NORTHPOINT
DEVELOPMENT BANK

ANNUAL REPORT 2020

www.northpoint.ph

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Katuwang ng bawat Juan

The Company's tagline "Katuwang ng bawat Juan" was approved by the Board around August 2019 and by the Intellectual Property Office of the Philippines in the same year.

The tagline was created to reinforce the mission/vision of NDB in transforming every Filipino to become a productive member of the society, eradicating poverty and creating jobs for his fellow citizens.

NDB wants to be pivotal part to its clients' business success, not just to lend money but to really help them grow and sustain such progress by knowing how to be continuously relevant and competitive in the market.

VISION

A PHILIPPINE SOCIETY WITH NO POVERTY

A. OUR VISION AS A COMPANY

A transformed Philippine society wherein every Filipino is a productive member actively contributing to national development.

B. OUR VISION TO OUR CLIENTS

We are a partner institution that provides opportunities for entrepreneurial success. Thus, the entrepreneurial poor is brought to a level of self-sufficiency, able to stand on their own and employ other people thereby becoming agents of our anti-poverty advocacy.

C. OUR VISION TO OUR EMPLOYEES

NDB is the employer of choice for individuals who are equipped with the right knowledge and skills, share and embody NDB's vision and mission, and are active players in achieving its goals.

MISSION

DESIGN AND IMPLEMENT FINANCIAL PRODUCTS AND SERVICES FOR UPLIFTING THE LIVES OF THE FILIPINO PEOPLE.

NDB will continue to invest in its people and banking system to continuously improve delivery of products and services, and help micro and small business owners and consumers in achieving financial growth and stability.

CORPORATE PROFILE

THE BEGINNINGS OF NORTHPOINT DEVELOPMENT BANK, INC.

Northpoint Development Bank, Inc. is a part of the continuously growing businesses of the Ongtenco Family operating in diverse industries: vehicle distributorship, real estate, education, and banking. Its sister companies consist of Motortrade Nationwide Corporation, Bank of Makati (A Savings Bank), Inc., Fundline Finance Corporation, Veradex Development Corporation, Honda Prestige Traders, Inc., Global Reciprocal Colleges, Transnational Properties, Inc., Motortrade Topline Inc., and Motorjoy Depot, Inc.

Northpoint Development Bank, Inc. was originally founded as a Rural bank in May 22, 1956. It used to be known as Urdaneta Rural bank, Inc. and was later called New Urdaneta Rural Bank, Inc. in 1983. The Bank considered the town of Urdaneta, Pangasinan its first home, hence the names. Through BSP and SEC approvals in 1998, the Bank upgraded its classification from a Rural Bank to Thrift Bank and changed its name to Northpoint Development Bank, Inc.

In June 2012, Northpoint Development Bank, Inc. was acquired by the Ongtenco Family, the new owners increased the original authorized capital tenfold – from ₱100 Million to ₱1 Billion. Total paid-up capital is at ₱400 Million. This bold move enabled a fresh beginning for the Bank to use the banking engine in the furtherance of its mission and vision.

THE PRESENT AND FUTURE OF NORTHPOINT DEVELOPMENT BANK, INC.

Northpoint Development Bank, Inc. currently has two (2) branches and thirty (30) Branch-Lite Units (BLUs). Its Head Office is located in the City of San Pedro, Province of Laguna while the other Branch is in the City of Urdaneta in Pangasinan. The BLUs are scattered around Luzon, particularly in the areas of NCR, Cavite, Laguna, Quezon, Tarlac, La Union, Ilocos Sur, Ilocos Norte, and Pangasinan. Farthest branch in the North is Laoag, in Ilocos Norte, while in South is Ligao, in Albay. In the next few years, Northpoint Development Bank, Inc. is planning to increase the number of its BLUs and expand in other areas to reach more clientele. As we expand our area, we expect to further improve our growth in resources and profit.

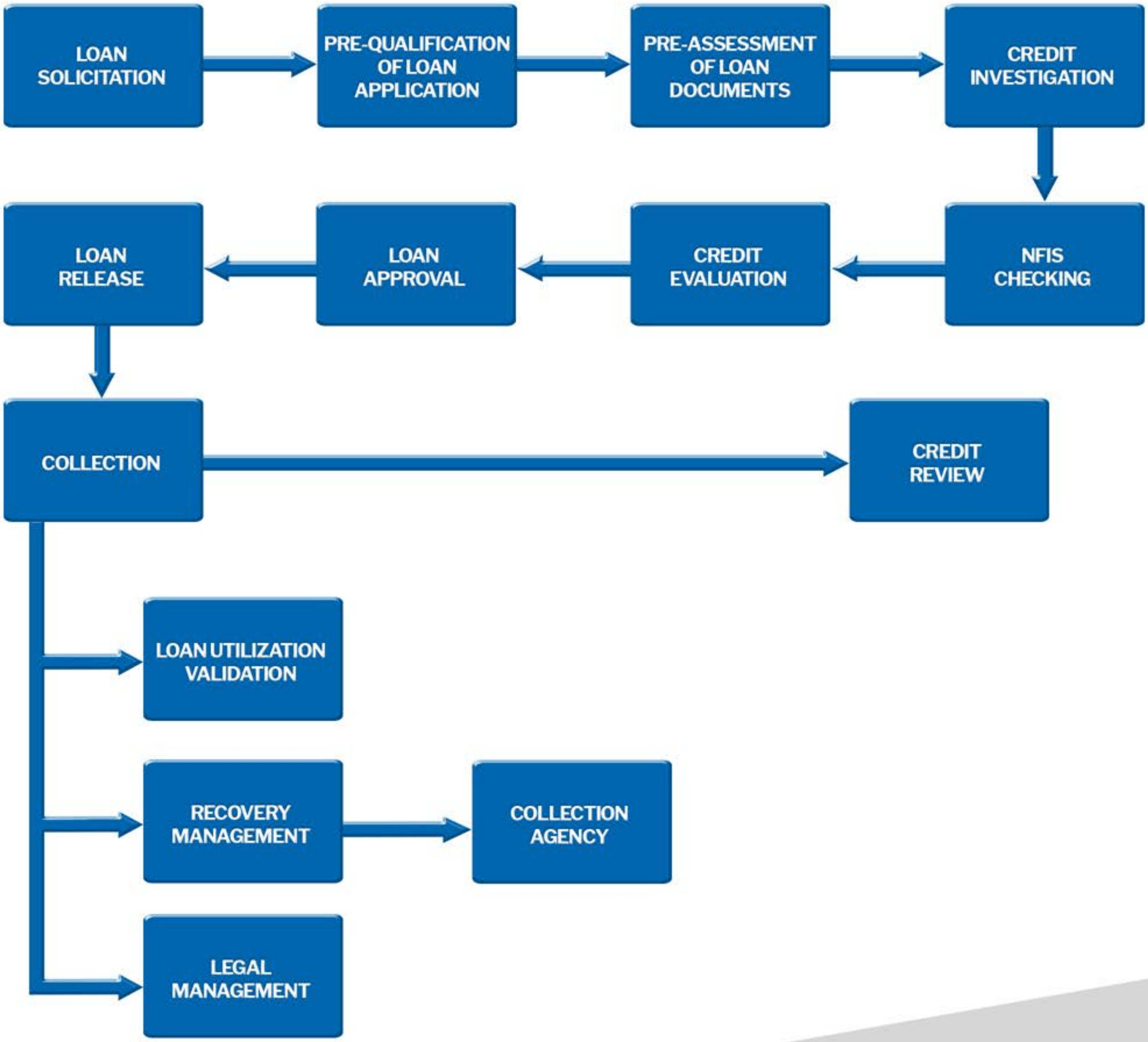
The Bank is currently offering the basic banking services of deposit taking and lending to Micro Businesses and Small Medium Enterprises (mSMEs). Full capacity has not been maximized as we still lack the other services provided by other Thrift Banks such as other type of loans (e.g. Real Estate Loan), remittance, bills payment, atms, and many more. The Bank is constantly studying opportunities to improve its operations to provide value added services to our existing and potential customers.

As the world is now becoming more technologically advanced and digital, enabling banking transactions to go online, web-based and mobile, Northpoint Development Bank, Inc. has also started improving its system, making some of the processes much more efficient and automated. These includes our loan management, financial reporting, serving notices, and many more. Various developmental trainings have been conducted to ensure the required manpower competencies have been met.

BUSINESS PROCESS MODEL

Northpoint Development Bank, Inc. (NDB) survived the 2020 as we continuously implement our Business Model. NDB concentrated in the micro-lending operation with its target market of Micro, Small and Medium Enterprises (mSMEs) by offering our Microfinance and Business loan products.

Since majority of our loan products were unsecured, we adopted a business process that will mitigate possible risks in repayment of loan.



NDB BUSINESS PROCESS FLOW

This 2020, the traditional bank's business model was challenged due to the experienced pandemic brought by COVID-19. NDB views these challenges as an opportunity to support businesses that are currently experiencing financial loss from the time the effect of the pandemic kicked-in.

Like any other financial institutions, NDB made some adjustments in policies and procedures in order to survive the negative effect of the pandemic. While we adjust some requirements in favor of our clients, we also adjust our control processes to mitigate risk involved.

1. Loan Solicitation

    a. NDB adopted liberal credit policy in granting loans to new businesses with minimum three (3) months business operations. This adjustment was allowed for businesses dealing with essential products and services, as supported by study conducted. To mitigate risk, NDB strengthened its credit investigation process by conducting the full Credit Investigation Process to all loan renewals regardless of loan amount.

    b. In the implementation of the Bayanihan Act, there were some clients who were not able to pay the Accrued Interest Receivable (AIR) as a result of the extension of their loan. To assist these borrowers, NDB allowed the renewal of the loan with the AIR being included in the renewed balance but without interest.

2. Collection

    a. Interest Waiving
    To provide support to the existing clients and at the same time improve the collection performance of NDB, the Bank approved the waiving of Accrued Interest up to 100% until July 30, 2021 and shall only be applied if the client will fully pay its loan obligation.

As we continuously deal with the effect of the pandemic, NDB implemented a stricter review of the bank's provision/allowance for credit losses. Moreover, an independent credit review was also implemented to ensure balanced assessment and/or evaluation of loan behavior.

PRODUCTS OFFERED

MICROFINANCE LOAN

Microfinance loans are small loans granted to the marginalized sectors, on the basis of the borrower's cash flow and other loans granted to low-income households to enable them to raise their income levels and improve their living standards.

The rationale behind the variety of our microfinance loan products is to customize them in accordance to the type of business and cash flow that different businesses have. Example of this is the cash inflow of sari-sari stores, barber shops, bakeries and market vendors is different from that of consignment businesses; the former cash flow is daily while the latter could be weekly or monthly, depending on the arrangement between the consignor and consignee. Cash flow is one of the factors the bank is considering in what suitable product to offer.

The level of growth is also being considered, manifested by their proof of sales or value of their regular purchases. As businesses grow, expand and diversify, its financial need becomes bigger and the frequency of their repayments also becomes diverse. This is the reason why we have various microfinance products to address the different financial and repayment frequency requirements of clients.

REGULAR LOAN

Regular loans are fully secured term loan granted to qualified individuals, single proprietors, partnership or corporations.

Secured loan products are being offered based on the classification of borrower's business (e.g., small, medium or large) as they have different financial requirements and asset value (more than Php 3M to Php 15M for small; more than Php 15M to Php 100M for medium; more than 100M for large)

The bigger the business, the bigger and longer the terms are needed. This is the reason why Small Business Loan offers a higher loan amount and longer terms.

Multi-purpose loan (MPL) is being offered to employees who are in need of money to cover their emergency expense such as home improvement, utility bills, and medical expense, among others

SAVINGS ACCOUNT

Savings account is an interest-bearing account in which deposits are made for an indeterminate period of time. Deposits and withdrawals are evidenced by deposit and withdrawal slips, respectively, and are recorded in a savings passbook. Various savings accounts are being offered, other than the regular savings that most banks are offering, such as "Micro Savings" and "Kiddie Savings" to encourage the small savers (e.g. micro entrepreneurs, self-employed, professionals) and children to start saving, even in small amount, and obtain the habit of it in preparation for their future.

Depositors can also avail the "Special Savings" that offers a competitive interest compared to what is being offered in the market. The bigger and the longer the deposit amount, the higher the interest gain. Time deposit for five (5) years or longer is exempted from the 20% withholding tax.

PRESIDENT'S MESSAGE

CATALINO T. SOLIDUM
DIRECTOR, PRESIDENT & CEO

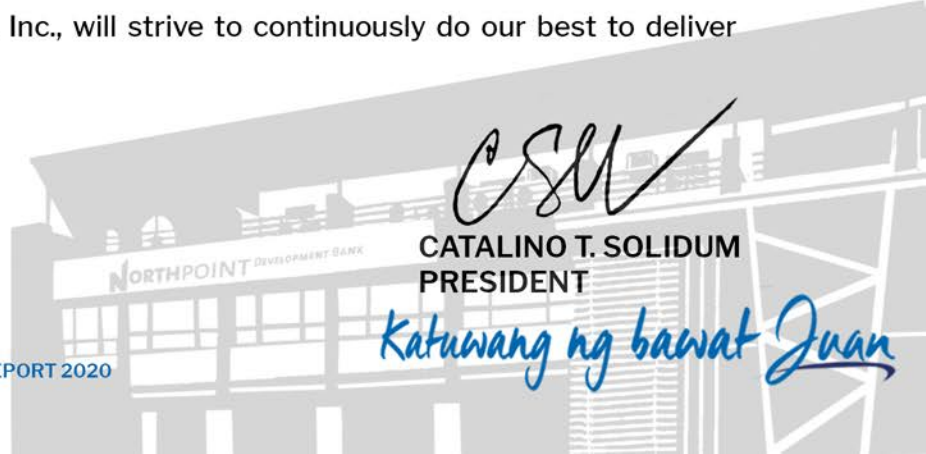
Year 2020 has been a challenging year for all of us, due to the Covid-19 pandemic. Northpoint Development Bank Inc. (NDB), just like any financial institution in the country, was not spared from the negative effects of the pandemic. Despite the pandemic, the Bank grew its Total Assets by 5.99% and gained 6.2 Million net income by the end of the year. The Bank adopted a more conservative Provision Policy that resulted to an increase in our Allowance for Credit Losses. Loans and Receivables - Net showed minimal decrease of .34% compared to 2019.

In the 1st quarter of the year, the Bank was able to generate a moderate net income which served as a buffer to face the declined loan releases as well as meet the operating expenses. Various measures were adopted to ensure survival in the 2nd quarter, primarily minimizing our operating expenses that had great impact on our employees' welfare. The Bank had to go through the process of adopting a skeletal work schedule from March until the end of the year. Due to the heightened government restrictions that limit us to continuously perform our usual business operations, the Bank was forced to implement an employee retrenchment process. This retrenchment left us with a 7% decrease in manpower compared to 2019 manpower count. To ease the burden and worries of our employees, financial support was provided to ensure that our employees survive the challenging times brought by the pandemic.

During the 3rd quarter of the year, the Bank operations started to normalize due to the government's initiative to relax business restrictions, particularly the removal of the lockdowns from various cities and provinces especially those areas covered by our Branch-Lite Units. The government through Bangko Sentral ng Pilipinas (BSP) provided relief to borrowers who experienced difficulty in paying their loans, through the implementation of the Bayanihan Act. In support to this, the Bank also initiated to implement the reduction and waiver of fees to somehow alleviate our customers' worries on how they can cope with their loan obligations. Towards the last quarter, the Bank focused on collection that resulted to a 104% growth rate in the 2nd half of 2020 compared to the 1st half collection performance. Total loan releases for the 2nd half, showed 51% growth compared to the 1st half.

Throughout the year, our people have shown tremendous commitment and sacrifice to help the Bank improve its operation during this time of uncertainty. We thank all our people for their dedication and hard work. We also thank the Board of Directors and the Shareholders for their support and continuous guidance. Most especially, we thank all our customers for their trust in making NDB their business partner.

