Interest	-	-	-	-	-
Total Financial Assets	340,784,544	23,130,341	3,902,941	245,072,612	612,890,438
Liquidity Position (Gap)	P (149,493,534)	P (130,562,134)	P (127,111,020)	P 117,961,592	P 117,961,592

	2019				
	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities:					
Deposit liabilities	P 126,137,567	P 180,399,083	P 11,113,986	P 46,799,757	P 364,450,393
Accrued expenses	428,027	-	-	-	428,027
Accounts payable	1,041,645	128,717	625,651	33,210,576	35,006,589
Total Financial Liabilities	127,607,239	180,527,800	11,739,637	80,010,333	399,885,009
Financial Assets:					
Cash and other cash items	6,140,477	-	-	-	6,140,477
Due from BSP	-	-	-	30,261,345	30,261,345
Due from other banks	329,887,310	-	-	-	329,887,310
Debt Securities	-	-	1,209,725	12,109,725	13,319,450
Loans and receivable	8,831,429	1,557,933	13,009,832	57,652,875	81,052,069
Accounts receivable	5,547,327	-	-	-	5,547,327
Accrued Interest	1,882,487	-	-	-	1,882,487
Total Financial Assets	352,289,030	1,557,933	14,219,557	100,023,945	468,090,465
Liquidity Position (Gap)	P 224,681,791	P 45,711,924	P 48,191,844	P 68,205,456	P 68,205,456

Operational Risks

Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with the Bank's involvement in financial instruments, personnel, technology and infrastructure and external factors other than market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. The Bank's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Risk Management Plan

Governance Framework

The primary objective of governance framework is to establish a risk management function with clear terms of reference and with the responsibility of developing policies on risk management. It also supports the effective implementation of the policies. The policies define the Bank's identification of risks and its interpretation, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

Minimum Liquidity Ratio (MLR)

Minimum Liquidity Ratio (MLR) for Stand-Alone TBs, RBs and Coop Banks. To promote short-term resilience to liquidity shocks, banks shall maintain a stock of liquid assets proportionate to their on and off-balance sheet liabilities. The prudential MLR requirement applies to all TBs, RBs and Coop Banks and QBs that are not subsidiaries of UBs/KBs.

A prudential MLR Minimum requirement of twenty percent (20%) shall apply to banks on an ongoing basis absent a period of financial stress. The liquidity ratio is expressed as a percentage of a bank’s eligible stock of liquid assets to its total qualifying liabilities in accordance with MORB Section 145.

STATEMENTS OF FINANCIAL POSITION

On March 26, 2020, the Monetary Board in its Resolution No. 427.B issues the Memorandum No. M-2020-020 reducing the MLR from twenty percent (20%) to sixteen percent (16%) to address the increasing liquidity risk exposure of the Banks arising from higher demands for funds by depositors, borrowers or both brought by the COVID-19 outbreak the implementation of community quarantine until December 31, 2020.

Minimum Liquidity Ratio (MLR) as of December 31, 2020

		2020		2019	
PART I. MINIMUM LIQUIDITY RATIO (MLR)					
A.	Stock of Liquid Assets	**P 492,204,364**		P 366,289,132	
B.	Qualifying Liabilities	**386,779,141**		297,294,043	
Minimum Liquidity Ratio			**127.26%**		123.21%
PART II. STOCK OF LIQUID ASSETS					
Cash on Hand		**P 11,341,153**		P 6,140,477	
Bank Reserves in the BSP		**179,946,565**		30,261,346	
Deposits in Other Banks		**300,916,646**		329,887,309	
		P 492,204,364		P 366,289,132	

				2020	2019
PART III. QUALIFYING LIABILITIES					
A.	Qualifying Liabilities				
	1.		Retail current and regular savings deposits with outstanding balance per account of ₱500,000 and below	**P 324,122,839**	P 107,722,241
	2.		Deposit where the account holder has no contractual or legal discretion to withdraw said deposit or pre-terminate the account within the next 30 days	**-**	-
	3.		Borrowings that are not collable in, or have contractual maturity dates beyond the next 30 calendar days	**-**	405,016,284
	4.		Obligations arising from operational expenses	**-**	215,444,482
	5.		Total on Balance Sheet Liabilities	**548,840,561**	
	6.		Deduct: ()Sum of A1 to A4	**324,122,839**	728,183,007
B.	Other non-balance sheet liabilities (Item A.3 less A.4)			**224,717,722**	189,571,802
C.	Irrevocable obligations under off-balance sheet items			**-**	-
D.	Total (Sum of Adjusted Amount of Item A(1), A(2), B and C)			**P 386,779,141**	P 297,294,043

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the reporting period as shown in the statements of cash flows can be reconciled to the related items in the statements of financial position as follows:

			2020		2019
6.1. Cash and Other Cash items	*Cash and Other Cash items*				
Cash on Hand and in Vault		**P**	**11,341,153**	P	3,511,221
Checks and Other Cash Items			**-**		2,629,256
Total cash and other cash items			**11,341,153**		6,140,477
			2020		2019
6.2. Due from BSP and other Banks	*Due from BSP and other Banks*				
Due from Bangko Sentral ng Pilipinas			**179,946,565**		30,261,346
Due from Other Banks			**300,916,646**		329,887,309
Total			**480,863,212**		360,148,655
Total Cash and Cash Equivalents		**P**	**492,204,364**	P	366,289,132