We at Northpoint Development Bank, Inc., will strive to continuously do our best to deliver excellent service to our customers



CATALINO T. SOLIDUM
PRESIDENT

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FINANCIAL HIGHLIGHTS

MINIMUM REQUIRED DATA	CURRENT YEAR 2020	PREVIOUS YEAR 2019
Profitability (Php)		
Total Net Interest Income	251,776,545.00	341,912,217.00
Total Non-Interest Income	32,834,974.00	38,489,410.00
Total Non-Interest Expenses	181,001,413.00	224,944,525.00
Pre-Provision Profit (Php)		
Allowance for Credit Losses	94,325,599.00	91,096,774.00
Net Income	6,211,320.00	45,061,374.00
Selected Balance Sheet Data (Php)		
Liquid Assets	238,965,910.00	195,977.091.00
Gross Loans	627,292,888.00	578,627,507.00
Total Assets	900,166,085.00	849,407,972.00
Deposits	433,031,851.00	385,116,205.00
Total Equity	418,498,484.00	412,885,051.00
Selected Ratios		
Return on Equity	1.49%	11.54%
Return on Assets	0.71%	5.83%
Others		
Cash Dividends Declared (Php)	-	-
Headcount	-	-
Officers	16	17
Staff	516	575

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CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO

	CURRENT YEAR 2020	PREVIOUS YEAR 2019
Tier 1 Capital (Php)		
Paid-up Common stock	400,000,000.00	400,000,000.00
Retained Earnings	12,741,957.00	(32,319,417.56)
Undivided Profits	6,211,320.00	45,061,374.00
Deferred tax asset, net of deferred tax liability	(47,905,827.00)	(33,793,980.00)
Total Core Tier 1 Capital	371,047,450.00	378,947,976.44
Tier 2 Capital (Php)		
Paid-up perpetual and cumulative preferred stock	-	-
General loan loss provision	4,724,459.39	7,060,633.74
Total Core Tier 2 Capital	4,724,459.39	7,060,633.74
Gross Qualifying Capital	375,771,909.39	386,008,610.18
Deductions from Tier 1 and Tier 2 capital;		
TOTAL QUALIFYING CAPITAL	375,771,909.39	386,008,610.18
Capital Requirements for Credit Risk;	462,881,132.72	701,139,870.47
Capital Requirements for Market Risk;	-	-
Capital Requirements for Operational Risk;	481,749,237.28	379,610,349.83
Total and Tier 1 Capital Adequacy Ratio	39.78%	35.72%

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RISK MANAGEMENT

I. RISK MANAGEMENT OVERVIEW/PHILOSOPHY

Every business encounters risk, some of which are predictable and under management's control and others are unpredictable and uncontrollable. Such risk, if not properly handled, may cause financial hardship severe enough to cripple or bankrupt an entity. Northpoint Development Bank, Inc., being in the business of banking, recognizes its vulnerability to various forms of risk. Thus, NDB ensures that identification, monitoring and mitigation of risk are incorporated in the bank policies and procedures.

II. RISK APPETITE AND STRATEGY

The risk appetite is the level of risk that NDB is willing to assume in order to achieve its vision and business objectives. Risk appetite and strategy are annually reviewed. The Board of Directors is continuously guiding the management and approving the risk strategy after considering all the risk inputs and recommendations of all business units based on their Business Plan/Budget which includes financial projections, challenges encountered, and action plan to ensure acceptable performance.

The significant risk exposure of the Bank is Credit Risk. Considering the fact that we are rendering financial assistance to the vulnerable sector which are the micro entrepreneurs, evaluation of the data is strictly done to come up with immediate actions to handle the past due accounts. Lending of micro finance/unsecured loans represent 78% of total loan portfolio as of December 31, 2020.

III. RISK MANAGEMENT PROCESS

The bank is using a "three line of defense" model to manage risk. The first line of defense is the business units. They identity, monitor and mitigate the risk inherent in the bank's products, processes, activities and systems. The Compliance Department is the second line of defense, responsible to oversee the risk involve in the regulatory compliance. The third line of defense is the Internal Audit Department, tasked to evaluate if the risk management framework is sufficient, effective, and implemented by the first and second line of defense. The Compliance and Internal Audit Department report directly to the Audit and Compliance Committee.

The following are the risk identified, monitored and controlled for each classification;

Credit Risk The level of risk that NDB is willing to assume in terms of our lending operation, given that we render financial assistance to vulnerable sector (Micro Entrepreneurs) is based on the following parameters: capacity to pay based in their cash flow, good payment history, sustainable business and market conditions, that is, current and future demand of their products or services are enough to generate profits and cash flows to pay their obligations and operate their buisness.

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Liquidity Risk The Bank's Treasurer regularly apprises the Board of Directors regarding NDB's liquidity profile. Aside from monitoring compliance with the minimum ratio, liquidity position is monitored using a maturity gap report. Periodic liquidity stress testing is also conducted to evaluate the potential effects of severe plausible scenarios. Contingency Funding Plan is in place which incorporates specific trigger points on when to activate the contingency measures and lists appropriate funding sources in case of stress events.

Market Risks Exposure to market risk primarily arises from movements in interest rates on loans, deposits in banks, investments in corporate bonds, and deposit liabilities. Changes in loan and deposit interest rates are decided and approved by the Board. Rates are fixed until maturity at levels that provide high net interest margin. The huge spread between rates on loans and deposits gives the Bank a larger buffer for absorbing the impact of potential adverse movements in interest rates.

Policy on interest rate setting and pricing is in place. An interest rate repricing gap report is regularly prepared to measure, monitor, and control repricing risk in order to anticipate and effectively respond to interest rate movements and ensure adequacy of margins to support target growth.

Compliance Risk The scope of compliance testing covers all relevant laws, rules and regulations affecting NDB. The Audit and Compliance Committee (ACC) is apprised of the results of the compliance testing as well as the status of previous BSP directives and other regulatory requirements. The Chief Compliance Officer (CCO) keeps track of accomplishments in the compliance plan and reports the status to the ACC. Recent issuances relevant to the banking and operations are likewise disseminated by the CCO to the Board of Directors and employees.

Operational Risk The Bank does not accept risks that could result in a significant loss of its revenue bases. Hence, the bank ensures that the targets set in the business plan in terms of loan releases, collection, loan restructuring, accounts under litigation (SCC / B.P 22), fraud cases, and business expansion are all met to have a profitable bottom line. All of these are being monitored on a monthly basis so that challenges such as: human failures, fraud, unmarketable product offerings, faulty operational processes, fully saturated areas, among others, can be resolved immediately.

In line with the NDB continuing commitment to contribute in the global fight against money laundering and terrorist financing, the NDB Money Laundering and Terrorist Financing Prevention Program (or MTPP for brevity) is crafted to ensure that the bank is not utilized by any unlawful element to launder money, finance terrorism or legitimize organize crime fronts. Through the said program, NDB will be able to effectively implement the provisions of Republic Act (R.A) No. 9160, otherwise known as the "Anti-Money Laundering Act of 2001" (AMLA), as amended by R.A Nos. 9194, 10167, and 10365, as provided under Rule 18 of Revised Implementing Rules and Regulations (RIRR) of the AMLA, as well as R.A No. 10168 or the Terrorism Financing Prevention and Suppression Act of 2012, as provided under Rule 27 of its Implementing Regulations (IRR), AMLC Regulatory Issuance (ARI) A, B and C, No. 1 Series of 2020, and the Monetary Board, in its Resolution No. 334 dated 23 February 2017 approved the following amendments for the Part Eight of the Anti-Money Laundering Regulations of the Manual of the Regulations for the Banks (MORB).

CORPORATE GOVERNANCE

NDB sees to it that the interests of the bank's many stakeholders are balanced and duly governed. It believes that the key to long-term sustainability and success largely depends on how the Bank behaves, which could be expressed in all of its dealings, not only with its stockholders and employees, but also with customers, environment and the community at large. Thus, the Bank has continuously expressed its behavior throughout the years on the following:

1. To ensure accurate and transparent reporting, the bank hired an external independent auditor to ensure that our financials are declared and reported appropriately, free of fraud, and strictly compliant.

2. To help improve the plight of its customers, it evaluates their overall situations, which includes financial status, competency and feasibility of the business. It provides financial assistance to help improve their financial standing, achieve their dreams, and not to add more financial burden by merely focusing on increasing its loan portfolio. Customers' competencies and potentials are also being considered.

3. To make sure that its dealings with customers are completely transparent, it discusses and informs all the terms and conditions to the customers before signing of any contracts. For their concerns or complaints, the bank dealt it with urgency, and judiciously.

4. To help the public, it constantly finds ways to help improve the situations in the community, which can be accomplished in many ways, such as: feeding the marginalized sectors, education, tree planting, etc.

To ensure properly structured board, Independent directors are brought in yearly, in accordance to their experience, to ensure impartiality as they do not share the ties of the insiders or majority stockholders. They dilute the concentration of power and help align the interest of all its stakeholders. This includes the creation of various committees: Internal Audit Committee and Corporate Governance Committee to guarantee the provision of an independent and objective judgment on significant corporate matters, and key issues; that the strategies are objectively reviewed, constructively challenged, and thoroughly examined.

The Board of Directors formally incorporated the established governance policies and practices in accordance with Bangko Sentral ng Pilipinas (BSP) Circular No. 969 "Enhanced Corporate Governance Guidelines for BSP-Supervised Financial". The Board aims to promote adherence and further strengthen the Bank's commitment to good corporate governance.

This is in conjunction with the Bank's Articles of Incorporation, By-Laws and the charters of the Board Committees constitute the governance framework of the Bank.

The Board of Directors, management, officers and staff of the Bank hereby commit themselves to the principles and practices contained in the Corporate Governance Manual and acknowledge that the same will be their guide to principled actions and responsible conduct in the development and achievement of our corporate goals. To enjoin Bank-wide compliance, the said Manual is cascaded to officers and staff of the Bank. A digital copy of the Manual is made available through the file server and compliance library for easy access by all employees, officers and directors of the Bank.

The position of a bank director is a position of trust. A Director assumes certain responsibilities to different constituencies or stakeholders, e.g., the Bank itself, its stockholders, its depositors and other creditors, its management and employees, and the public at large. The Board is also responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the Board is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the Bank.

BOARD OF DIRECTORS COMPOSITION 2020

STOCKHOLDERS	TYPE OF DIRECTORSHIP	NUMBER OF YEARS SERVED AS DIRECTOR	NUMBER OF SHARES	PERCENTAGE OF SHARES
Ramon B. Manzana	Chairman of the Board	8 years	799,999	19.99%
Catalino T. Solidum	Executive	4 years	1	0%
Victor C. Ongtenco	Executive	8 years	800,000	20%
Paulino C. Ongtenco	Executive	8 years	800,000	20%
Robert J. Tan	Independent	8 years	1	0%
Edwardson L. Ong	Independent	8 years	1	0%
Catalina T. Calderon	Executive	7 months	1	0%

BOARD OF DIRECTORS MEETING 2020

DIRECTORS	BOARD NO. OF MEETINGS		AUDIT & COMPLIANCE COMMITTEE NO. OF MEETINGS		CORPORATE GOVERNANCE NO. OF MEETINGS	
	Attended	%	Attended	%	Attended	%
Ramon B. Manzana	11	100%	-	-	-	-
Catalino T. Solidum	11	100%	-	-	-	-
Victor C. Ongtenco	11	100%	-	-	-	-
Paulino C. Ongtenco	11	100%	2	25%	1	100%
Robert J. Tan	11	100%	8	100%	1	100%
Edwardson L. Ong	10	91%	7	87%	1	100%
Catalina T. Calderon	7	64%	6	75%	0	0%

SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

The members of the Board have been selected by NDB's stockholders who are entitled to vote at the Bank's Annual Stockholders' meeting held annually on the month of June. The nominees receiving the highest number of votes are declared elected and to hold office for one (1) year unless re-elected or until their successors are elected. Members were selected based on the knowledge, skills and experiences required to meet the needs of the bank in accomplishing its strategic objectives and as it move toward its vision. All members should be fit and proper for the position of a director with proven integrity/probity, physical and mental fitness, and assiduousness, independence of mind and sufficiency of time to carry out the responsibilities of a director. All current members are qualified as they have met the strict qualifications of BSP for directors of a thrift bank.

For Senior Executives, the Corporate Governance Committee plays a major role in the selection of senior executives of the bank as it determines whether the nominees are fit and qualified to be appointed to senior management. The Committee reviews and evaluates the qualifications by applying the fit and proper standard, integrity, functional and technical expertise and experiences in the institution's business as key considerations.

MAJOR ROLE AND CONTRIBUTION OF THE CHAIRMAN OF THE BOARD

Among the list of roles of the Chairperson of the Board or Directors, his major part and contribution is to provide leadership in the Board of Directors by ensuring that all members are effectively functioning.

Chairman Ramon B. Manzana has done this by always ensuring that the monthly board meeting agenda focuses on strategic matters and other key governance concerns, including risk management. He sees to it that all decisions made by the body have undergone a sound decision making process by encouraging critical discussion and entertaining dissenting views after receiving all material information or facts needed to make an educated and well calculated decision.

The Board is composed of seven (7) members: four (4) non-executive directors, one (1) executive director, and two (2) independent directors.

RELEVANT QUALIFICATIONS, AGE, AND NATIONALITY OF THE EXECUTIVE OFFICERS/SENIOR MANAGEMENT

Executive Officers/Senior Management must have a bachelor's degree in Business Administration or its equivalent, 15 years work experience in performing executive or managerial functions in a bank or any similar financial institutions. A post graduate degree or units in the field of business management is preferred. Nationality requirement is Filipino, while age requirement is dependent upon the Board of Directors/Stockholders.

PROCESS ADOPTED IN ASSESSING THE PERFORMANCE OF THE BOARD AND SENIOR MANAGEMENT

The Board is being assessed annually by undertaking a constructive but a critical review of their own performance, as board or committee members, and collectively, identifying his individual strengths and weaknesses and that of the Board and its committee in the conduct of their businesses. One of the objectives of this assessment is to get a consensus on targeted improvements as it includes plans and recommendations of the members of the Board/Committee on how to further improve its performance.

The performance assessment has three (3) levels:
1.) Board level assessment,
2.) Committee level assessment, and
3.) Individual Director Assessment

Considering the following key evaluation factors, such as: the functions of the board, board strategy and effectiveness, board structure and committees, board and management relations and training and value creation, among others.

REMUNERATION OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

As for the remuneration of the Directors of the Bank, no compensation is being paid to any director as such, but the Directors of the Bank are given reasonable honoraria for attendance at meetings subject for approval of the Stockholders.

At present, the remuneration of the President and the four (4) most highly compensated officers of the Bank are determined by the Board of Directors. To help attract and retain talents, the remuneration of the top officers are included in the standardization of the Salary Pay Scale which the Bank is currently processing.

INTERNAL AUDIT AND COMPLIANCE FUNCTION

Internal Audit Department (IAD)– Internal Audit Department is established by the Board of Directors or oversight body (referred to as the Audit Committee). The Internal Audit activity's responsibilities are defined by the Board as part of their oversight role. The Internal Audit Department independently examines and evaluates the risk. The Audit Committee is a Board sub-committee composed of two independent directors and one non-executive director.

The Bank's Board of Directors has the ultimate responsibility for ensuring that senior management establishes and maintains an adequate and effective system of internal controls, a measurement system for assessing the various risks of the Bank's activities, a system for relating risks to the Bank's capital level and appropriate methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Internal Audit Department is an independent, objective assurance and consulting activity designed to add value and improve an organization's approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Internal Audit Department will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures frequency, and timing to report content to permit maintenance of a necessary independent and objective mental attitude.

Internal audit function is part of the on-going monitoring of the system of internal controls and of the Bank's internal capital assessment procedure, because it provides an independent assessment of the adequacy of, and compliance with the Bank's established policies and procedures. As such, Internal Audit Department assist members of the Bank in the effective discharge of their responsibilities.

Internal Audit personnel shall be authorized to have unrestricted access to all functions, records, property, personnel allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required, and obtain necessary assistance of personnel in units of the Bank where they perform audits as well as other specialized services from within and outside of the Bank.

Corporate Compliance Department- The Corporate Compliance Department (CCD) is independent of the business activities of the Bank. The CCD should be able to carry out the responsibility on its own initiative in all units or departments where business risks exists and must be provided with sufficient resource to carry outs responsibilities effectively. The CCD is headed by the Compliance Officer and manned by compliance officer/staff. The Compliance Officer reports functionally to the Board of Directors thru its Board Committee and administratively to the President. The role of the CCD is to assist the Board of Directors and Senior Management in ensuring reasonable basis that bank-wide activities of the Bank and its employees are in conformity with applicable laws and regulations, code of conduct, policies and procedures and generally with sound banking practices.

The compliance function is to oversee the design of the Bank's compliance program, promote its effective implementation and address breaches that may arise. Corporate Compliance is part of the culture of the Bank and is matter of concern of all directors, officers, and personnel. The CCD acts as contact point within the Bank for compliance issues. The Corporate Compliance Officer shall promote a clear and open communication process within the Bank to allow free flow of information to help ensure compliance issues are resolved expeditiously. It also establishes written guidance on the most relevant implementation of related laws, rules and policies, assesses the Bank's compliance procedures and guidelines, formulate proposals if any, test and monitor the Bank unit's compliance to regulatory rules by performing representative compliance testing, and maintains a constructive working relationship with regulatory agencies and bodies.

RETIREMENT AGE FOR BOARD AND SENIOR MANAGEMENT AND TERM LIMIT OF THE MEMBERS OF THE BOARD

Retirement, retirement age of Board of Directors and Senior Management is dependent upon the Board of Directors/Stockholders. While an Independent Director may only serve as such for a maximum cumulative term of nine (9) years. After which, the Independent Director shall be perpetually barred from serving as Independent Director in the same bank, but may continue to serve as regular director. The nine (9) year maximum cumulative term for Independent Directors shall be reckoned from 2012.

POLICIES AND PROCEDURES FOR DECLARING DIVIDENDS

The Board has the discretion to declare or grant dividends to its stockholders when it deemed financially justified such as when its retained earnings is in excess of 100% of its capital stock, among others, except when it's prohibited to do so by virtue of a loan agreement with any creditor from declaring dividends without its consent or when retention is necessary such as when there is a need for a special reserve for probable contingencies.