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers. Checks and other cash items include cash items (other than currency and coins on hand) such as checks drawn on the other banks or other branches after the Bank's clearing cut-off time until the close of the regular banking hours. For the purpose of the statements of cash flows, cash and cash equivalents include cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

The balance of Due from BSP account serves as the Bank's reserve for its deposit liabilities. Under the Manual of Regulations for Banks, a Bank is required to maintain its reserve requirements for its deposit liabilities in the form of deposits with the BSP Section 252 of MORB further provides that such deposit account with the BSP is not considered as a regular current account. Drawings against such deposits shall be limited to: (a) settlement of obligations with the BSP; and, (b) withdrawals to meet cash requirements.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its operating funds. Breakdown of this account follows:

Name of Banks		**2020**	**%**		2019	%
Banco De Oro	**P**	**97,750,713**	**32.48%**	P	83,851,723	25.42%
Development Bank of the Philippines		**95,728,294**	**31.81%**		-	0.00%
CBI		**80,273,333**	**26.68%**		-	0.00%
China Banking Corporation		**20,223,585**	**6.72%**		44,321,767	13.44%
Philippine National Bank		**3,738,276**	**1.24%**		98,994,855	30.01%
Land Bank of the Philippines		**2,543,352**	**0.85%**		2,355,294	0.71%
Union Bank of the Philippines		**608,931**	**0.20%**		446,097	0.14%
United Coconut Planters Bank		**40,508**	**0.01%**		40,435	0.01%
Sterling Bank		**9,654**	**0.00%**		99,877,138	30.28%
Total	**P**	**300,916,646**	**100.00%**	P	329,887,309	100.00%

Under Sec.362g of the Manual of Regulations for Banks, loans and other credit accommodations as well as deposits and usual guarantees by a bank to any other bank whether locally or abroad shall be subject to the Single Borrower's Limit of 25% of the Net worth as herein prescribed or ₱100 Million whichever is higher. Provided that the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

As of December 31, 2020, the Bank's SBL was registered at ₱24,424,798 and as per BSP Manual of Regulations, banks are exempted on the ceiling of single borrower's limit (SBL) on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for clearing operation.

On 19 March 2020, the Monetary Board, on its Resolution issued the Memorandum No. M-2020-011 Increasing the single borrower's limit (SBL) from 25% to 30% for a period of six (6) months from March 19, 2020.

As of December 31, 2020, none of the Banks has exceeded the prescribed limit or ₱ 100 million under Circular No. 734 Series of 2011.

Cash in bank represents savings and time deposits with local bank. Savings account earns interest at 0.25% and time deposits earns interest ranging from 1.00% to 2.50%.

Interest income from bank accounts and short-term cash deposits amounted ₱5,338,743 and ₱11,785,863 in 2020 and 2019, respectively.

The Bank reconciles the books and bank balances regularly as part of its cash monitoring and internal control measures.

7. DEBT SECURITIES MEASURED AT AMORTIZED COST

This account consists of:

		2020		2019
Book Value	**P**	**32,274,649**	P	13,174,282
Add: Accumulated Bond Discount		**-**		145,167
Total		**32,274,649**		13,319,449

The above LBP Bonds represent agrarian reform bonds as additional compliance under, BSP MORB Section 331.

Debt Securities Measured at Amortized Cost earned interest income for the years ended December 31, 2020 and 2019 amounted to ₱735,448 and ₱841,637, respectively.

8. LOANS AND RECEIVABLES

The loan receivables are stated at outstanding balances, net of estimated allowance for credit losses and unearned income/discounts, broken down as follows:

		2020	**%**		2019	%
Current Loans	**P**	**71,551,701**	**74.40%**	P	64,098,602	70.16%
Past Due Loans						
Performing		**-**	**0.00%**		5,763,861	6.31%
Non-Performing		**24,626,381**	**25.60%**		21,499,031	23.53%
Items in Litigation		**-**	**0.00%**		-	0.00%
Total		**96,178,082**	**100.00%**		91,361,494	100.00%
Less: Allowance for Credit Losses						
Specific		**13,221,276**			10,309,421	
General		**815,048**			634,236	
Loans and Receivables Net Carrying Cost	P	82,141,758		P	80,417,837	

The Bank's loan accounts are stated at the outstanding balance, reduce by estimated allowance for credit losses and unearned interest and discounts. These receivables can be received either by cash or check payments.

The loan receivables are stated at outstanding balances, net of estimated allowance for credit losses and unearned income/discounts, broken down as follows: The above LBP Bonds represent agrarian reform bonds as additional compliance under, BSP MORB Section 331. Debt Securities Measured at Amortized Cost earned interest income for the years ended December 31, 2020 and 2019 amounted to ₱735,448 and ₱841,637, respectively.

Loans and receivables earn interest income at interest rates ranging 1.00% to 3.00% in 2020 and 2019. Total earned interest amounts to ₱21,031,719 and ₱18,414,166 for 2020 and 2019, respectively. The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, and deposit hold outs over assets.