ORIENTATION AND CONTINUING EDUCATION

All new directors joining the Board are required to undergo an orientation program within three (3) months from date of election or appointment. This is intended to familiarize the new directors on their statutory/fiduciary roles and responsibilities in the Board and Committees, the Bank's strategic plans, enterprise risks, business activities, compliance programs, code of business conduct and ethics, and Corporate Governance Manual. All directors are also encouraged to participate in continuing education programs at the Bank's expense.

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

In addition to the Bank's company's vision and mission of improving the lives of the Philippine marginalized sectors through financial inclusion, it is also pushing further to be more socially accountable, not just to itself and its stakeholders, but also to the community at large by engaging into other activities that will bring the highest possible impact economically, socially and environmentally.

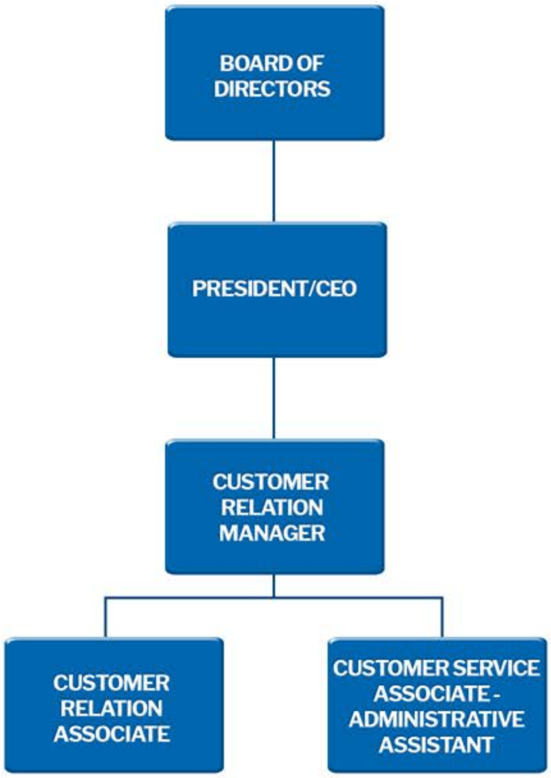
There are many challenges that the country faced in 2020. In the first quarter of 2020, the Luzon Area was affected by the eruption of Taal Volcano. There are many Filipino citizens who where displaced in their community due to the danger brought by the eruption. With this, NDB conducted supplies giving in the barangays of Sta. Ana, San Joaquin, and San Gregorio at San Pablo, Laguna.

NDB believes that employees that engage in corporate social responsibility initiatives will uplift their morale and engagement in the Bank, as they knew that they are part of giving back to the community.

CONSUMER PROTECTION AND ASSISTANCE

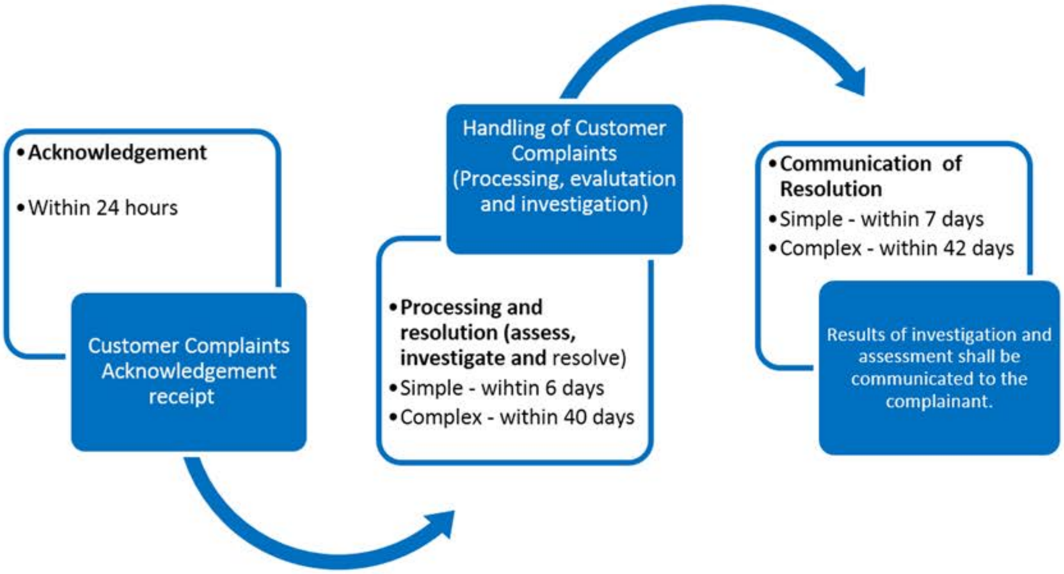
Northpoint Development Bank, Inc. is responsive to the needs and welfare of its customers and gives the highest value to its customers, being the lifeblood of the bank, making sure that all customers are given a great experience or a good service the least. In order to provide a well-defined perspective and direction in achieving the Bank's mission, vision and objectives, a Consumer Assistance Management Policy is in placed which guide the Management in handling inquiries and complaints. Complaints are handled by the Marketing Department, who evaluates and acts on issues within the prescribed turnaround time. Status and actions taken are reported monthly or more frequently as necessary, to the Branch Banking Group Head and Management Committee. A database that scores the details of the complaints, status and date of receipt and resolution is likewise maintained. There is no known negative publicity or complaint against the Bank or any of its directors and officer.

Corporate Structure of the Group on Customer Assistance



Katuwang ng bawat Juan

PROCESS AND TURNAROUND TIME



The Board of Directors is responsible for granting effective recourse to its customer. In relation thereto, the Board:

1. Approve the Customer Assistance policies and procedures
2. Approved Risk Assessment Strategies relating to Effective Recourse by the Customer
3. Ensure compliance with Customer Assistance policies and procedure
4. Provide adequate recourse devoted to Customer Assistance and
5. Annually review the Customer Assistance policies

The Senior Management is responsible for the implementation of the Customer Assistance policies and procedures.

Fair treatment ensures that financial costumers are treated fairly, honestly, professionally and are not sold inappropriate and harmful financial products and services. These include general rules, such as those addressing ethical staff behaviour, acceptable selling practices as well as regulating products and practices where customers are more likely to be offered services that are inappropriate for their circumstances. Consumers are given clear, sufficient, reliable, comparable and timely information before, during and after sale. All financial, promotional material should be accurate, honest, understandable and not misleading.

CONSUMER ASSISTANCE

In relation to BSP released Memo No. 2020-059 on the implementation of the Consumer Assistance Management System (CAMS) Chatbot also known as the BSP Online Buddy (BOB), the Bank adopts the CAMS chatbot to escalate concerns against the Bank, including the chatbot's access in the Bank's website and all marketing materials. This implementation will allow consumers to immediately and directly respond through the medium that was used in escalating their concerns.

RELATED PARTY TRANSACTIONS

Related Party Transactions (RPTs) policy includes the following:

1. All RPTs are conducted at arm's length basis and compliant with applicable regulatory limits/requirements. Said transactions are made and entered into, on terms and conditions substantially not less favorable than those with other customers of comparable risks.

2. All transactions below the considered material between related parties require approval by any of the two (2) members of the Management Committee (MANCOM), subject to confirmation of the Board of Directors. This shall exclude DOSRI transactions which are required to be approved by the Board of Directors. Any renewal or material changes in the terms and conditions of RPTs are also approved by the Board of Directors.

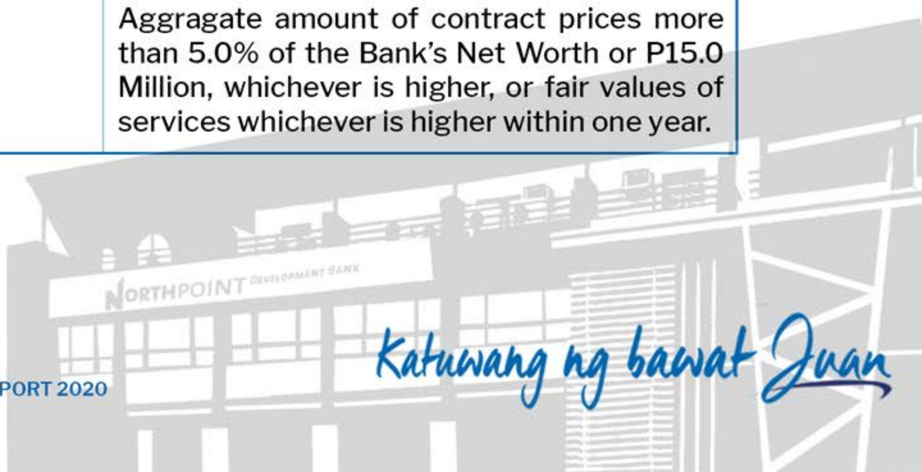
3. If an actual or potential conflict of interest arises on the part of a director, officer or employee, he is mandated to fully and immediately disclose the same and does not participate in the decision-making process relating to the transaction.

4. Any member of the Board who has an interest in the transaction under discussion does not participate therein and abstains from voting on the approval of the transaction. The fact that such director abstained from deliberation and approval of such transaction is duly recorded in the minutes of the meeting.

5. Any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party subjects the RPT to the requirements of this policy.

Materiality Threshold –the following RPTs shall be considered material:

RPT TYPES	MATERIALITY THRESHOLD
On and off balance sheet financial assets and liabilities	Aggregate exposure of more than 5.0% of the Bank's Net Worth or P15.0 Million, whichever is higher
Sale, purchase, lease, or transfer of assets	Aggregate amount of contract prices more than 5.0% of the Bank's Net Worth or P15.0 Million, whichever is higher, or fair values of assets whichever is higher within one year.
Service arrangements/contracts	Aggragate amount of contract prices more than 5.0% of the Bank's Net Worth or P15.0 Million, whichever is higher, or fair values of services whichever is higher within one year.



6.) The following transactions shall NOT be categorized as RPTs:

- Executive Officer and Director compensation arrangements;
- Transactions with a related party for trust, funds depositary or similar payment;
- Transactions granted under Bangko Sentral approved fringe benefit programs; and
- Transactions available to all employees in general such as deposit transactions.

7.) Internal Limits:

Total related party credit exposures shall NOT EXCEED 30% of the total credit exposures or 50% of the net worth of the Bank, whichever is lower. Breaches in limits shall be reported to the Board of Directors (BOD) with the decision of the BOD to accept the exposure or to take steps to address the breaches, as may be necessary.

8.) All Related Parties shall undergo the Vendor Management Process and shall be part of the Canvassing Process (from at least 3 accredited suppliers / service provider) of the Bank.

ORIENTATION AND EDUCATION PROGRAM

Northpoint Development Bank, Inc., vision is to enable its employees to gain knowledge, acquire skills, and cultivate the right attitude. The Bank approaches are varied, ranging from developmental to improvement programs, ensuring that all its employees are both capable and competent to perform their respective duties. Our Bank is continuously improving its employees' careers through succession and advancement planning modules, to prepare them as they climb the corporate ladder.

In the early quarter of 2020, various trainings were conducted to enhance the skills of the banks' leaders such as the leadership training, behavioral and technical training. Newly hired employees are required to attend pre-onboard orientation for them to be knowledgeable about the company's vision, mission and values, to serve as their guide or moral compass in all their work-related situations.

On the other hand, due to the pandemic, the Bank adopted an online learning and development process to ensure continuous improvement and development of our employees. Several webinars were conducted that focused in helping the employees cope up with the effects of the pandemic, both on performance and stress management. E-Modules were also adopted in facilitation of company orientation and Anti-Money and Laundering Act.

PERFORMANCE ASSESSMENT PROGRAM

Northpoint Development Bank, Inc., has an internal Performance Management System (PMS) and procedures to determine and measure performance rating of all employees in the company. There is monthly monitoring of the employee's Individual Performance Goal, annual Employee Performance Appraisal System and quarterly review of the Department's business plan to ensure that all employees and Department have continuous improvement.

In consideration of the effects of pandemic to the employees performance, the PMS is one support system that helps in determining the interventions to be made to ease the internal and external challenges that the employees faced. With this, the Bank managed to survive the pandemic and still continuing to improve and sustain its performance.

The bank believes that high productivity is translated into profit results, and motivation for excellent achievement is needed to sustain the same. Performance awards and recognition is also given to those employees and Branch-Lite Units that showed resiliency and excellence during these difficult times.

REMUNERATION MECHANISM

As one of the major mediums in motivating employees, and to express the level of recognition on employee's skills, experiences, importance, and productivity, among many others, the Bank made sure that all relevant elements have been considered to come up with a suitable compensation program.

Remuneration given to NDB's personnel is based on various factors, such as: educational attainment, skills, experience, duties and responsibilities and performance. Other factors are also considered such as the bank's financial and economic condition, including competitors' compensation offering, so that the bank will be able to offer a competitive offering or adjustment to both new and existing employees, respectively. The company also ensures to comply to labor laws, making sure that statutory compensation and benefits are given.

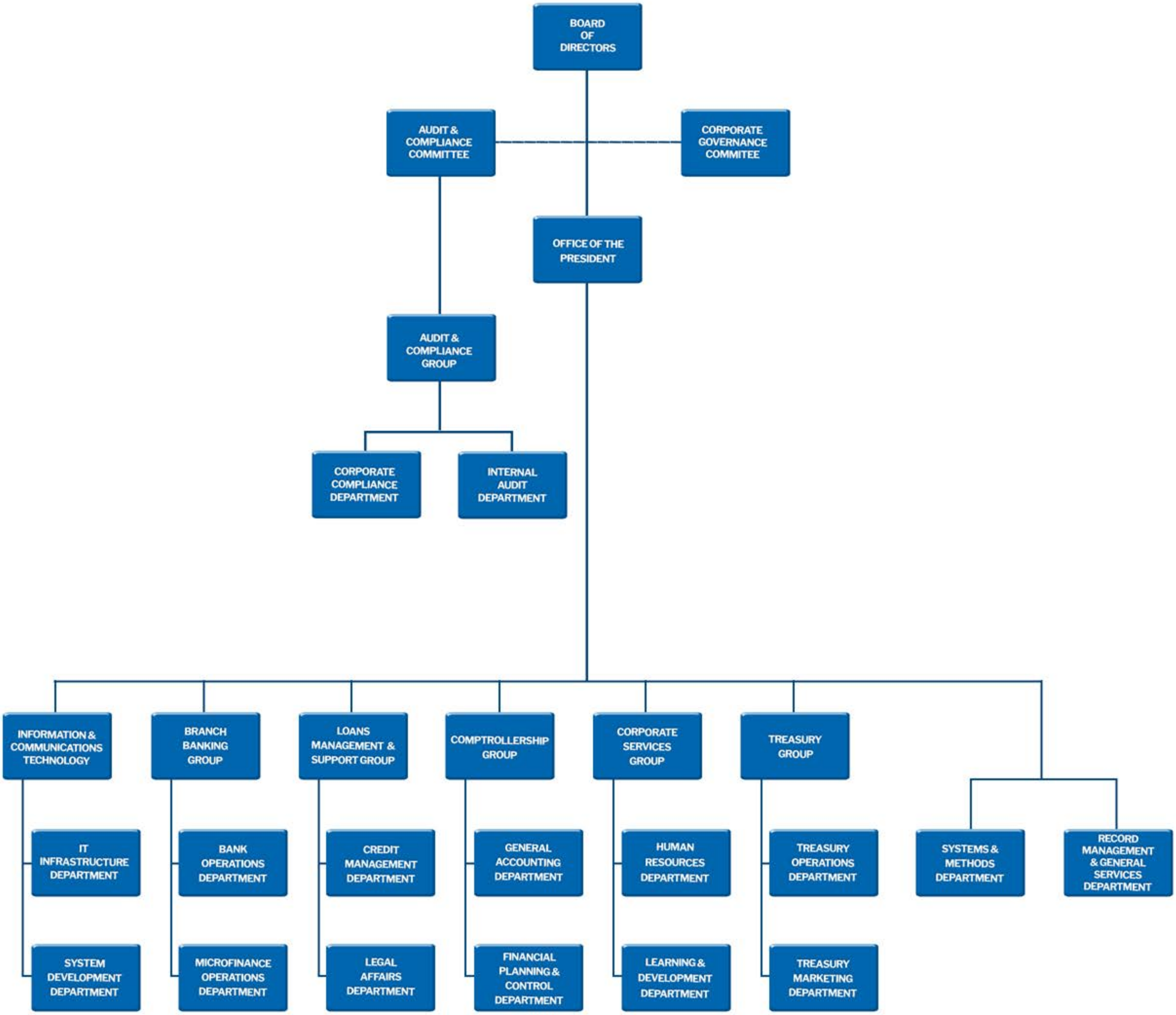
Currently, the Bank is in the process of institutionalizing its Job Grade Structure and Salary Pay Scale Design to ensure each employee in the organization gets fair and objective salary increase based on approved budget and performance evaluation.

SUCCESSION POLICY

Northpoint Development Bank, Inc., has a succession policy which aims to create a pool of future officers that will serve as successors to those who hold critical positions in the organization, as they part or reach their retirement age. It also identifies and tapped potential leaders in the organization, keeping them motivated and on track within their career path.

The Northpoint Development Bank, Inc., Policy also provides procedures and guidelines in the assignment and development of potential successors to incumbent officers. In alignment with its education program, the Bank strives to ensure a smooth and efficient process for preparing outstanding employees as they transition to a higher post.

ORGANIZATIONAL CHART



Katuwang ng bawat Juan

BOARD OF DIRECTORS

The Board of Directors is primarily responsible for the governance of the Bank. It is the Board's responsibility to foster the long-term success of the Corporation and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which is exercised in the best interest of the organization, its shareholders and other stakeholders. The Board conducts itself with utmost honesty and integrity in the discharge of its functions, duties, and responsibilities.

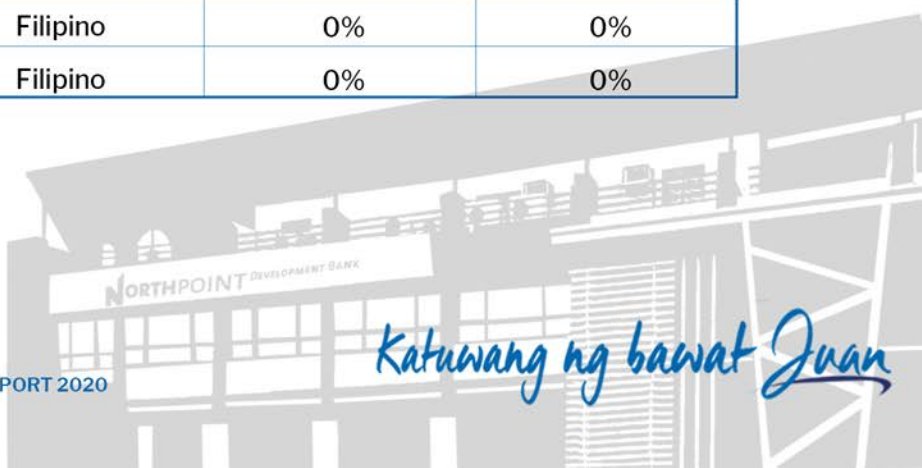
COMPOSITION OF THE BOARD

a. The business affairs of the Bank are conducted under the supervision and control of a Board of seven (7) Directors. To the extent practicable, the members of the Board of Directors are selected from a broad pool of qualified candidates. Non-executive directors, including those independent directors, are comprise of at least majority of the Board of Directors to promote the independent oversight of management by the Board to promote the independent oversight of the management of the bank. The stockholders of the Bank elect the members of the Board during the annual meeting.

b. At least one-third (1/3) but not less than two (2) members of the board of directors are independent directors. Any fractional result from applying the required minimum proportion of one-third (1/3) shall be rounded up to the nearest whole number.

STOCKHOLDERS AND THEIR STOCKHOLDINGS AS OF 2020

STOCKHOLDERS	NATIONALITY	PERCENTAGE OF STOCKHOLDINGS	VOTING STATUS
Ramon B. Manzana	Filipino	20%	20%
Alex C. Ongtenco	Filipino	20%	20%
Thomas C. Ongtenco	Filipino	20%	20%
Paulino C. Ongtenco	Filipino	20%	20%
Victor C. Ongtenco	Filipino	20%	20%
Robert J. Tan	Filipino	0%	0%
Edwardson L. Ong	Filipino	0%	0%
Catalino T. Solidum	Filipino	0%	0%
Catalina T. Calderon	Filipino	0%	0%



BOARD QUALIFICATIONS

NAME	AGE	NATIONALITY	QUALIFICATIONS
Ramon B. Manzana *Chairman of the Board*	64	Filipino	Mr. Manzana is the Chairman of the Board since June 2012. He is likewise the Managing Director of Bank of Makati (A Savings Bank). He also occupies key positions in various companies – President of Honda Prestige Traders, Inc., Chairman of the Board of Trustees of Tanglaw ng Buhay Foundation, Treasurer of Masters Academy and Trustee/Elder of the Christ Commission Fellowship (CCF). He previously served as President of the Federation of Metro Manila Rural Bankers, Inc. and Director of the Rural Bankers Association of the Philippines (RBAP).
Catalino T. Solidum *Director*	65	Filipino	President Solidum is a seasoned banker with over 40 years of banking experience. Before joining Northpoint, he was First Vice President of BMI Finance Corporation. He also held various management positions in branch banking and lending operations at Bank of Makati (A Savings Bank) and Security Bank. He was also a former Examiner of the Bangko Sentral ng Pilipinas (BSP) for more than a decade. He is a Certified Public Accountant and a graduate of De La Salle University- Manila.
Victor C. Ongtenco *Director*	50	Filipino	Mr. Victor C. Ongtenco is a Director of the Bank since June 2012. He also serves as Business Development Head of Motortrade Nationwide Corporation. He spearheaded the active marketing campaigns of the company which allowed it to maintain its leadership in motorcycle dealership all over the Philippines. He likewise holds key positions in various companies – President of Transnational Properties, Inc. and Vice President of Veradex Development Corporation. He holds a bachelor's degree in Industrial Design from Carleton University in Canada.

Paulino C. Ongtenco *Director*	58	Filipino	Mr. Paulino C. Ongtenco is a Director of the Bank since June 2012. He is the President of Motortrade Nationwide Corporation, one of the leading motorcycle company in the country today. He likewise holds board and management positions in Fundline Finance Corporation, Global Reciprocal Colleges, and Haodeng Holdings, Inc.
Robert J. Tan *Independent Director*	62	Filipino	Mr. Robert J. Tan is an Independent Director of the Bank since 2012. He is likewise the President and CEO of Trans-system Hydraulic and Equipment Supply, Inc. He also holds key position in various companies - as President of Trackstar Enterprise Corp.; Treasurer of King Jelly Bar Manufacturing, Khalam Realty Development Corp. and Sinim Realty Development Corp.
Edwardson L. Ong *Independent Director*	41	Filipino	Atty. Edwardson L. Ong is an Independent Director of the Bank since 2012. He is currently a Partner in PECABAR Law (Ponce Enrile Reyes and Manalastas Law Offices). He has been in law practice for more than a decade already. He holds a bachelor's degree in Management Economics and Law (second honors) both from the Ateneo de Manila University. He was admitted to the Philippine Bar in 2004 and passed the New York Bar Exam in 2008.
Catalina T. Calderon *Director*	63	Filipino	Ms. Catalina T. Calderon is a newly elected Director of the bank last June 2020. She is a Certified Public Accountant and a graduate of Polytechnic University of the Philippines - Lepanto, Manila. She is currently the general manager of CPT Consulting Service and a consultant of Motortrade Nationwide Corporation. She also previously holds key positions in various companies - Motorcycle Dev't Program Participants Association (President), Canley Traders Corporation (President/Director), Suzuki Philippines (Accounting Manager to Managing Director), SGV & Co. (Accountant)

BOARD COMMITTEES

AUDIT AND COMPLIANCE COMMITTEE

Robert J. Tan, Chairman
Atty. Edwardson L. Ong, Member
Catalina T. Calderon, Member

As an extension of the Board of Directors, the Audit and Compliance Committee assists the Board of Directors in fulfilling its oversight responsibilities on:

1. All matters pertaining to audit – the Bank's internal audit function and performance, the integrity of the Bank's financial statements, and the Bank's accounting processes in general, among others.

2. Compliance function/system, including the Bank's compliance with laws, rules and regulations and code of conduct; and

3. Senior management's activities, as well as the Bank's internal and external auditors and monitoring and evaluating the adequacy and effectiveness of the Bank's internal control system.

CORPORATE GOVERNANCE COMMITTEE

Atty. Edwardson L. Ong, Chairman
Robert J. Tan, Member
Catalina T. Calderon, Member

The Corporate Governance Committee assists the Board of Directors in fulfilling its corporate governance responsibilities. The Committee shall review and evaluate the chairman of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.

Katuwang ng bawat Juan

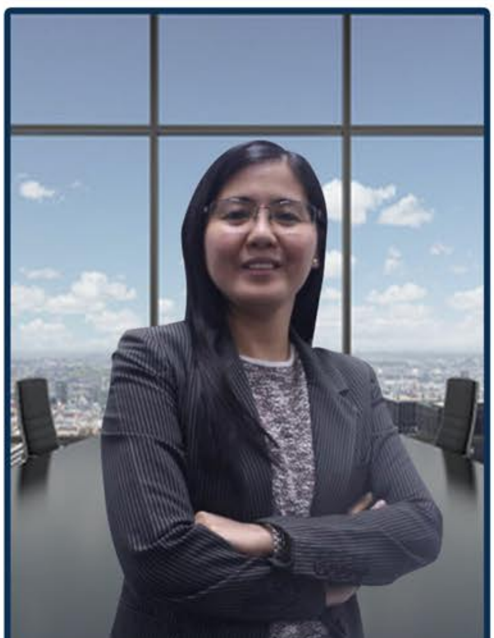
CORPORATE OFFICERS

RODEL C. CAMPOS
OIC, BRANCH BANKING GROUP

CATALINO T. SOLIDUM
PRESIDENT

THELMA M. IDABA
VP FOR TREASURY GROUP

ALFRED P. PUNZALAN
VP FOR INFORMATION AND COMMUNICATIONS TECHNOLOGY GROUP



ATTY. AGNES A. FELICIDARIO
VP FOR LOANS MANAGEMENT AND SUPPORT GROUP

GEORGE S. AGAS
CHIEF COMPLIANCE OFFICER & INTERNAL AUDIT DEPARTMENT HEAD

CORPORATE OFFICERS


RAMOEL D. CUASAY
GENERAL ACCOUNTING DEPARTMENT HEAD


ANNA SHEILA P. ZIALCITA
CREDIT MANAGEMENT DEPARTMENT HEAD


JEANNETH B. CALLANTA
SYSTEMS AND METHODS DEPARTMENT HEAD


REGINE L. CAGUIOA
HUMAN RESOURCES DEPARTMENT HEAD

Katuwang ng bawat Juan

CORPORATE OFFICERS

PHILIP E. FULGENCIO
SR. AREA MANAGER - QUEZON

ROFEL G. GARDOCE
AREA MANAGER - TARLAC

ERICSON V. ORIO
AREA MANAGER - REGION 1

ERWIN C. AMANDY
AREA MANAGER - LAGUNA

JUN T. VASQUEZ
AREA MANAGER - CAVITE

JONVER C. AMODENTE
AREA MANAGER - NCR

P&A Grant Thornton

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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Report of Independent Certified Public Accountants to Accompany Income Tax Return

The Board of Directors
Northpoint Development Bank, Inc.
3F and 4F S.P. Junction Bldg.
Junction of National Highway and Mabini St.
Brgy. Nueva, San Pedro, Laguna

We have audited the financial statements of Northpoint Development Bank, Inc. (the Bank) for the year ended December 31, 2020, on which we have rendered the attached report dated April 8, 2021.

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

PUNONGBAYAN & ARAULLO

By: **Maria Isabel E. Comedia**
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 8533225, January 4, 2021, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-4 (until Oct. 7, 2022)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-021-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 8, 2021

P&A
Grant Thornton

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1200 Makati City
Philippines

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Report of Independent Auditors

The Board of Directors
Northpoint Development Bank, Inc.
3F and 4F S.P. Junction Bldg.
Junction of National Highway and Mabini St.
Brgy. Nueva, San Pedro, Laguna

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 1 to the financial statements, which describes management's assessment of the continuing impact on the Organization's financial statements of the business disruption brought by the COVID-19 pandemic. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the years ended December 31, 2020 and 2019 required by the Bangko Sentral ng Pilipinas and the supplementary information for the year ended December 31, 2020 as required by the Bureau of Internal Revenue as disclosed in Notes 24 and 25, respectively, to the financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information are the responsibility of management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Maria Isabel E. Comedia**
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 8533225, January 4, 2021, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-4 (until Oct. 7, 2022)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-021-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 8, 2021

NORTHPOINT DEVELOPMENT BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 and 2019
(Amounts in Philippine Pesos)

	Notes		2020		2019
RESOURCES					
CASH AND OTHER CASH ITEMS	8	P	4,704,674	P	14,718,039
DUE FROM BANGKO SENTRAL NG PILIPINAS	8		185,629,606		23,837,157
DUE FROM OTHER BANKS	8		48,631,630		157,421,895
INVESTMENT SECURITIES AT AMORTIZED COST - Net	9		105,226,733		105,842,912
LOANS AND RECEIVABLES - Net	10		453,790,973		454,445,231
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11		14,402,952		18,897,361
RIGHT-OF-USE ASSETS - Net	12		18,941,624		20,168,986
INVESTMENT PROPERTIES - Net	13		8,680,276		8,457,385
DEFERRED TAX ASSETS - Net	21		47,905,827		33,793,980
OTHER RESOURCES - Net	14		12,251,790		11,825,026
TOTAL RESOURCES		P	900,166,085	P	849,407,972
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15	P	433,031,851	P	385,116,205
ACCRUED EXPENSES AND OTHER LIABILITIES	16		48,635,750		51,406,716
Total Liabilities			481,667,601		436,522,921
EQUITY	17		418,498,484		412,885,051
TOTAL LIABILITIES AND EQUITY		P	900,166,085	P	849,407,972

See Notes to Financial Statements.

NORTHPOINT DEVELOPMENT BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
INTEREST INCOME			
Loans and receivables	10	P 257,750,529	P 348,615,915
Investment securities at amortized cost	9	4,818,442	6,212,520
Due from BSP and from other banks	8	3,907,449	2,841,911
		266,476,420	357,670,346
INTEREST EXPENSE	12, 15, 19	14,699,875	15,758,129
NET INTEREST INCOME		251,776,545	341,912,217
IMPAIRMENT LOSSES	10	94,325,599	91,096,774
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		157,450,946	250,815,443
OTHER OPERATING INCOME	18	32,834,974	38,489,410
OTHER OPERATING EXPENSES	18	(181,001,413)	(224,944,525)
INCOME BEFORE TAX		9,284,507	64,360,328
TAX EXPENSE	21	(3,073,187)	(19,298,954)
NET INCOME		6,211,320	45,061,374
OTHER COMPREHENSIVE LOSS			
Item that will not be reclassified subsequently to profit or loss			
Loss on remeasurment of defined benefit obligation	19	(854,125)	(753,024)
Tax income	21	256,238	225,907
Other Comprehensive Loss		(597,887)	(527,117)
TOTAL COMPREHENSIVE INCOME		P 5,613,433	P 44,534,257

See Notes to Financial Statements.

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NORTHPOINT DEVELOPMENT BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Capital Stock (see Note 17)	Revaluation Reserves (see Note 2)	Surplus (Deficit) (see Note 2)	Total
Balance as of January 1, 2020	P 400,000,000	P 143,094	P 12,741,957	P 412,885,051
Total comprehensive income (loss) for the year	-	(597,887)	6,211,320	5,613,433
Balance as of December 31, 2020	**P 400,000,000**	**(P 454,793)**	**P 18,953,277**	**P 418,498,484**
Balance as of January 1, 2019	P 400,000,000	P 670,211	(P 32,319,417)	P 368,350,794
Total comprehensive income (loss) for the year	-	(527,117)	45,061,374	44,534,257
Balance as of December 31, 2019	**P 400,000,000**	**P 143,094**	**P 12,741,957**	**P 412,885,051**

See Notes to Financial Statements.

NORTHPOINT DEVELOPMENT BANK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		P 9,284,507	P 64,360,328
Adjustments for:			
Interest received		266,594,874	358,199,177
Interest income	8, 9, 10	(266,476,420)	(357,670,346)
Impairment losses	10	94,325,599	91,096,774
Depreciation and amortization	11, 12, 13, 14, 18	21,656,121	16,713,709
Interest expense	12, 15, 19	14,699,875	15,758,129
Interest paid		(7,549,840)	(9,921,266)
Gain on rent concession	12	(1,029,835)	-
Gain on sale of bank premises, furniture, fixtures and equipment	11	(366,826)	(747,725)
Gain on sale of investment properties	13	(1,600)	(950,959)
Gain on sale of investment securities at amortized cost	9	-	(34,680)
Operating income before changes in resources and liabilities		131,136,455	176,803,141
Increase in loans and receivables		(32,749,179)	(168,353,034)
Decrease (increase) in investment properties		(221,291)	2,612,234
Decrease (increase) in other resources		849,147	(5,444,601)
Increase in deposit liabilities		42,597,201	73,228,143
Increase (decrease) in accrued expenses and other liabilities		(2,674,108)	10,502,002
Cash generated from operations		138,938,225	89,347,885
Cash paid for taxes		(18,393,576)	(16,175,388)
Net Cash From Operating Activities		120,544,649	73,172,497
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of bank premises, furniture, fixtures and equipment	11	(4,556,454)	(9,429,633)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	11	366,826	844,470
Additions to computer software	14	(20,200)	-
Proceeds from disposal of investment securities at amortized cost	9	-	25,050,000
Net Cash From (Used in) Investing Activities		(4,209,828)	16,464,837
CASH FLOWS FROM A FINANCING ACTIVITY			
Payment of lease liabilities	12	(12,901,565)	(9,398,264)
NET INCREASE IN CASH AND CASH EQUIVALENTS		103,433,256	80,239,070
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		14,718,039	7,150,048
Due from Bangko Sentral ng Pilipinas (BSP)		23,837,157	24,666,953
Due from other banks		157,421,895	83,931,020
Petty cash and revolving funds	14	625,000	615,000
	8	196,602,091	116,363,021
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		4,704,674	14,718,039
Due from BSP		185,629,606	23,837,157
Due from other banks		48,631,630	157,421,895
Loans arising from reverse repurchase agreement	10	60,424,437	-
Petty cash and revolving funds	14	645,000	625,000
		P 300,035,347	P 196,602,091

Supplemental Information on Non-cash Investing and Financing Activities –

In 2020 and 2019, the Bank recognized right-of-use assets amounting to P11,148,827 and P13,716,881, respectively, with corresponding lease liabilities of the same amount each year in the statements of financial position (see Note 12).