Movements in the allowance for credit losses related to receivables as follows:

	2020	2019
Balance at beginning of year	**10,943,657**	2,348,485
Additional provision	**3,092,667**	8,595,172
Adjustments	**-**	-
Total	**14,036,324**	10,943,657

The Allowance for Credit Losses which composed of specific loan loss provisions and general loan loss provision as stated above is in compliance with the BSP Memorandum Circular 1011.

In compliance with the regulations of the BSP, the Bank strictly adheres to the setting up of the valuation allowance for risk assets based on Circular 1011 and Appendix 15 of the MORB. The Bank reviews the quality of its loan portfolio and prepares a quantitative classification of its risk assets including loans.

Classification of loans:

As to Maturity:

		2020	%		2019	%
Due within one (1) year	P	**23,819,320**	**24.77%**	P	19,763,037	21.63%
Due beyond one (1) year		**72,358,762**	**75.23%**		71,598,457	78.37%
Total Loan Portfolio	P	**96,178,082**	**100.00%**	P	91,361,494	100.00%
		-			-	

As to Security:

		2020	%		2019	%
Real Estate Mortgage	P	**76,790,950**	**79.84%**	P	70,482,639	91.16%
Other Collateral		**1**	**0.00%**		54,008	0.06%
Unsecured		**19,387,131**	**20.16%**		20,824,847	8.84%
Total Loan Portfolio	P	**96,178,082**	**100.00%**	P	91,361,494	100.00%

As to Status:

Product Line	2020					
		Performing		Non-Performing		Total
Agriculture, Forestry and Fishing	P	**16,771,527**	P	**5,224,398**	P	**21,995,925**
Manufacturing		**949,799**		**160,457**		**1,110,256**
Construction		**8,024,255**		**-**		**8,024,255**
Wholesale and Retail Trade		**11,530,539**		**10,408,434**		**21,938,973**
Real Estate		**24,371,597**		**2,138,042**		**26,509,639**
Arts, Entertainment and Recreational		**-**		**4,932,742**		**4,932,742**
Loans to Individual for Personal Consumption		**9,903,984**		**1,762,308**		**11,666,292**
Total	P	**71,551,701**	P	**24,626,381**	P	**96,178,082**

Product Line		2019 Performing		Non-Performing		Total
Agriculture, Forestry and Fishing	P	15,476,604	P	2,372,594	P	17,849,198
Manufacturing		5,066				5,066
Construction		5,351,358		10,875,283		16,226,641
Wholesale and Retail Trade		14,079,526		5,864,544		19,944,070
Real Estate		26,728,194		301,315		27,029,509
Arts, Entertainment and Recreational		-		-		-
Loans to Individual for Personal Consumption		8,221,715		2,085,295		10,307,010
Total	P	69,862,463	P	21,499,031	P	91,361,494

As to Concentration of Credits to Certain Industry/Economic Sector:

Percentage per total loan portfolio		**2020**	**%**		2019	%
Agriculture, Forestry and Fishing	**P**	**21,995,925**	**22.87%**	P	17,849,198	19.54%
Manufacturing		**1,110,256**	**1.15%**		5,066	0.01%
Construction		**8,024,255**	**8.34%**		16,226,641	17.76%
Wholesale and Retail Trade		**21,938,973**	**22.81%**		19,944,070	21.83%
Real Estate		**26,509,639**	**27.56%**		27,029,509	29.59%
Arts, Entertainment and Recreational		**4,932,742**	**5.13%**		-	0.00%
Loans to Individual for Personal Consumption		**11,666,292**	**12.13%**		10,307,010	11.28%
Total	**P**	**96,178,082**	**100.00%**	P	91,361,494	100.00%

Percentage per tier 1 capital		**2020**	**%**		2019	%
Agriculture, Forestry and Fishing	**P**	**21,995,925**	**22.51%**	P	17,849,198	20.73%
Manufacturing		**1,110,256**	**1.14%**		5,066	0.01%
Construction		**8,024,255**	**8.21%**		16,226,641	18.85%
Wholesale and Retail Trade		**21,938,973**	**22.46%**		19,944,070	23.17%
Real Estate		**26,509,639**	**27.13%**		27,029,509	31.40%
Arts, Entertainment and Recreational		**4,932,742**	**5.05%**		-	0.00%
Loans to Individual for Personal Consumption		**11,666,292**	**11.94%**		10,307,010	11.97%
Total	**P**	**96,178,082**		P	91,361,494	

The BSP considers that significant credit exposures exists when total loan to a particular economic sector exceeds 30% of the total loan portfolio or 10% of TIER 1 Capital. As at December 31, 2020, no industry exceeds 30% of the total loan portfolio and four (4) industries exceed 10% of Bank's TIER 1 Capital.

9. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

This account is consists of:

	2020		
	Cost	Accumulated Depreciation/ Amortization	Net Carrying Amount
Cost			
Construction in Progress	P -	P -	P -
Leasehold Improvement	12,427,258	3,378,284	9,048,974
Furniture, Fixtures and Equipment	1,507,384	987,110	520,274
Transportation Equipment	1,257,417	302,404	955,013
Other Office Equipment	2,759,271	1,332,783	1,426,488
Information Technology Equipment	46,814,023	24,644,753	22,169,270
Total	P 64,765,354	P 30,645,334	P 34,120,020

	2019		
	Cost	Accumulated Depreciation/ Amortization	Net Carrying Amount
Cost			
Construction in Progress	P -	P -	P -
Leasehold Improvement	16,820,098	6,450,322	10,369,776
Furniture, Fixtures and Equipment	1,972,929	1,141,640	831,289
Transportation Equipment	1,166,617	186,978	979,639
Other Office Equipment	2,596,329	1,161,439	1,434,890
Information Technology Equipment	38,600,173	32,069,482	6,530,691
Total	P 61,156,146	P 41,009,861	P 20,146,285

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2020 and 2019 is shown below:

	2020				
	Balance at beginning of year	Additions	Disposals	Reclassification	Balance at end of year
Cost					
Construction in Progress	P -				P -
Leasehold Improvement	16,820,098		(4,392,840)		12,427,258
Furniture, Fixtures and Equipment	1,972,929		(413,055)	(52,490)	1,507,384
Transportation Equipment	1,166,617	90,800			1,257,417
Other Office Equipment	2,596,329	162,942			2,759,271
Information Technology Equipment	38,600,173	8,213,850			46,814,023
Total	61,156,146	8,467,593	(4,805,896)	(52,490)	64,765,354
Accumulated Depreciation					
Construction in Progress	-				-
Leasehold Improvement	6,450,322	1,362,751	(4,392,840)	(41,949)	3,378,284
Furniture, Fixtures and Equipment	1,141,640	258,525	(413,055)		987,110
Transportation Equipment	186,978	115,426			302,404
Other Office Equipment	1,161,439	171,344			1,332,783
Information Technology Equipment	32,069,482	1,429,805		(8,854,534)	24,644,753
Total	41,009,861	3,337,851	(4,805,896)	(8,896,483)	30,645,334
Net carrying amount	P 20,146,285	P 5,129,741	P -	P 8,843,994	P 34,120,020

	2019				
	Balance at beginning of year	Additions	Disposal	Reclassification	Balance at end of year
Cost					
Construction in Progress	P 998,461			P (998,461)	P -
Leasehold Improvement	15,658,637	1,161,461			16,820,098
Furniture, Fixtures and Equipment	1,960,371	12,558			1,972,929
Transportation Equipment	1,166,617	-			1,166,617
Other Office Equipment	2,537,840	58,489			2,596,329
Information Technology Equipment	38,431,699	168,474			38,600,173
Total	60,753,625	1,400,982	-	(998,461)	61,156,146
Accumulated Depreciation					
Construction in Progress	-	-			-
Leasehold Improvement	5,221,071	1,229,251			6,450,322
Furniture, Fixtures and Equipment	887,994	252,217		1,429	1,141,640
Transportation Equipment	61,981	124,997			186,978
Other Office Equipment	934,384	227,055			1,161,439
Information Technology Equipment	30,326,634	1,744,277		(1,429)	32,069,482
Total	37,432,064	3,577,797	-	-	41,009,861
Net carrying amount	P 23,321,561	P (2,176,815)	P -	P (998,461)	P 20,146,285

Depreciation amounting to ₱4,734,758 and ₱4,954,539 in 2020 and 2019, respectively.

No additions to property and equipment during the year are treated as non-cash transactions for cash flows.

The amount of the Bank premises, furniture, fixtures and equipment of ₱34,150,020 and ₱20,146,285, net of accumulated depreciation, as of December 31, 2020 and 2019 represents 34.74% and 23.40% of the Bank's total net worth, respectively. These are lower than the 50% maximum ratio required under BSP regulation (MORB Section 109).

The Bank, after due consideration of the assessment of its impairment, believes that there are no indications that the property and equipment as of December 31, 2020 and 2019 are impaired or its carrying amount cannot be recovered.

As of December 31, 2020 and 2019, no amount of bank premises, furniture, fixtures and equipment was used as collateral for liabilities.

10. INVESTMENT PROPERTY

This account is consisting of real estate properties acquired by the Bank in settlement of loans which were recognized as ROPA and accounted for as investment properties to conform with PAS 40. Under Sec. 382, ROPA shall be booked initially at the carrying amount of the loan plus booked accrued interest less allowance for credit losses plus transaction costs such as capital gains tax and documentary stamp tax. Breakdown of this account follows:

		2020		2019
Land	P	1,251,877	P	1,251,877
Building		702,056		702,056
Total		1,953,933		1,953,933
Less: Accumulated Depreciation		620,149		549,944
Net Book Value		1,333,784		1,403,989
Allowance for Losses		-		-
Net Carrying Amount	P	1,333,784	P	1,403,989

A reconciliation of the carrying amounts of the Bank's investment property at the beginning and end of 2020 and 2019 is shown in below:

		2020		2019
Balance at beginning of year net of accumulated depreciation and Impairment loss	P	1,403,989	P	2,469,373
Additions				93,695
Disposal				(1,073,579)
Depreciation		(70,205)		(85,500)
Balance at end of year net of accumulated depreciation and Impairment loss	P	1,333,784	P	1,403,989

As at December 31, 2020 and 2019, the Bank did not provide allowance for credit losses on Investment Property.

As of December 31, 2020 and 2019, no amount of investment in property was used as collateral for liabilities.

Additions to investment property during the year are through transfer of loans receivables to ROPA account.