See Notes to Financial Statements.

1. CORPORATE MATTERS

1.1 Corporate Information

Northpoint Development Bank, Inc. (the Bank) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 9, 1956. On March 20, 1998, the Bank was granted authority to operate as a thrift bank by the Bangko Sentral ng Pilipinas (BSP).

The Bank is currently engaged in a private development banking activities, such as but not limited to, granting of loans, whether secured or unsecured; and receiving and maintaining customer deposits in the form of time, savings and current accounts, foreign currency deposits and other forms of deposits in accordance with pertinent law. As of December 31, 2020 and 2019, the Bank has two main branches and 30 branch-lite units.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements and adoption and use of safe and sound banking practices as promulgated by the BSP.

The registered office of the Bank, which is also its principal place of business, is located at 3F and 4F S.P. Junction Bldg., Junction of National Highway and Mabini St., Brgy. Nueva, San Pedro, Laguna.

1.2 Impact of COVID-19 Pandemic on Bank's Business

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020. The measures taken by the government to contain the virus have affected economic conditions and the Bank's business operations.

The following are the impact of the COVID-19 pandemic to the Bank's business:

- decline in interest income and net income by 25% and 86%, respectively, as compared to that of 2019;
- decline in loan releases by 22% as compared to that of 2019;
- recognition of impairment loss on loans receivable amounting to P94.3 million;
- scaled-down branch operations due to mobility/quarantine restrictions;
- temporarily delay of the collection of loan amortizations in the middle of March 2020 until the end of May 2020; and,
- additional administrative expenses were incurred to ensure the physical and psychosocial health and safety of its employees and members.

The following were the actions undertaken by Bank's business to mitigate such impact:

- complied with Republic Act (RA) No. 11469, *Bayanihan to Heal as One Act (Bayanihan I)* and RA No. 11494, *Bayanihan to Recover as One Act (Bayanihan II)* by granting loan moratoria to qualified customers under the said laws and proactively worked with clients for the restructuring of loan terms to address temporary liquidity problems. The impact of loan modification is not material to the financial statements;
- received rent concessions on various leases amounting to P1.03 million; and,
- implemented new occupational safety and health standards to provide a safe and sanitized environment for employees through the strict observance of health and safety protocols, retrofitting of workspaces and periodic testing for employees to minimize infection within the workplace.

Based on the above actions and measures taken by management to mitigate the adverse effect of the pandemic, the Bank believe that it would continue to report positive results of operations and would remain liquid to meet current obligation as it falls due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern.

1.3 Approval of Financial Statements

The financial statements of the Bank as at and for the year ended December 31, 2020 (including the comparative financial statements as of and for the year ended December 31, 2019) were authorized for issue by the Bank's Board of Directors (BOD) on April 8, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies that have been used in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income, expenses and other comprehensive income or loss in a single statement of comprehensive income.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

2.2 *Adoption of New and Amended PFRS*

(a) *Effective in 2020 that are Relevant to the Bank*

The Bank adopted for the first time the following revisions to conceptual framework and amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2020

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform
PFRS 16 (Amendments)	:	Leases – Coronavirus Disease 2019 (COVID-19) – Related Rent Concession

Discussed below and in the succeeding pages are the relevant information about these pronouncements.

(i) *Revised Conceptual Framework for Financial Reporting.* The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. The application of the revised conceptual framework had no significant impact on the Bank's financial statements.

(ii) PAS 1 (Amendments), *Presentation of Financial Statements,* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material.* The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaces by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency. The application of these amendments had no significant impact on the Bank's financial statements.

(iii) PFRS 7 (Amendments), *Financial Instruments: Disclosures,* and PFRS 9 (Amendments), *Financial Instruments – Interest Rate Benchmark Reform.* The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The application of these amendments had no significant impact on the Bank's financial statements.

(iv) The Bank elected to adopt early PFRS 16 (Amendments), *Leases – COVID-19 – Related Rent Concessions*, which is effective for annual reporting periods beginning on or after June 30, 2020. The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The Bank applied this practical expedient to all its leases where it received rent concessions to leases involving its office premises. As a result, the Bank recognized P1.03 million to reflect changes in lease payments that arose from rent concessions, which is presented as part of Other Operating Income in the 2020 statement of comprehensive income (see Notes 12.2 and 18.1).

(b) Effective in 2020 that are not Relevant to the Bank

The only amendments to existing standards that are mandatorily effective for annual periods beginning on or after January 1, 2020 but are not relevant to the Bank's financial statements pertains to PFRS 3, (Amendments), *Business Combinations – Definition of a Business.*

(c) Effective Subsequent to 2020 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2020, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements.

(i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Bank:

- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*. The improvements clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The improvement merely removes from the example the illustration of the reimbursement of leasehold improvements by lessor in order to resolve any potential confusion regarding the treatment of lease incentives.

(iv) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

2.3 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Currently, the only classification of financial assets that is applicable to the Bank is financial assets at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payment of principal and interest (SPPI) on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [(see Note 3.1(c)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss (FVTPL).

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Investment Securities at Amortized Cost, Loans and Receivables, and as part of Other Resources in respect of security deposit, petty cash fund and revolving fund.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise of cash, due from BSP and due from other banks with original maturities of three months or less from placement date and loan arising from reverse repurchase agreement under loans and receivables. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) *Recognition of Interest Income*

Interest income on financial assets at amortized cost is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired and those that are purchased or originated credit-impaired assets. For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset. The interest earned is recognized as part of Interest Income account in the statement of comprehensive income.

(c) *Impairment of Financial Assets*

The Bank recognizes allowances for ECL on a forward-looking basis associated with its financial assets at amortized cost and loan commitments issued. No impairment loss is recognized on equity investments.

Recognition of credit losses is no longer dependent on Bank's identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.6.

Measurement of ECL

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- *Loss given default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD, or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- *Exposure at default (EAD)* – it represents the gross carrying amount of the financial instruments subject to the impairment calculation; hence, this is the amount that the Bank expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) 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.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(d) Derecognition of Financial Assets

(i) Modification of Loans

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments.

Differences in the carrying amount are as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition of Financial Assets Other than Modification

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is 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. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and a collateralized borrowing for the proceeds received.

2.4 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the straight-line basis over the estimated useful lives of the assets from three to five years.

Leasehold improvements are amortized over the remaining term of the lease or the estimated useful lives of the improvements of ten years, whichever is shorter.

Fully depreciated and amortized assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and amortization and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.5 Investment Properties

Investment properties represent properties acquired by the Bank from defaulting borrowers which are held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in providing services or for administrative purposes.

The Bank adopted the cost model in measuring its investment properties; hence, these are stated at cost less accumulated depreciation and any impairment in value. The cost of an investment property comprises its purchase price and directly attributable costs incurred such as legal fees, transfer fees and other transaction costs. Direct operating expenses such as repairs and maintenance and real estate taxes are normally charged against current operations during the period in which these costs are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets of ten years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

Investment properties including the related accumulated depreciation and any impairment losses are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Other Operating Income in the statement of comprehensive income in the year of retirement or disposal.

2.6 Intangible Assets

Intangible assets include acquired computer software which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition.

Capitalized costs are amortized on a straight-line basis over the estimated useful lives of five years as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.13.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

2.7 Other Resources

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

2.8 Financial Liabilities

Financial liabilities, which include deposit liabilities and accrued expenses and other liabilities (except tax-related liabilities and retirement benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss under the caption Interest Expense in the statement of comprehensive income.

Financial liabilities are recognized initially at their fair values and subsequently measured at amortized cost using the effective interest method for those with maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank's BOD.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.9 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount considered as a single financial asset or financial liability is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.10 Provisions and Contingencies

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 obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. 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. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Other Operating Income and Expense Recognition

Other operating income is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with customer that results in a recognized financial instrument in the Bank's financial statements may be partially within the scope of PFRS 9, *Financial Instruments* and partially within the scope of PFRS 15, *Revenue from Contracts with Customers*. In such a case, the Bank applies PFRS 9 first to separate and measure the part of the contract that is covered by PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, is any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

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

The Bank's other operating income arises from rendering of services such as loan processing fees, and service charges and other fees. These revenues are accounted for by the Bank in accordance with PFRS 15. On the other hand, the Bank's revenue from lending activities are measured in accordance with the requirements of PFRS 9 [see Note 2.3(b)].

To determine whether to recognize revenue, the Bank follows a five-step process:

1. identifying the contract with a customer;
2. identifying the performance obligation;
3. determining the transaction price;
4. allocating the transaction price to the performance obligations; and,
5. recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

(a) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(b) each party's rights regarding the goods to be transferred or performed can be identified;
(c) the payment terms for the goods to be transferred or performed can be identified;
(d) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
(e) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised goods to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(a) the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
(b) the Bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(c) the Bank's performance does not create an asset with an alternative use to the Bank and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligation satisfied at a point in time is recognized as revenue when control of goods or services is transferred to the customer. If the performance obligation is satisfied over time, the transaction price allocated to the performance obligation is recognized as revenue as the performance obligation is satisfied.

The following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

(a) *Processing fees* – Loan processing fees which are collected from the borrowers upon release of loans and are recognized ratably over the term of the loan.

(b) *Service charges and other fees* – Service charges and other fees are recognized when the related service was rendered.

For other income outside the scope of PFRS 15, such as income or loss from assets sold or exchanged which are specifically measured by reference to the fair value of consideration received or receivable by the Bank for services rendered, income is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income.

Costs and expenses are recognized in profit or loss upon utilization of the service or at the date they are incurred. All finance costs are reported in the profit or loss on an accrual basis.

2.12 Leases – Bank as Lessee

The Bank considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.13).

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest.

It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

In the statement of financial position, Right-of-use Assets have been presented separately from Bank Premises, Furniture, Fixture and Equipment and Lease liabilities have been presented as part of Accrued Expenses and Other Liabilities.

2.13 Impairment of Non-financial Assets

Bank premises, furniture, fixtures and equipment, investment properties, computer software, right-of-use assets, and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements.

Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.14 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits which are recognized in the below and in the succeeding page:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's post-employment defined benefit plan covers all regular full-time employees.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows arising from expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bond [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and other changes in actuarial assumptions and the actual return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise.

Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Income or Interest Expense account in the statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity. The Bank has no legal or constructive obligations to pay further contributions (such as the Social Security System) after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are reported as part of Accrued expenses under Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.15 Borrowing Costs

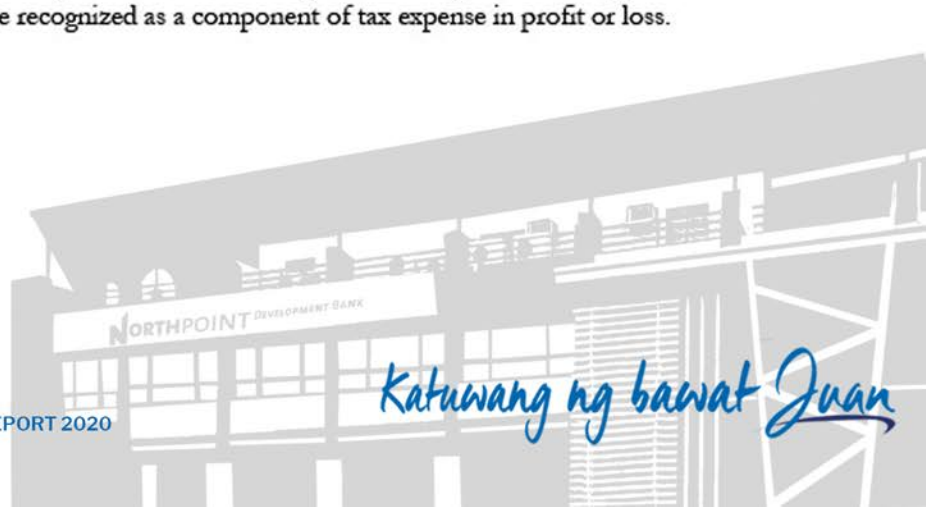
Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

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.

2.16 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.



Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.17 Related Party Relationships and Transactions

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

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

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

2.18 Equity

Capital stock represents the nominal value of shares that have been issued.

Revaluation reserves comprise remeasurement of retirement benefit obligation.

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

2.19 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Principles

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

(a) Determination of Lease Term of Contracts with Renewal and Terminal Options

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The factors that are normally the most relevant are (a) if there are significant penalties should the Bank pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Bank did not include the renewal period as part of the lease term for leases of offices as they are deemed unenforceable due to the provision in its contracts that requires mutual agreement of both parties on the terms and agreements of the renewal and termination of the lease contract.

The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

(b) *Application of ECL to Financial Assets at Amortized Cost*

The Bank uses loss rate approach to calculate ECL for loans and receivables, while for investment securities at amortized cost, external benchmarking approach was used. The allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant management judgment is required.

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(c) *Testing the Cash Flow Characteristic of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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

(d) *Distinguishing Investment Properties and Owner-managed Properties*

The Bank determines whether a property qualifies as an investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the Bank. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production, supply process, and in the banking operation.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease) then these portions can be accounted for separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in operations or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property.

As of the end of the reporting period, the Bank have certain buildings which comprise a portion that is held for rental and other portion is used for operations which were classified by the Bank as Investment Property or as part of Bank Premises, Furniture, Fixtures and Equipment according to its current use.

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.10 and relevant disclosures are presented in Note 22.

3.2 Key Sources of Estimation Uncertainty

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

(a) Determination of Appropriate Discount Rate in Measuring Lease Liabilities

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) Estimation of Allowance for ECL

The Bank provides ECL for financial instruments that have passed the SPPI test [see Note 2.3(a)]. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions which include: the Bank's criteria for assessing if there has been a significant increase in credit risk; and, development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit-impairment provisions also involves expert credit judgement to be applied based upon counterparty information received from various sources including relationship managers and on external market information. Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.6.

The analysis of the allowance for ECL and the relevant assessment on financial assets are disclosed in Note 10.

(c) *Fair Value Measurement for Financial Instruments*

Fair value measurements for financial assets are generally based on listed or quoted market prices. Where active market quotes are not available, management applies valuation techniques to determine the fair value of financial instruments. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

(d) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties and Computer Software*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

Based on management's assessment as of December 31, 2020 and 2019, there is no change in the estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

The carrying amounts of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties and computer software are presented in Notes 11, 12, 13 and 14, respectively.

(e) *Determination of Net Realizable Amount of Deferred Tax Assets*

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

Management assessed that the deferred tax assets as at December 31, 2020 and 2019 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 21.

(f) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.13). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses were recognized for bank premises, furniture, fixtures and equipment, investment properties, right-of-use assets and computer software for the years ended December 31, 2020 and 2019.

(g) *Determining Fair Value Measurement of Investment Properties*

The Bank's investment properties are composed of land and buildings. In determining the fair value of these assets, the Bank engages the services of professional and qualified internal appraisers applying the relevant valuation in methodologies disclosed in Note 6.3.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties. A significant change in these elements may affect prices and the value of the assets.

The analysis of fair value of investment properties is presented in Note 6.3.

(h) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase.

A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 19.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to risks in relation to its operating, investing, and financing activities, and the business environment in which it operates. The Bank's objectives in risk management are to ensure that it identifies, measures, monitors, and controls the various risks that arise from its business activities, and that it adheres strictly to the policies, procedures, and control systems which are established to address these risks.

4.1 Bank's Strategy in Using Financial Instruments

It is the Bank's intent to generate returns mainly from the traditional financial intermediation and service-provision activities, augmented by returns from positions based on views on the financial markets. The main source of risk, therefore, remains to be that arising from credit risk exposures. Nevertheless, within BSP regulatory constraints, and subject to limits and parameters established by the BOD, the Bank is exposed to liquidity risk and interest rate risk inherent in the Bank's operations, and other market risks, which include foreign exchange risk.

In the course of performing financial intermediation function, the Bank accepts deposits from customers at fixed and floating rates for various periods, and seeks to earn interest margins by investing these funds in high-quality assets. The conventional strategy to enhance net interest margin is the investment of short-term funds in longer-term assets, such as fixed-income securities. While, in doing so, the Bank maintains liquidity at prudent levels to meet all claims that fall due, the Bank fully recognizes the consequent interest rate risk exposure.