11. OTHER ASSETS

This account is consists of:

		2020		2019
Financial Assets				
Accounts Receivables	P	**5,454,618**	P	5,547,327
Accrued Interest Receivables		-		1,882,487
Non-Financial Assets				
Sinking Fund for Retirement of Employees		-		
Prepaid Expenses		**2,978,961**		182,129
Stationary and Supplies		-		1,009,439
Petty Cash Fund		-		25,000
Documentary Stamps		-		169,898
Security Deposit		-		549,542
Total		**8,433,579**		9,365,822
Less: Allowance for Probable Losses		**3,448,968**		4,325,805
Net Other Assets	P	**4,984,611**	P	5,040,017

The Accounts Receivable represents various advances and payments made by the Bank of various expenses and/or transactions and were charged to the respective accounts of the beneficiaries subject to liquidation. Prepaid Expenses are future expenses that have been paid in advance.

The movements in allowance for credit losses on receivable from customers follow:

		2020		2019
Balance at beginning of year	P	**4,325,805**	P	2,274,058
Addition		-		2,051,747
Adjustment		**(876,837)**		
Balance at end of year	P	**3,448,968**	P	4,325,805

12. DEPOSIT LIABILITIES

This account is consists of:

		2020	%		2019	%
Demand Deposit	P	**94,193,226**	**19.18%**	P	89,961,302	24.68%
Saving Deposit		**391,915,276**	**79.81%**		270,060,290	74.10%
Time Deposit		**4,925,086**	**1.00%**		4,452,264	1.22%
Total Deposit Liabilities	P	**491,033,588**	**100.00%**		364,473,856	100.00%

Savings Deposits are composed of regular savings accounts which are withdrawable upon demand and those with special terms and withdrawable at certain period of time. Time Deposits have different maturity dates maximum of which is one (1) year term/maturity and bear different interest rates based on the amount of deposits and term of placements. Time deposits with term of five (5) years or more are exempt from tax in accordance with BIR regulation. Total deposits for the year increased by ₱126,559,732 or 34.72% over the figures of 2019.

For the year 2020 and 2019, savings deposit carries an interest rate of 0.25%. The time deposit carries interest rate ranging from 1.00% to 3.50%, for the year 2020 and 2019.

Interest expense on deposit liabilities charged to profit or loss in 2020 and 2019 amounted to ₱3,701,022 and ₱2,966,096 respectively.

On March 23, 2020, the Monetary Board in its Resolution No. 423 approved a reduction of 100 basis points in the reserve requirement (RR) ratios of deposits and deposit substitute liabilities of thrift banks (TBs), rural banks (RBs) and cooperative banks (Coop Banks) decreasing the reserve requirement to two percent (2%). The required reserve as of December 31, 2020 amounted to ₱ 926,452 or 2% of the total deposit liabilities. This amount is in the form of deposit with Bangko Sentral ng Pilipinas which has a balance of ₱2,594,985 as at December 31, 2020 which is higher than the required reserves for rural banks.

13. ACCRUED INTEREST, TAXES AND OTHER EXPENSES PAYABLE

This account consists of:

		2020		2019
Accrued Taxes and Other Expense Payable	P	**465,836**	P	428,027

Accrued interest payable represents the recognition of interest expense already due on financial liabilities such as deposit liabilities as of December 31,2020 but subsequently paid in the next accounting period. Accrued other expenses payable are year-end expenses payable on the following year.

14. OTHER LIABILITIES

This account consists of:

		2020		2019
Accounts Payable	P	**3,429,422**	P	35,006,589
Lease Liability		3,408,334		4,634,331
Withholding Tax Payable		**9,816**		154,283
SSS, Medicare and Pag-ibig Contribution Payable		**3,287**		-
Other Liabilities		**53,898,612**		-
Total	P	**60,749,471**	P	39,795,203

The above liabilities are settled either by cash or check payments. As December 31, 2020 and 2019, no amount of assets was used as collateral, security or guarantee for the above liabilities.

Accounts Payable represents various liabilities incurred by the Bank for its own account and the third parties arising from short term indebtedness/obligations still outstanding at the cut-off/ reporting date. Withholding tax payable represents tax withheld on interest expense on deposits, on compensation and other transactions on which the bank is obliged to withhold as a withholding agent of the government. SSS, Medicare and Pag-ibig Contribution are employees' contribution which are to be remitted by the Bank on January, 2021.

15. EQUITY

Ordinary Shares

Ordinary shareholders of the bank are given less priority as to assets liquidation compared to outside creditors and preferred shareholders. Ordinary shares are given equal rights and preference as among ordinary shareholders. The availability of dividends shall be determined by the net income after deducting any restriction for reserve requirements and preferred dividends, if any.

Authorized ordinary share capital as of December 31, 2019 amounted to ₱300,000,000 or 3,000,000 shares with a par value of ₱ 100 each. Total subscribed shares amounted to ₱75,000,000 or 750,000 shares and total paid-up ordinary shares amounted to ₱68,117,500 or 681,175 shares.

The reconciliation of number of ordinary shares outstanding during the period is as follows:

	2020		2019	
	Shares	**Amount**	Shares	Amount
Common stock - 100 par value, 3,000,000 authorized shares	3,000,000	300,000,000	3,000,000	300,000,000
Subscribed 750,000 common shares at P100 per value per share	750,000	75,000,000	750,000	75,000,000
Common stock at the beginning of the yearly	**681,175**	**68,117,500**	681,175	68,117,500
Issuance of shares of stocks from settlement of subscriptions receivable	-	-	-	-
Common stock at the end of the year	681,175	68,117,500	681,175	68,117,500
Subscription receivable	-	-	-	-
Total	**681,175**	**68,117,500**	681,175	68,117,500

Preferred shares of stock are entitled to voting privilege and shall have preference over other preferred and common stocks in the assets of the corporation in the event of liquidation.

Under Section 121: Minimum Required Capital, Thrift Banks with head office only in all other areas outside NCR are required to comply with the minimum capital of ₱200 Million within five (5) years. As of December 31, 2020, the Bank is not compliant with the minimum capitalization requirement set by the BSP. However, on 25th of January 2018, the Monetary Board in its Resolution No. 27 has approved the request of Pacific Ace Savings Bank, Inc. for the grant of regulatory relief from compliance with the new minimum capital requirement.

The reconciliation of surplus during the period is as follows:
Retained Earnings – Free

		2020		2019
Balance, Beginning	P	**17,971,802**	P	13,244,869
Net Income		**11,295,150**		7,021,473
Provisions and adjustments		**314,740**		(2,294,540)
Balance, Ending		**29,581,692**		17,971,802

		2020		2019
Adjustments of Prior Auditor not booked	P	**1,958,323**	P	1,178,620
Net debit adjustments on current year		**(1,498,133)**		(3,473,160)
Adjustments on prior period recognition of PFRS 16		**(145,449)**		-
Balance, Ending	**P**	**314,740**	P	(2,294,540)

Capital Management

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. The Bank maintains sufficient capital necessary to support its primary purpose and/or undertakings which it has initiated and promoted. The Bank management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Bank's business operations of unanticipated events created by consumer behavior or capital market conditions.

The Bank manages its capital structure and makes adjustment to it 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 to shareholders or issue capital securities.

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. The Bank maintains sufficient capital necessary to support its primary purpose and/or undertakings which it has initiated and promoted. The Bank management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Bank's business operations of unanticipated events created by consumer behavior or capital market conditions.

Regulatory Qualifying Capital

Under 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 net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects.

BSP Circular No. 688, Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks, rural banks and cooperative banks which took effect on January 1, 2012 represents BSP's commitment to align existing prudential regulations with international standards, which is consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole. BSP Circular No. 688 replaced BSP Circular No. 280 which is primarily based on Basel 1.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10.00%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital- to-risk assets ratio to total equity excludes:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP
- total outstanding unsecured credit accommodations to directors, officers, stakeholders and related interests (DOSRI);
- deferred tax asset or liability; and
- other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out 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.

Under BSP Circular No. 360, effective July 1, 2003, the risk-based capital adequacy ratio (CAR) is to be inclusive of a market risk charge. BSP Circular No. 560 dated January 31, 2007, which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

The CAR of the Bank as at December 31, 2020 and 2019, as reported to the BSP, is shown in the table below:

	2020	2019
Tier 1 Capital	**P 97,699,192**	P 86,089,302
Tier 2 Capital	**815,048**	634,236
Total Qualifying Capital	**98,514,241**	86,723,543
Risk Weighted Assets	**P 461,852,526**	P 461,774,568
Tier 1 Capital Ratio	21.15%	18.64%
Tier 2 Capital Ratio	0.18%	0.14%
Capital Adequacy Ratio (CAR)	21.33%	18.78%

The Bank's Total Qualifying Capital as at December 31, 2020 and 2019 are computed as follows:

	2020	2020
A. Calculation of Qualifying Capital		
A.1 Tier 1 Capital		
Core Tier 1 Capital		
Paid-Up Capital - Common	**P 68,117,500**	P 68,117,500
Retained Earnings	**29,581,692**	17,971,802
Deductions from Core Tier 1 Capital		
Deferred Tax Asset, Net of Deferred Tax Liability	**-**	-
Total Tier 1 Capital	**97,699,192**	86,089,302
A.2 Tier 2 Capital		
General Loan Loss Provision	**815,048**	634,236
Total Upper Tier 2 Capital	**815,048**	634,236
TOTAL QUALIFYING CAPITAL	**P 98,514,241**	P 86,723,538

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios adopted by the BSP in supervising the Bank.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. As at December 31, 2020 and 2019, the Bank was in compliance with CAR requirement.

Financial Performance

The following basic ratios measure the financial performance of the Bank:

		2020	2019
A.	Return on Average Equity	**12.29%**	8.39%
B.	Return on Average Assets	**1.98%**	1.59%
C.	Net Interest Margin	**4.46%**	7.28%
D.	Debt to Equity Ratio	**5.66:1**	4.70:1

The Bank's ROE, ROA and Net Interest Margin Ratio as at December 31, 2020 and 2019 was computed as follows:

Return on Average Equity (ROE)

Formula: ROE = Net Income after Tax / Average Capital

		2020	2019
Net Income		**P 11,295,150**	P 7,021,473
Equity			
	2020	**97,699,192**	
	2019	**86,089,302**	
	2019		86,089,302
	2018		81,362,369
Total		**P 183,788,494**	P 167,451,671
Average Equity		**P 91,894,247**	P 83,725,836
Return on Average Equity		**12.29%**	8.39%