4.2 Integrated Risk Management Framework

The risk management framework aims to maintai5zsn a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the BOD for approval.

4.3 Risk Responsibilities

The Bank's over-all risk management strategy and oversight function is handled by the:

(a) BOD

The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives.

(b) President

The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

4.4 Liquidity Risk

Liquidity risk is the potential insufficiency of funds available to meet the demands of the Bank's customers to repay maturing liabilities. The Bank manages liquidity risk by limiting the maturity mismatch between assets and liabilities, and by holding sufficient liquid assets of appropriate quality and marketability.

The Bank recognizes the liquidity risk inherent in its activities, and identifies, measures, monitors and controls the liquidity risk inherent to the members of the Bank which are financial intermediaries.

The Bank's liquidity policy is to manage its operations to ensure that funds available are more than adequate to meet demands of its customers and to enable deposits to be repaid on maturity. The Bank's liquidity policies and procedures are set out in its funding and liquidity plan which contains certain funding requirements based on assumptions and uses resources and liability maturity gap analysis.

The liquidity gap analyses as at December 31, 2020 and 2019 are presented below.

	Due Within One Year	Due Beyond One Year but Within Five Years	Due Beyond Five Years	Total
December 31, 2020				
Financial Assets:				
Cash and other cash items	P 4,704,674	P -	P -	P 4,704,674
Due from BSP	185,629,606	-	-	185,629,606
Due from other banks	48,631,630	-	-	48,631,630
Investment securities at amortized cost - net	35,895,793	69,330,940	-	105,226,733
Loans and receivables - net	379,788,245	74,002,728	-	453,790,973
Security deposits	953,471	5,519,579	-	6,473,050
Petty cash fund	645,000	-	-	645,000
Revolving fund	-	-	-	-
	656,248,419	148,853,247	-	805,101,666
Financial Liabilities:				
Deposit liabilities	323,549,326	109,482,525	-	433,031,851
Lease liabilities	10,039,872	8,681,780	1,052,924	19,774,576
Accrued expenses	3,149,328	-	-	3,149,328
Accounts payable	3,176,327	-	-	3,176,327
Other liabilities	2,831,436	-	-	2,831,436
	342,746,289	118,164,305	1,052,924	461,963,518
Liquidity gap	313,502,130	30,688,942	(1,052,924)	343,138,148
Cumulative total gap	**P 313,502,130**	**P 344,191,072**	**P 343,138,148**	**P -**
December 31, 2019				
Financial Assets:				
Cash and other cash items	P 14,718,039	P -	P -	P 14,718,039
Due from BSP	23,837,157	-	-	23,837,157
Due from other banks	157,421,895	-	-	157,421,895
Investment securities at amortized cost - net	-	101,672,312	4,170,600	105,842,912
Loans and receivables - net	412,769,203	41,676,028	-	454,445,231
Security deposits	863,838	5,336,413	-	6,200,251
Petty cash fund	615,000	-	-	615,000
Revolving fund	10,000	-	-	10,000
	610,235,132	148,684,753	4,170,600	763,090,485
Financial Liabilities:				
Deposit liabilities	275,629,037	109,487,168	-	385,116,205
Lease liabilities	10,484,763	8,974,401	1,394,165	20,853,329
Accrued expenses	2,673,808	-	-	2,673,808
Accounts payable	2,995,989	-	-	2,995,989
Other liabilities	2,233,492	-	-	2,233,492
	294,017,089	118,461,569	1,394,165	413,872,823
Liquidity gap	316,218,043	30,223,184	2,776,435	349,217,662
Cumulative total gap	P 316,218,043	P 346,441,227	P 349,217,662	P -

4.5 Market Risk

The Bank's exposure to market risk is the potential diminution of earnings arising from the movement of market interest rates as well as the potential loss of market value, primarily of its holdings of debt securities and derivatives, due to price fluctuation.

The market risk relevant to the Bank is interest rate risk. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Bank's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates on Due from BSP and other banks, investment securities at amortized cost, and deposit liabilities that are subject to variable interest rates (see Notes 8, 9 and 15). The volatility in the interest rates of these financial instruments will result in an increase or decrease in the Bank's interest spread, and consequently will affect its financial performance.

The analyses of the Bank's financial assets and financial liabilities (except Lease liabilities – see Note 12.2) as at December 31, 2020 based on the expected interest realization or recognition are as follows:

	Due Within One Year	Due Beyond One Year but Within Five Years	Due Beyond Five Years	Total
December 31, 2020				
Financial Assets:				
Due from BSP and other banks	P 234,261,236	P -	P -	P 234,261,236
Investment securities at amortized cost - net	35,895,793	69,330,940	-	105,226,733
Loans and receivables - net	379,788,245	74,002,728	-	453,790,973
	649,945,274	143,333,668	-	793,278,942
Financial Liabilities – Deposit liabilities	325,549,326	109,482,525	-	435,031,851
Net position	324,395,948	33,851,143	-	358,247,091
Cumulative net position	**P 324,395,948**	**P 358,247,091**	**P 358,247,091**	**P -**
December 31, 2019				
Financial Assets:				
Due from BSP and other banks	P 181,259,052	P -	P -	P 181,259,052
Investment securities at amortized cost - net	-	101,672,312	4,170,600	105,842,912
Loans and receivables - net	412,769,203	41,676,028	-	454,445,231
	594,028,255	143,348,340	4,170,600	741,547,195
Financial Liabilities – Deposit liabilities	275,629,037	109,487,168	-	385,116,205
Net position	318,399,218	33,861,172	4,170,600	356,430,990
Cumulative net position	P 318,399,218	P 352,260,390	P 356,430,990	P -

The Bank's exposure to interest rate risk pertains to the fluctuations in interest rates of its financial instruments. To minimize the possible adverse effects of these fluctuations on the Bank's profit or loss, only placements with interest rates that are within the prevailing market rates are pursued. Placements with interest rates, which are significantly higher or lower than the prevailing market rates, are not prioritized by the Bank following the concept of risk and return trade-off.

The following table below illustrates the sensitivity of the Bank's profit before tax and equity to a reasonably possible change in interest rates as at December 31, 2020 and 2019. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	Observed Volatility Rates		Impact of Increase		Impact of Decrease	
	Increase	Decrease	Profit Before Tax	Equity	Profit Before Tax	Equity
December 31, 2020						
Due from BSP and other banks	+1.40%	-1.40%	P 3,279,657	P 2,295,760	(P 3,279,657)	(P 2,295,760)
Investment securities at amortized cost	+3.71%	-3.71%	3,903,912	2,732,738	(3,903,912)	(2,732,738)
Deposit liabilities	+0.50%	-0.50%	(2,268,955)	(1,588,269)	2,268,955	1,588,269
			(P 4,914,614)	(P 3,440,229)	P 4,914,614	P 3,440,229
December 31, 2019						
Due from BSP and other banks	+1.71%	-1.71%	P 3,099,530	P 2,169,671	(P 3,099,530)	(P 2,169,671)
Investment securities at amortized cost	+3.55%	-3.55%	3,757,423	2,630,196	(3,757,423)	(2,630,196)
Deposit liabilities	+1.71%	-1.71%	(6,585,487)	(4,609,841)	6,585,487	4,609,841
			(P 271,466)	(P 190,026)	P 271,466	P 190,026

In addition, the Bank has no long-term borrowings with variable or fixed interest rates as at December 31, 2020 and 2019.

4.6 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury and other activities undertaken by the Bank.

The Bank manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The following tools, among others, are used by the Bank in identifying, assessing and managing credit risk:

- Established credit policies, asset allocations and concentration limits, collateral acceptance criteria, target market and clearly defined approving authorities;
- Defined documentation policies of approved credit lines;
- Independence of credit control and monitoring functions from the credit risk-taking function;
- Periodic monitoring of individual account performance;
- Regular review of the adequacy of valuation reserves;
- Active loan portfolio management to determine the quality of the loan portfolio, including risks associated with particular industry sectors, loan size and maturity, monitoring portfolio growth, collection performance and delinquency trends, trend of non-performing loans, concentration risk, and other performance indicators; and,
- Close monitoring of remedial accounts.

4.6.1 Credit Risk Measurement

The Bank's credit risk measurement is performed on different segments of financial asset portfolio such as: (a) consumer, which include microfinance loans; (b) corporate, which generally are commercial loans; and (c) investment in debt securities that are measured at amortized cost.

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such the credit risk is measured using PD, EAD, and LGD, for purposes of measuring ECL.

For the Bank's debt securities, credit ratings published by reputable external rating agency (such as Standard & Poor's) are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

4.6.2 Expected Credit Loss Measurement Inputs

Integral in the Bank's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model for each segment of financial asset that applies relevant inputs and assumptions, including forward-looking information as appropriate.

(a) Significant Increase in Credit Risk

The Bank assesses whether the credit risk on a financial instrument has increased significantly since initial recognition, through assessments of the change in risks of default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information, as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparty or borrower, and other factors that are counterparty-specific. Certain qualitative criteria are also being considered by the Bank in assessing significant increase in credit risk (SICR). These are but not limited to: actual or expected short-term delays in payments which is normally not later than 30 days, extension to the terms granted, previous arrears within the last 12 months and significant adverse changes in business, financial and/or economic conditions in which the borrowers operate (e.g., calamities requiring BSP relief program).

A '3-stage' impairment model has been adopted by the Bank based on changes in credit quality since initial recognition of the financial asset [see Note 2.3(c)]:

(i) Stage 1 – comprised of all credit exposures that are considered 'performing' and with no observed SICR since initial recognition and includes financial assets that are identified to have 'low credit risk'. For these instruments, the loss allowance is determined based on a 12-month ECL.

(ii) Stage 2 – comprises of all financial instruments assessed to have SICR subsequent to the initial recognition of the financial assets, though not yet deemed credit-impaired. This also includes those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. Lifetime ECL is recognized for these financial instruments.

(iii) Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Bank as 'non-performing', which is assessed consistently with the Bank's definition of default for each loan portfolio. A lifetime ECL is recognized for all credit-impaired financial assets.

The Bank also considers the quantitative criteria based on the BSP Manual of Regulations for Banks (MORB) Section 143 (Appendix 15), as amended by BSP Circular 1011, *Guidelines on the Adoption of PFRS 9*, in classifying the status of loan.

(b) *Definition of Default and Credit-Impaired Assets*

(i) *Loans and Receivables*

The Bank defines a financial asset as in is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial assets have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower, which include cases of long-term forbearance, borrower's death, or insolvency;
- breach of contract, such as default or past due event;
- it is becoming probable that the borrower will enter bankruptcy or financial reorganization; or,
- disappearance of active market for that financial asset because of financial difficulties.

The Bank considers a financial asset to be in default when:

- the borrower is more than 30 days past due on its contractual payments;
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or,
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are qualitative (e.g., breaches of covenant) and, quantitative (overdue or non-payment).

These criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. Such definition has been consistently applied in determining the PD, EAD and LGD throughout the ECL calculations of the Bank.

(ii) Investment in Debt Securities

Investments in debt securities are assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a "loss event") and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future event, shall also be considered in estimating the ECL. In making assessment of whether an investment in debt is credit-impaired, the Bank considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessment of creditworthiness; or,
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness

The disappearance of an active market because a financial institution's held securities are no longer publicly-traded is not an evidence of impairment. A downgrade of an issuer's credit rating is not, by itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk-free rate).

(c) Key Inputs, Assumptions and Estimation Techniques Used in the Measurement of ECL

The key elements used in the calculation of ECL are as follows:

(i) PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. In determining PD, the Bank performed segmentation of its credit exposures based on homogenous characteristics. PD of individually assessed credit exposures is determined based on the historical losses incurred over total exposure while PD of collectively assessed credit exposure is determined based on the average loss rates of loans per age bucket.

(ii) LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset.

(iii) EAD represents the gross carrying amount of the exposure in the event of default which include the amortized cost of an instrument and any accrued interest receivable.

During 2020, certain assumptions and estimation technique have been reviewed to consider the unprecedented impact of COVID-19 pandemic. In this regard, the Bank performed comprehensive review of the financial assets, particularly for loan accounts to assess vulnerability arising from current economic condition, which resulted in the transfer of the classification of some loans from Stage 1 to either Stage 2 or 3.

(d) Overlay of Forward-looking Information

The Bank incorporates forward-looking information in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers.

The impact of these MEVs on the PD, LGD, and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority). Accordingly, the Bank has identified key drivers for credit risk for each portfolio. Using an analysis on historical data, the Bank has estimated relationships between MEVs and credit risk and credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

4.6.3 Credit Quality Analysis

The following table sets out information about the credit quality of loans and receivables, investment in securities at amortized cost. As of December 31, 2020 and 2019, there are no POCI financial assets in the Bank's financial statements.

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and receivables				
Performing:				
Current	P 266,609,262	P -	P -	P 266,609,262
Past due	-	99,121,693	-	99,121,693
Non-performing:				
Past due	-	-	137,210,818	137,210,818
Items in litigation	-	-	42,905,879	42,905,879
Loans arising from reverse repurchase agreement	60,424,437	-	-	60,424,437
Other receivables	1,544,469	327,295	914,495	2,786,259
	328,578,168	99,448,988	181,031,192	609,058,348
Expected credit loss allowance	(12,782,224)	(11,578,980)	(130,906,171)	(155,267,375)
Carrying amount	**P 315,795,944**	**P 87,870,008**	**P 50,125,021**	**P 453,790,973**
Investment securities at amortized cost				
Grades AAA to B : Current	P 105,840,539	P -	P -	P 105,840,539
Expected credit loss allowance	(613,806)	-	-	(613,806)
Carrying amount	**P 105,226,733**	**P -**	**P -**	**P 105,226,733**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Loans and receivables				
Performing:				
Current	P 349,067,178	P -	P -	P 349,067,178
Past due	-	99,642,336	-	99,642,336
Non-performing:				
Past due	-	-	85,660,338	85,660,338
Items in litigation	-	-	27,790,413	27,790,413
Other receivables	1,326,787	126,295	419,559	1,872,641
	350,393,965	99,768,631	113,870,310	564,032,906
Expected credit loss allowance	(10,142,846)	(13,416,964)	(86,027,865)	(109,587,675)
Carrying amount	P 340,251,119	P 86,351,667	P 27,842,445	P 454,445,231

	2019			
	Stage 1	Stage 2	Stage 3	Total
Investment securities at amortized cost				
Grades AAA to B : Current	P 106,456,718	P -	P -	P 106,456,718
Expected credit loss allowance	(613,806)	-	-	(613,806)
Carrying amount	P 105,842,912	P -	P -	P 105,842,912

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

a. Due from BSP and Other Banks

The credit risk for Due from BSP and other banks is considered negligible, since the counterparties are reputable banks. Due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.5 million per depositor per banking institution, as provided for under RA No. 9576, *Amendment to Charter of PDIC*.

The credit exposure for Due from BSP and other banks amounted to P234.3million and P181.3 million as of December 31, 2020 and 2019, respectively.

b. Loans and Receivables

In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty having similar characteristics. Loans consist of a large number of customers in various geographical areas. The carrying amount of loans and receivables as at December 31, 2020 and 2019 are presented under Note 10.

c. Investment in securities at amortized cost

The Bank's investment securities are with large corporations whose exposure to credit risk is not deemed significant given that counterparties are rated at B to AAA, based on S&P ratings.

d. Other Financial Assets

The Bank is not exposed to significant credit risk on its security deposits, petty cash fund and revolving fund, with an aggregate amount of P6.8 million and P6.6 million as at December 31, 2020 and 2019, respectively, since the Bank expects these to be recovered in the normal course of business.

4.6.4 Concentration of Credit Risk

Excessive concentration of lending poses undue risk on the Bank's asset quality.
The Bank believes that good diversification across economic sectors and kinds of borrowers will lessen this risk.

To maintain the quality of its loan portfolio, the Bank keeps its risk tolerance limits on asset quality lower than the industry ratio and enforce a stringent policy on credit evaluation, review and monitoring.

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk (gross of allowance for impairment) as at December 31, 2020 and 2019 are shown below.

	Due from BSP and Other Banks	Loans and Receivables	Security Deposits	Investment in Securities at Amortized Cost	Total
2020					
Financial intermediaries	P 234,261,236	P 60,424,437	P -	P -	P 294,685,673
Wholesale and retail; repair of motor vehicles vehicles and motorcycles	-	403,098,385	-	38,717,433	441,815,818
Real estate	-	264,354	-	29,577,099	29,841,453
Manufacturing	-	33,314,132	6,473,050	-	39,787,182
Accommodation and food service	-	35,669,488	-	-	35,669,488
Electricity, gas, steam, and airconditioning supply	-	774,065	-	30,513,689	31,287,754
Service	-	12,635,263	-	7,032,318	19,667,581
Transportation and storage	-	14,765,050	-	-	14,765,050
Information and communication	-	4,193,491	-	-	4,193,491
Water supply, sewage, waste management and remedial	-	8,732,927	-	-	8,732,927
Agriculture, fishing, and forestry	-	3,991,907	-	-	3,991,907
Administration and support service	-	4,184,455	-	-	4,184,455
Construction	-	3,438,050	-	-	3,438,050
Human health and social work	-	1,105,792	-	-	1,105,792
Professional, scientific and technical	-	1,433,565	-	-	1,433,565
Mining and quarrying	-	821,333	-	-	821,333
Art, entertainment and recreation	-	593,015	-	-	593,015
Others	-	19,618,639	-	-	19,618,639
	P 234,261,236	P 609,058,348	P 6,473,050	P 105,840,539	P 955,633,173
2019					
Financial intermediaries	P 181,259,052	P -	P -	P -	P 181,259,052
Wholesale and retail; repair of motor vehicles and motorcycles	-	377,128,466	-	30,015,411	407,143,877
Real estate	-	334,658	-	39,630,086	39,964,744
Manufacturing	-	37,791,039	6,200,251	-	43,991,290
Accommodation and food service	-	36,802,735	-	-	36,802,735
Electricity, gas, steam, and airconditioning supply	-	536,346	-	29,756,324	30,292,670
Service	-	14,056,544	-	7,054,897	21,111,441
Transportation and storage	-	16,209,248	-	-	16,209,248
Information and communication	-	6,365,363	-	-	6,365,363
Water supply, sewage, waste management and remedial	-	8,647,341	-	-	8,647,341
Agriculture, fishing, and forestry	-	5,007,691	-	-	5,007,691
Administration and support service	-	4,541,603	-	-	4,541,603
Construction	-	4,479,252	-	-	4,479,252
Human health and social work	-	1,479,047	-	-	1,479,047
Professional, scientific and technical	-	1,783,453	-	-	1,783,453
Mining and quarrying	-	645,832	-	-	645,832
Art, entertainment and recreation	-	705,089	-	-	705,089
Others	-	47,519,199	-	-	47,519,199
	P 181,259,052	P 564,032,906	P 6,200,251	P 106,456,718	P 857,948,927

4.6.5 Allowance for Expected Credit Losses

The following table show the reconciliation of the loss allowance for ECL on loans and receivables at the beginning and end of 2020 and 2019.

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers				
Balance at January 1	P 10,142,791	P 13,400,901	P 85,700,826	P 109,244,518
Transfers to:				
Stage 1	11,975	(11,975)	-	-
Stage 2	(118,614)	418,614	(300,000)	-
Stage 3	(1,624,942)	(4,066,029)	5,690,971	-
Net remeasurement of loss allowance	(142,452)	2,259,617	(4,080,994)	(1,963,829)
New financial assets originated	14,225,234	8,604,783	90,807,060	113,637,077
Derecognition of financial assets	(9,238,137)	(4,040,797)	(4,771,972)	(18,050,906)
Write-offs	(493,519)	(5,349,812)	(42,802,568)	(48,645,899)
Balance at December 31	P 12,762,336	P 11,215,302	P 130,243,323	P 154,220,961
Other receivables				
Balance at January 1	P 55	P 16,063	P 327,039	P 343,157
Net remeasurement of loss allowance	-	-	24,986	24,986
New financial assets originated	19,833	352,640	357,383	729,856
Derecognition of financial assets	-	(5,025)	(46,560)	(51,585)
Balance at December 31	P 19,888	P 363,678	P 662,848	P 1,046,414
Debt investment securities at				
amortized cost				
Balance at January 1 and December 31	P 613,806	P -	P -	P 613,806

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Balance at January 1	P 7,826,530	P -	P 89,140,789	P 96,967,319
Transfers to:				
Stage 1	884	-	(884)	-
Stage 2	(97,073)	115,365	(18,292)	-
Stage 3	(8,205,757)	-	8,205,757	-
Net remeasurement of loss allowance	10,323,435	4,304,406	19,750,697	34,378,538
New financial assets originated	7,446,713	8,981,130	49,334,231	65,762,074
Derecognition of financial assets	(7,151,941)	-	(1,682,431)	(8,834,372)
Write-offs	-	-	(79,029,041)	(79,029,041)
Balance at December 31	P 10,142,791	P 13,400,901	P 85,700,826	P 109,244,518
Other receivables				
Balance at January 1	P -	P -	P 552,623	P 552,623
Net remeasurement of loss allowance	-	-	(44,170)	(44,170)
New financial assets originated	55	16,063	330,850	346,968
Derecognition of financial assets	-	-	(512,264)	(512,264)
Balance at December 31	P 55	P 16,063	P 327,039	P 343,157
Debt investment securities at				
amortized cost				
Balance at January 1	P 679,637	P -	P -	P 679,637
Reversal of impairment	(65,831)	-	-	(65,831)
Balance at December 31	P 613,806	P -	P -	P 613,806

4.6.6 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The table below provides information how the significant changes in the gross carrying amount of loans and receivables in 2020 and 2019 contributed to the changes in the allowance for ECL.

	2020			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Balance at January 1	P 349,067,178	P 116,109,578	P 113,450,751	P 578,627,507
Transfers to:				
Stage 1	1,136,063	(1,136,063)	-	-
Stage 2	(1,245,750)	1,321,688	(75,938)	-
Stage 3	(8,324,481)	(7,860,323)	16,184,804	-
New financial assets originated	138,081,304	55,497,024	98,797,110	292,375,438
Derecognition of financial assets	(211,611,533)	(59,460,399)	(5,437,462)	(276,509,394)
Write-offs	(493,519)	(5,349,812)	(42,802,568)	(48,645,899)
Balance at December 31	P 268,630,062	P 99,121,693	P 180,116,697	P 545,847,652
Other receivables				
Balance at January 1	P 1,326,787	P 126,295	P 419,559	P 1,872,641
New financial assets originated	640,082	225,700	619,516	1,485,298
Derecognition of financial assets	(422,400)	(24,700)	(124,580)	(571,680)
Balance at December 31	P 1,544,469	P 327,295	P 914,495	P 2,786,259
Debt investment securities at amortized cost				
Balance at January 1	P 107,070,524	P -	P -	P 107,070,524
Amortization of premium	(1,229,985)	-	-	(1,229,985)
Balance at December 31	P 105,840,539	P -	P -	P 105,840,539

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
Balance at January 1	P 317,275,334	P -	P 171,208,722	P 488,484,056
Transfers to:				
Stage 1	88,416	-	(88,416)	-
Stage 2	(926,997)	1,135,287	(208,290)	-
Stage 3	(9,357,532)	-	9,357,532	-
New financial assets originated	339,570,939	114,974,291	63,807,814	518,353,044
Derecognition of financial assets	(297,582,982)	-	(51,597,570)	(349,180,552)
Write-offs	-	-	(79,029,041)	(79,029,041)
Balance at December 31	P 349,067,178	P 116,109,578	P 113,450,751	P 578,627,507
Other receivables				
Balance at January 1	P 1,535,565	P 10,000	P 881,811	P 2,427,376
New financial assets originated	338,671	116,295	380,512	835,478
Derecognition of financial assets	(547,449)	-	(842,764)	(1,390,213)
Balance at December 31	P 1,326,787	P 126,295	P 419,559	P 1,872,641
Debt investment securities at amortized cost				
Balance at January 1	P 132,308,661	P -	P -	P 132,308,661
Derecognition of financial assets	(25,015,320)	-	-	(25,015,320)
Amortization of premium	(836,623)	-	-	(836,623)
Balance at December 31	P 106,456,718	P -	P -	P 106,456,718

4.6.7 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against certain loans and receivables from customers in the form of hold-out deposits, real estate mortgage, standby letters of credit or bank guaranty, government guaranty, chattel mortgage, assignment of receivables, pledge of equity securities, personal and corporate guaranty and other forms of security.

As of December 31, 2020 and 2019, the Bank's total secured loans and receivables amounted to P14.91 million and P12.70 million, respectively [see Note 24(d)]. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2020 and 2019.

The Bank's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place. The Bank does not generally use the non-cash collateral for its own operations.

In 2020, the Bank has recognized investment property amounting to P0.22 million arising from foreclosure in settlement of loan account (see Note 13). No similar transaction occurred in 2019.

There were no changes in the Bank's collateral policies in 2020 and 2019.

4.6.8 Modifications of Financial Assets

In certain cases, the Bank modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Bank is owed to. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary. Restructuring is most commonly applied to customer loans (see Note 10).

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2.

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets.

In 2020, aside from the above restructuring program, the Bank complied with *Bayanihan I* and *II* wherein loan moratoria are granted to qualified customers. These reliefs has not resulted in material modification loss as present value of the original cash flows and the present value of the revised cash flows were substantially equivalent. As of December 31, 2020, the total outstanding balance of the Bank's modified loans amounted to P32.19 million.

4.6.9 Write-offs

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include cessation of enforcement activity, and where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

The Bank may write off financial assets that are still subject to enforcement activity. The outstanding amounts of such assets written off in 2020 and 2019 amounted to P48.65 million and P79.03 million, respectively (see Note 10). The Bank still seeks to recover amounts legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

4.7 Operational Risk

Operational risk is the risk of direct or indirect loss from inadequate or failed internal processes, people and systems or from external events.

Managing operational risk in the Bank is founded on a sound internal control environment. Among the key components of a sound internal environment are recruitment and placement policies in place that ensure the integrity, ethics and competence of personnel; a written Code of Conduct; written policies and procedures that clearly establish accountability and responsibility, segregation of functions, verification and reconciliation procedures, and an effective assurance and internal audit function.

4.8 Anti-Money Laundering Controls (AMLC)

The Anti Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001. It was subsequently amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Together with the Terrorism Financing Prevention and Suppression Act which was passed in June 2012 by virtue of RA No. 10168, these laws provide the regulatory framework for the Philippine Anti-Money Laundering and Terrorist Financing Prevention regulations.

Under the AMLA, as amended, the Bank is required to submit Covered Transaction Reports (CTRs). CTRs involve single transactions in cash or other equivalent monetary instruments in excess of P0.5 within one banking day. The Bank is also required to submit STRs to the AMLC in the event that there are reasonable grounds to believe that any amounts processed are the proceeds of money laundering or terrorist financing activities.

The AMLA requires the Bank to safe keep, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including official documents that establish and record their true and full identity. In addition, transactional documents are required to be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be retained for five years after their closure. Meanwhile, all records of accounts with court cases must be preserved until resolved with finality.

On January 27, 2011, BSP Circular No. 706 (the Circular) was implemented superseding prior rules and regulations on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile. In compliance with the risk-based approach mandated by the Circular, the Bank profiles its clients based on their level of risk, specifically, Low, Normal, or High. These risk levels have their corresponding level of due diligence, specifically, Reduced, Average or Enhanced. BSP Circular No. 706 was later amended by BSP Circular No. 950.

The Bank's MLPP is revised annually to ensure that its KYC policies and guidelines are updated. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records prior to account opening. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, a Bank Head's approval is necessary.

The Bank's Chief Compliance Officer, through the Anti-Money Laundering Division, monitors AML/CFT compliance by conducting regular compliance testing of the head office and business units. Results of its AML/CFT activities and compliance monitoring are regularly reported to the AMLCom, Senior Management Committee and the BOD to ensure that all AML/CFT matters are appropriately escalated.

In 2017, the Bank instituted reforms aimed to reinforce its AML/CFT controls. The Bank significantly lowered the thresholds for remittances, required more posting reviews during the day, and strengthened the process for escalation, fraud and unusual transactions. In addition, the Bank has embarked on a re-engineering of its settlements and business center operations, and the consolidation and strengthening of its fraud management framework.

An essential aspect in the prevention of money laundering and terrorist financing is the training of Bank's personnel. In the latter part of 2017 to the first quarter of 2018, the Bank conducted a one-time bank-wide AML Certification training for all its employees with the aid of an external AML expert. Annual AML trainings, classroom and e-learning, are key features of the Bank's regular training program.

In addition to the Bank's existing transaction monitoring system, the Bank has also subscribed to an international watchlist database in 2018 to further strengthen its screening capabilities for client on-boarding and cross-border transactions.

The Bank continuously improved controls over Money Laundering risks and had implemented the necessary enhancements of the on-boarding procedures, risk profiling model, transaction processing and monitoring. Corresponding trainings were provided to equip personnel with the necessary skills to perform the enhanced procedures. On July 31, 2018, the AML Board Committee was created to meet on a monthly basis and provide oversight of AML related activities of the Bank.

5. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

		2020		2019	
	Notes	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets					
At amortized cost:					
Cash and other cash items	8	P 4,704,674	P 4,704,674	P 14,718,039	P 14,718,039
Due from BSP	8	185,629,606	185,629,606	23,837,157	23,837,157
Due from other banks	8	48,631,630	48,631,630	157,421,895	157,421,895
Investment in securities at amortized cost - net	9	105,226,733	106,117,722	105,842,912	102,196,851
Loans and receivables - net	10	453,790,973	428,544,869	454,445,231	412,993,307
Security deposits	14	6,473,050	6,473,050	6,200,251	6,200,251
Petty cash fund	14	645,000	645,000	615,000	615,000
Revolving fund	14	-	-	10,000	10,000
		P 805,101,666	P 780,746,551	P 763,090,485	P 717,992,500
Financial Liabilities					
At amortized cost:					
Deposit liabilities	15	P 433,031,851	P 433,031,851	P 385,116,205	P 385,116,205
Lease liabilities	12	19,774,576	19,774,576	20,853,329	20,853,329
Accrued expenses	16	3,149,328	3,149,328	2,673,808	2,673,808
Accounts payable	16	3,176,327	3,176,327	2,995,989	2,995,989
Other liabilities	16	2,831,436	2,831,436	2,233,492	2,233,492
		P 461,963,518	P 461,963,518	P 413,872,823	P 413,872,823

See Notes 2.3 and 2.8 for a description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and liabilities and non-financial assets, which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

6.2 *Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

(a) *Investment securities at amortized cost*

The fair values of actively traded corporate debt securities are determined based in their market prices quoted in the Philippine Dealing and Exchange Corp. or based on the direct reference price per Bloomberg at the end of each reporting period; hence, categorized within Level 1.

(b) *Loans and receivables*

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value; hence, categorized within Level 3.

(c) *Deposit liabilities*

The estimated fair value of demand deposits with no stated maturity is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Deposit liabilities are categorized within Level 3.

(d) *Other financial assets and financial liabilities carried at amortized cost*

For the Bank's other financial assets and financial liabilities carried at amortized cost as at December 31, 2020 and 2019, management considers that the carrying amounts of these financial instruments are equal to or approximate their fair values. Cash and Cash Equivalents, Petty cash fund and Revolving fund, are classified as Level 1 while all other financial instruments are classified as Level 3 of the fair value hierarchy.

6.3 *Fair Value Measurement and Disclosures for Investment Properties*

As at December 31, 2020 and 2019, the fair value of the investment properties amounting to P23.05 million and P18.48 million, respectively, are included in level 3.

The fair value of the Bank's investment properties is determined on the basis of the appraisals performed by the Bank's internal appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use.

The fair value of these non-financial assets were determined based on the following approaches:

(i) Fair Value Measurement for Land

The Level 3 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

(ii) Fair Value Measurement for Buildings

The Level 3 fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence.

7. CAPITAL MANAGEMENT POLICIES AND BSP REPORTING COMPLIANCE

7.1 Capital Management Objectives, Policies and Procedures

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

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

7.2 Unimpaired Capital

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

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to DOSRI (Directors, Officers, Shareholders and Related Interests);
(c) deferred tax asset or liability; and,
(d) other regulatory deductions.

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

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

In implementing current capital requirements, the BSP requires the Bank to maintain a minimum capital amount and a prescribed ratio of qualifying capital to risk-weighted assets or the capital adequacy ratio (CAR). Risk-weighted assets is the sum of credit risk, market risks, and operational risks, computed based on BSP-prescribed formula provided under its circulars.

On January 1, 2012, BSP Circular 688 dated May 26 2010 took effect containing the revised risk-based adequacy framework for stand-alone thrift banks, rural banks and cooperative banks which is based on Basel 1.5 wherein CAR shall not be less than 10% of the qualifying capital to risk-weighted assets.

The Bank's regulatory capital position as at December 31 is presented as follows:

	2020	2019
Tier 1 Capital		
Common stock	**P 400,000,000**	P 400,000,000
Surplus and reserves	**12,565,204**	(32,319,418)
Undivided profits for the year	**6,614,013**	50,623,584
	419,179,217	418,304,166
Less deduction from Tier 1 capital		
Deferred tax assets	**(48,454,426)**	(30,376,501)
	370,724,791	387,927,665
Tier 2 Capital		
General loan loss provision	**4,723,939**	6,966,443
Total Qualifying Capital	**P 375,448,730**	P 394,894,108
Total Risk Weighted Assets		
Credit risk	**P 462,402,489**	P 695,086,033
Operational risk	**481,749,237**	379,610,350
	P 944,151,726	P1,074,696,383
Capital Ratios		
Total regulatory capital expressed as percentage of total risk weighted assets	**39.77%**	36.74%
Total Tier 1 capital expressed as percentage of total risk weighted assets	**39.27%**	36.10%

7.3 Minimum Capital Requirement

On October 9, 2014, the MB of the BSP issued Circular No. 854 increasing the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks. As mandated by this new circular, the revised capitalization requirement applicable to the Bank is P300.00 million. As allowed by the transitory provisions of the circular, the Bank was given a one-year period from the date of effectivity of the circular to submit to the BSP a capital build-up program which would enable the Bank to meet the required minimum capital requirement.