Return on Average Assets (ROA)

Formula: ROA = Net Income after Tax / Average of Total Assets

		2020	2019
Net Income		**P 11,295,150**	P 7,021,473
Assets			
	2020	**650,256,827**	
	2019	**491,105,590**	
	2019		491,105,590
	2018		393,421,199
Total		**P 1,141,362,417**	P 884,526,789
Average Assets		**P 570,681,208**	P 442,263,395
Return on Average Assets		**1.98%**	1.59%

Net Interest Margin

Formula: Net Interest Margin Ratio = Net Interest Income/ Average Earning Assets

Formula: Average Earning Assets = Due from BSP + Due From Other Banks+ Loans + Debt Securities Measured at Amortized Cost

			2020		2019
Net Interest Income		**P**	**23,404,889**	P	28,075,570
Interest Earnings Assets					
	2020		**595,279,619**		
	2019		**453,885,941**		
	2019				453,885,941
	2018				317,371,810
Total		**P**	**1,049,165,560**	P	771,257,751
Average Interest Earnings Assets		**P**	**524,582,780**	P	385,628,876
Net Interest Margin			**4.46%**		7.28%

16. OTHER INCOME

This account consists of:

		2020		2019
Fees and Commission Income	**P**	**2,622,650**	P	12,707,121
ATM Service Fees	**P**	**2,728,029**	P	3,312,225
Income from asset acquired		**50,316**		369,714
Miscellaneous Income		**10,380,771**		2,038,592
Loss from foreign Exchange		**-**		(6,821)
Total	**P**	**15,781,767**	P	18,420,831

17. COMPENSATION AND BENEFITS

This account consists of the following:

		2020		2019
Salaries and Wages	**P**	**7,414,827**	P	8,181,139
Fringe Benefits - Officers and Employees		**28,636**		1,457,797
Director's Fees		**426,667**		482,222
SSS, Philhealth and ECC and PAGIBIG Fund Premium Contribution		**569,659**		859,865
Total	**P**	**8,439,788**	P	10,981,023

18. RETIREMENT BENEFITS

A defined benefit plan should be provided for the retirement of its employees and is required to be paid under A No. 7641. Under PAS 19, "Employee Benefits", the cost of defined contribution plan including those mandated under RA No. 7641 should be determined using the term or years of service of an employee.

As of December 31, 2019 and 2018, the Bank has no retirement benefit plan provided for its employees.

19. OTHER OPERATING EXPENSE

This account consists of the following:

		2020		2019
Information Technology Expenses	P	**1,454,326**	P	-
Security, Clerical, Messengerial and Janitorial Services		**1,069,855**		911,400
Insurance Expense - PDIC		**859,134**		701,411
Power, Light and Water		**669,603**		651,018
Management and Other Professional Fees		**587,884**		1,362,573
Interest Expense - Lease Liability		**324,403**		404,609
Stationery and Supplies Used		**265,029**		876,094
Litigation/Assets Acquired Expenses		**262,169**		-
Representation and Entertainment		**232,886**		221,629
Repairs and Maintenance		**183,191**		151,897
Postage, Telephone, Cables and Telegrams		**180,325**		2,029,111
Fines and Penalties		**174,823**		52,898
Membership Fees and Dues		**168,237**		187,791
Travelling Expenses		**107,488**		220,235
Rent Expense		**114,810**		256,980
Insurance Expense - Others		**79,356**		63,114
Fuel & Lubricants		**64,285**		294,107
Supervision Fees		**37,852**		30,000
Documentary Stamps Used		**22,350**		25,200
Advertising & Publicity		**14,621**		310,728
Bad Debts		**2,500**		6,000
Donations and Charitable Contributions		**-**		27,438
Trainings and Seminars		**-**		81,292
Miscellaneous Expense		**865,750**		938,214
Total	P	**7,740,876**	P	9,803,739

20. DEPRECIATION AND AMORTIZATION EXPENSE

This account is consists of:

		2020		2019
Depreciation Expense – Right of Use Asset	P	**1,291,241**	P	1,291,241
Depreciation Expense – ROPA		**70,206**		85,500
Depreciation Expense – Transportation Equipment		**115,426**		124,997
Depreciation Expense – Other Intangible		**1,326,701**		545,455
Depreciation Expense – Furniture and Fixtures		**258,525**		252,217
Depreciation Expense – Information Technology		**1,601,149**		1,425,878
Depreciation Expense – Leasehold Improvements		**1,362,751**		1,229,251
Total	P	**6,025,999**	P	4,954,539

21. LEASES

Bank as a lessee

Finance Lease

The Bank entered into lease agreements with an individual lessor for the lease of office building located at Retail Times Square, Subic Bay Freeport. The lease agreement is for a period of five (5) years and will be renewed upon mutual agreement of both parties.

The undiscounted maturity analysis of lease liabilities at December 31, 2020 is as follows:

	MINIMUM LEASE PAYMENTS		
	WITHIN 1 YEAR	2-5 YEARS	TOTAL
As of December 31, 2020			
Lease Payments	1,550,400	2,304,000	3,854,400
Finance Charges	238,648	207,418	446,067
Total	1,311,752	2,096,582	3,408,333

Set-out below are the carrying amount of lease liability and the movements during the year:

Lease Liability

		2020		2019
Beginning balance	P	**4,634,331**	P	-
Additions		**-**		5,780,122
Payments		**(1,225,997)**		(1,145,791)
Ending balance		**3,408,334**		4,634,331

		2020		2019
Cost				
Beginning balance	P	**5,780,122**	P	-
Additions		**-**		5,780,122
Ending balance		**5,780,122**		5,780,122
Accumulated Depreciation				
Beginning balance		**1,291,241**		-
Additions		**1,291,241**		1,291,241
Ending balance		**2,582,482**		1,291,241
Net Book Value	P	**3,197,640**	P	4,488,881

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other longterm payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance if the liability for each period. The bank premises, furniture, fixtures and equipment acquired under finance lease is depreciated over the shorter of the useful life of the asset or the lease term.

22. COMMITMENT AND CONTINGENCIES

The following are the significant commitments and contingencies involving the bank:

a) The bank is a plaintiff to various cases arising from the collection suits pending in courts for claims against delinquent borrowers of the bank. The final decision of which cannot be determined at present.
b) The bank has no pending legal cases arising from its normal operation that will put the bank as defendant as a result of violation of transactions against its clients/ depositors.
c) The bank had no outstanding issuances of bank guarantee and other similar credit instruments that will put the bank into obligation in case of non-compliance by the buyer.
d) As of December 31, 2020 and 2019, The Bank has a contingent accounts of ₱26 and ₱183 represents derivatives and face value of securities held under custodianship by the proper.

23. INCOME TAXES

Section 12 (c) of Republic Act No. 7227, states that no taxes, local and national shall be imposed to the businesses and enterprise within the Subic Special Economic Zone. In lieu of paying taxes three percent (3%) of the gross income earned shall be remitted to the national Government, one percent (1%) each to the local government units affected by the declaration of the zone in proportion to their population area, and other factors. In addition, there is hereby established a development fund of one percent (1%) of the gross income earned to be utilized for the development of municipalities outside the City of Olongapo and the Municipality of Subic, and other municipalities contiguous to the base area.

In case of conflict between national and local laws with respect to the tax exemption privileges in the Subic Special Economic Zone, the same shall be resolve in favor of the latter.

Provision for income tax consists of:

		2020
Current	P	753,419
Deferred		-
	P	753,419

Current Tax

		2020
Statutory income tax	P	602,428
Income tax effects of:		
Non-deductible expenses		300,067
Provision for losses		154,633
Interest income subject to final tax		(303,710)
Income Tax- Current	P	753,419

Computation of Income Tax:

			2020
Net Income per books		P	12,048,569
Add: Non-deductible Expenses/Taxable Other Income			
Non-Deductible Expenses			6,001,342
Provision for Credit Losses on Loans and Receivables			3,092,665
Total			21,142,576
Less: Non-taxable Income and Income Subjected to Final Tax			
Interest Income Subject to Final Tax			6,074,191
Net Taxable Income			15,068,385
Tax Rate			5%
Income Tax Due			753,419
Less: Payments/Tax Credits			
Agency	2.00%		177,871
BIR	3.00%		266,808
Income Tax Still Due/(Overpayment)		P	308,740

24. 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. Entities are considered to be related if they are subjected under common control or significant influence. The Bank's related parties include:

- key management personnel, close family members of key management personnel and entities;
- which are controlled, significantly influenced by or for which significant voting power is held;
- by key management personnel or their close family members, and
- post-employment benefit plans 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.

Remunerations 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 the members of the senior management to constitute key management personnel for purposes of PAS 24.

The compensation of key management personnel included under 'Compensation and benefits' in the statement of income are as follows:

		2020		2019
Key management personnel compensation, salaries and other short-term benefits	**P**	**455,302**	P	752,222

The Bank also provides banking services to directors and other key management personnel and persons connected to them. These transactions are presented in the tables that follow.

Regulatory Reporting

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

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

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. On October 8, 2010, BSP Circular No. 695 is issued to provide guidance on the definition of Related Interest.

Below are the selected ratios relative to the Banks' DOSRI loan accounts.

		2020		2019	
		DOSRI Loans	**Related Party Loans Inclusive of DOSRI**	**DOSRI Loans**	**Related Party Loans Inclusive of DOSRI**
A.1.	Outstanding Balance	P -	P -	P -	P -
A.2.	Total Loan Portfolio	96,178,082	96,178,082	91,361,494	91,361,494
B.	Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1./A.2.)	**0.00%**	**0.00%**	**0.00%**	**0.00%**
C.	**Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans**				
	Unsecured	-	-	-	-
	Total DOSRI/RP Loan	-	-	-	-
		0.00%	**0.00%**	**0.00%**	**0.00%**
D.	**Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans**				
	Past Due	-	-	-	-
	Total DOSRI/RP Loan	-	-	-	-
		0.00%	**0.00%**	**0.00%**	**0.00%**
E.	**Percentage of Non Performing DOSRI/RP to Total DOSRI/RP Loans**				
	Non Performing	-	-	-	-
	Total DOSRI/RP Loan	-	-	-	-
		0.00%	**0.00%**	**0.00%**	**0.00%**

25. SUPPLEMENTARY INFORMATION REQUIRED UNDER RR 15 2010 and RR 19-2011