As of December 31, 2020 and 2019, the Bank complied with the required minimum capital requirement.

7.4 Minimum Liquidity Ratio

On February 8, 2018, the BSP issued Circular No. 996, *Amendments to the Liquidity Coverage Ratio Framework for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks*, which provide guidance on and prescribes the prudential requirement for covered institutions to maintain eligible stock of liquid assets proportionate to the level of total qualifying liabilities (i.e., both on and off-balance sheet liabilities). Eligible liquid assets shall include cash and other liquid assets that are immediately liquefiable and free from encumbrances.

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019.

The Bank's MLR as at December 31, 2020 and 2019 are analyzed below.

	2020	2019
Eligible stock liquid assets	**P 299,895,326**	P 197,512,486
Total qualifying liabilities	**478,178,551**	411,508,228
Minimum Liquidity Ratio	**62.72%**	48.00%

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as at December 31:

	Notes	2020	2019
Cash		**P 4,704,674**	P 14,718,039
Due from BSP		**185,629,606**	23,837,157
Due from other banks		**48,631,630**	157,421,895
Loans arising from reverse repurchase agreement	10	**60,424,437**	-
Petty cash and revolving funds	14	**645,000**	625,000
		P 300,035,347	P 196,602,091

Cash account 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.

Due from BSP represents the aggregate balance of deposit accounts maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims.

Due from other banks generally earn interest based on daily bank deposit rates ranging from 0.13% to 0.25% in 2020 and 0.10% to 0.25% in 2019.

The Bank has loans and receivables from BSP as of December 31, 2020 (nil in 2019) arising from overnight lending from excess liquidity which earn effective interest of 2.00%. These loans normally mature in the banking day after the date of purchase. These loans arising from reverse repurchase agreement is presented as part of the Loans and Receivables in the 2020 statement of financial position (see Note 10).

Petty cash and revolving funds are presented as part of Other resources account in the statements of financial position (see Note 14).

Interest income recognized in the statements of comprehensive income amounted to P3.91 million and P2.84 million in 2020 and 2019, respectively, and is presented as Interest Income on Due from BSP and from other banks in the statements of comprehensive income.

9. INVESTMENT SECURITIES AT AMORTIZED COST

The investment securities at amortized cost consist of the following:

	2020	2019
Cost	P **105,840,539**	P 106,456,718
Allowance for impairment	(**613,806**)	(613,806)
	P **105,226,733**	P 105,842,912

The reconciliation of the Investment in securities at amortized cost as at December 31, 2020 and 2019, is as follows:

	2020	2019
Balance at beginning of year	P **105,842,912**	P 131,629,024
Amortization of premium	(**616,179**)	(836,623)
Disposals	-	(25,015,320)
Recovery of impairment	-	65,831
Balance at end of year	P **105,226,733**	P 105,842,912

The breakdown of Investment securities at amortized cost as to maturity is as follows:

	2020	2019
Within one year	P **35,895,793**	P -
Beyond one year	**69,330,940**	105,842,912
	P **105,226,733**	P 105,842,912

Annual coupon interest rates on these corporate bonds range from 4.73% to 6.6% both in 2020 and 2019. The total interest income earned on these investments, which comprise of corporate bonds, amounted to P4.82 million and P6.21 million in 2020 and 2019, respectively, and are presented as Interest Income on Investment securities at amortized cost in the statements of comprehensive income.

In 2019, gain on disposal of Investment securities at amortized cost amounted to P34,680 is presented as Gain on sale of investments under Other Operating Income in the 2019 statement of comprehensive income (see Note 18.1). There was no disposal of investment securities in 2020.

10. LOANS AND RECEIVABLES

Loans and receivables consist of the following:

		2020		2019
Receivables from customers:				
Microfinance loans	P	**494,931,563**	P	514,578,217
Regular loans		**50,131,927**		44,232,137
Small and medium-size entities (SME) loans		**21,804,962**		19,817,153
		566,868,452		578,627,507
Loans arising from reverse repurchase agreement (Note 8)		**60,424,437**		-
Other receivables		**2,786,259**		1,872,641
		630,079,148		580,500,148
Allowance for impairment	(	**155,267,375)**	(	109,587,675)
Unearned discounts	(	**21,020,800)**	(	16,467,242)
	P	**453,790,973**	P	454,445,231

The breakdown of loans and receivables as to maturity is as follows:

		2020		2019
Within one year	P	**379,788,245**	P	412,769,203
Beyond one year		**74,002,728**		41,676,028
	P	**453,790,973**	P	454,445,231

The range of annual effective interest rates, per product type, is shown below.

	2020	2019
Microfinance loans	**1.98% - 43.91%**	1.05% - 41.65%
Regular loans	**2.25% - 13.88%**	1.07% - 18.00%
SME loans	**1.00% - 7.07%**	1.07% - 7.09%

Microfinance loans have terms of three to 12 months maturity period. SME and Regular loans, on the other hand, have terms of six months to three years maturity period.

Interest income amounted to P257.75 million and P348.62 million in 2020 and 2019, respectively, is presented under Interest Income on Loans and receivables in the statements of comprehensive income.

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Analysis of allowance for impairment as of December 31,2020 and 2019 is as follows:

	2020	2019
Beginning balance	P 109,587,675	P 97,519,942
Impairment losses during the year	94,325,599	91,096,774
Write-off	(48,645,899)	(79,029,041)
Ending balance	P 155,267,375	P 109,587,675

Other receivables pertain to accrued interest receivable from Investment securities at amortized cost, advances to suppliers and due from employees.

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2020 and 2019 are shown below.

	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Total
December 31, 2020				
Cost	P 9,991,898	P 25,744,305	P 20,036,735	P 55,772,938
Accumulated depreciation and amortization	(8,525,099)	(21,004,986)	(11,839,901)	(41,369,986)
Net carrying amount	P 1,466,799	P 4,739,319	P 8,196,834	P 14,402,952
December 31, 2019				
Cost	P 9,287,592	P 24,226,869	P 20,243,445	P 53,757,906
Accumulated depreciation and amortization	(5,159,429)	(18,010,499)	(11,690,617)	(34,860,545)
Net carrying amount	P 4,128,163	P 6,216,370	P 8,552,828	P 18,897,361
January 1, 2019				
Cost	P 8,325,034	P 22,103,030	P 19,617,493	P 50,045,557
Accumulated depreciation and amortization	(2,023,250)	(15,194,217)	(15,334,980)	(32,552,447)
Net carrying amount	P 6,301,784	P 6,908,813	P 4,282,513	P 17,493,110

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

	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Total
Balance at January 1, 2020, net of accumulated depreciation and amortization	P 4,128,163	P 6,216,370	P 8,552,828	P 18,897,361
Additions	701,504	1,519,642	2,335,308	4,556,454
Depreciation and amortization charges for the year	(3,362,868)	(2,996,693)	(2,691,302)	(9,050,863)
Balance at December 31, 2020, net of accumulated depreciation and amortization	P 1,466,799	P 4,739,319	P 8,196,834	P 14,402,952

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	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Total
Balance at January 1, 2019, net of accumulated depreciation and amortization	P 6,301,784	P 6,908,813	P 4,282,513	P 17,493,110
Additions	962,558	2,262,849	6,204,226	9,429,633
Disposal	-	(85,470)	(11,275)	(96,745)
Depreciation and amortization charges for the year	(3,136,179)	(2,869,822)	(1,922,636)	(7,928,637)
Balance at December 31, 2019 net of accumulated depreciation and amortization	P 4,128,163	P 6,216,370	P 8,552,828	P 18,897,361

As at December 31, 2020 and 2019, the cost of fully depreciated bank premises, furniture, fixtures and equipment that is still currently being used in operations amounts to P16.25 million and P17.34 million, respectively.

Depreciation and amortization charges during the year are presented as part of Other Operating Expenses account in the statements of comprehensive income (see Note 18.2).

The Bank recognized P0.37 million and P0.75 million gain in 2020 and 2019, respectively, related to the disposal of bank premises, furniture and fixtures and equipment. The gain is presented under Other Operating Income in the statements of comprehensive income (see Note 18.1). The 2020 disposal is related to fully depreciated furniture and fixtures and equipment.

Under BSP rules, investment in bank premises, furniture and fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As of December 31, 2020 and 2019, the Bank has satisfactorily complied with this BSP requirement.

12. LEASES

The Bank has leases certain office spaces for use by its branches and cluster offices. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term upon mutual agreement between the parties. The Bank is prohibited from selling or pledging the underlying leased assets as security. For leases over branches and cluster offices, the Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

12.1 Right-of-use Assets

The carrying amounts of the Bank's right-of-use assets as at December 31, 2020 and 2019, and the movements during these periods are shown below.

	Note	2020	2019
Balance at beginning of year		P **20,168,986**	P 14,970,263
Additions		**11,148,827**	13,716,881
Depreciation and amortization	18.2	(**12,376,189**)	(8,518,158)
Balance at end of year		P **18,941,624**	P 20,168,986

12.2 Lease Liabilities

Lease liabilities amounting to P19.8 million and P20.9 million is presented as part of Accrued Expenses and Other Liabilities account in the statement of financial position as at December 31, 2020 and 2019 (see Note 16).

A reconciliation on the movements of lease liabilities during the period are shown below:

	Notes	2020	2019
Balance at beginning of year		P **20,853,329**	P 14,970,263
Additions		**11,148,827**	13,716,881
Payments		(**12,901,565**)	(9,398,264)
Interest		**1,703,820**	1,564,449
Rent concession	12.2, 18.1	(**1,029,835**)	-
Balance at end of year	16	P **19,774,576**	P 20,853,329

As at December 31, 2020, management assessed that that there no possible future lease termination options nor the Bank had committed to leases which had not commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2020 and 2019 is as follows:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 6 years	Total
2020						
Lease payments	P 10,791,515	P 4,513,486	P 2,784,852	P 2,544,852	P 1,231,026	P 21,865,731
Finance charges	(751,643)	(457,573)	(364,865)	(338,972)	(178,102)	(2,091,155)
Net present values	**P 10,039,872**	**P 4,055,913**	**P 2,419,987**	**P 2,205,880**	**P 1,052,924**	**P 19,774,576**
2019						
Lease payments	P 11,901,299	P 6,587,469	P 2,339,471	P 1,140,000	P 1,500,000	P 23,468,239
Finance charges	(1,416,536)	(667,357)	(264,629)	(160,553)	(105,835)	(2,614,910)
Net present values	P 10,484,763	P 5,920,112	P 2,074,842	P 979,447	P 1,394,165	P 20,853,329

12.3 Lease Payments Not Recognized as Liabilities

The Bank has elected not to recognize a lease liability for short-term leases. Payments made under such leases are expensed on a straight-line basis.
The expenses relating short-term leases amounted to P3.11 million and P5.85 million is presented as Occupancy under Other Operating Expense in the statements of comprehensive income (see Note 18.2).

At December 31, 2020 and 2019, the Bank is committed to short-term leases, and the total commitment at that these dates is P0.68 million and P0.40 million, respectively.

12.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P12.9 million and P9.4 million in 2020 and 2019. Interest expense in relation to lease liabilities amounted to P1.70 million and P1.56 million and is presented as part of Interest Expense in the statements of comprehensive income.

13. INVESTMENT PROPERTIES

The gross carrying amounts and accumulated depreciation of investment properties at the beginning and end of 2020 and 2019 are shown below.

	Land	Building and Improvements	Total
December 31, 2020			
Cost	P 8,680,276	P 181,972	P 8,862,248
Accumulated depreciation	-	(181,972)	(181,972)
Net carrying amount	**P 8,680,276**	**P -**	**P 8,680,276**
December 31, 2019			
Cost	P 8,457,385	P 181,972	P 8,639,357
Accumulated depreciation	-	(181,972)	(181,972)
Net carrying amount	P 8,457,385	P -	P 8,457,385
January 1, 2019			
Cost	P 10,118,660	P 181,972	P 10,300,632
Accumulated depreciation	-	(181,972)	(181,972)
Net carrying amount	P 10,118,660	P -	P 10,118,660

In 2020, the Bank has foreclosed land asset with fair value of P0.22 million from its past due loans. No gain or loss is recognized on the foreclosure. No similar transaction in 2019.

In 2019, the Bank disposed a certain parcel of land with carrying value of P1.66 million resulting in a gain on sale amounting to P0.95 million. Meanwhile in 2020, certain fully depreciated assets costing P0.07 million was sold at P1,600. The gain on sale of investment properties is recognized as part of Other Operating Income in the statements of comprehensive income (see Note 18.1).

Based on the latest appraisal reports of these properties, fair market value of investment properties amounts to P23.05 million and P18.48 million as at December 31, 2020 and 2019, respectively (see Note 6.3).

14. OTHER RESOURCES

This account consists of:

	Notes		2020		2019
Security deposits	22.1	P	**6,473,050**	P	6,200,251
Prepayments			**2,284,301**		2,404,946
Office supplies			**2,118,547**		1,651,746
Petty cash fund	8		**645,000**		615,000
Computer software - net			**187,627**		396,497
Prepaid taxes			**61,090**		141,877
Revolving fund	8		-		10,000
Miscellaneous			**482,175**		404,709
		P	**12,251,790**	P	11,825,026

The breakdown of other resources as to maturity is as follows:

		2020		2019
Within one year	P	**5,591,113**	P	5,228,278
Beyond one year		**6,660,677**		6,596,748
	P	**12,251,790**	P	11,825,026

Amortization of computer software amounted to P0.23 million and P0.46 million in 2020 and 2019, respectively, and is presented as part of Depreciation and amortization under Other Operating Expenses in the statements of comprehensive income (see Note 18.2). In 2020, the Bank purchased additional computer software amounting to P0.02 million. There was no addition to computer software in 2019.

15. DEPOSIT LIABILITIES

Deposit liabilities are in the form of savings and time deposits that bear interests ranging from 0.75% to 3.25% per annum in 2020 and 1.00% to 8.00% per annum in 2019.

This account consists of:

		2020		2019
Savings deposit	P	**9,839,840**	P	19,183,359
Time deposit		**423,192,011**		365,932,846
	P	**433,031,851**	P	385,116,205

The maturity profile of the Bank's deposit liabilities follow:

		2020		2019
Within one year	P	**323,549,326**	P	275,629,037
Beyond one year but within five years		**109,482,525**		109,487,168
	P	**433,031,851**	P	385,116,205

Interest expense incurred amounting to P12.87 million and P14.05 million in 2020 and 2019, respectively, and are recognized as part of part of Interest Expense in the statements of comprehensive income.

Deposit liabilities include accrued interest payable amounting to P15.49 million and P10.17 million as at December 31, 2020 and 2019, respectively.

Under existing BSP regulations, rural banks are subject to statutory and liquidity reserves equivalent of 3.0% of savings and time deposits (BSP Circular 1082, Series of 2020).

Liquidity and statutory reserves pertains to Due from BSP amounting to P185.63 million and P23.84 million as at December 31, 2020 and 2019, respectively (see Note 8). The Bank is in compliance with such regulations as at December 31, 2020 and 2019.

16. ACCRUED EXPENSES AND OTHER LIABILITIES

This account consists of:

	Notes		2020		2019
Lease liabilities	12	P	19,774,576	P	20,853,329
Unearned income			6,170,476		6,507,080
Accrued taxes and licenses			5,301,942		6,249,176
Income tax payable			4,236,183		7,446,141
Retirement benefit obligation	19.2		3,995,482		2,447,701
Accounts payable			3,176,327		2,995,989
Accrued other expenses			3,149,328		2,673,808
Others			2,831,436		2,233,492
		P	48,635,750	P	51,406,716

The breakdown of accrued expenses and other liabilities as to maturity is as follows:

		2020		2019
Within one year	P	34,905,564	P	38,590,449
Beyond one year		13,730,186		12,816,267
	P	48,635,750	P	51,406,716

Unearned income pertains to deferred loan processing fees, which were collected upon loan release but are recognized as income over the term of the loan.

The Bank other liabilities consist of unpaid appraisal and registration fees, insurance payable, sundry credits and other miscellaneous payable to various creditors of the Bank.

17. EQUITY

Capital stock consists of the following as at December 31, 2020 and 2019:

	Number of Shares	Amount
Common stock – P100 par value		
Authorized – 9,000,000 shares		
Subscribed	4,000,000	P 400,000,000

As at December 31, 2020 and 2019, the Bank has nine stockholders, owning 100 or more shares each of the Bank's common stock.

18. OTHER OPERATING INCOME AND EXPENSES

18.1 Other Operating Income

This account is composed of the following:

	Notes	2020	2019
Processing fees		**P 24,957,138**	P 27,283,335
Recovery on charged-off assets		**3,301,936**	6,906,692
Gain on rent concession	12.2	**1,029,835**	-
Bounce check charges		**908,430**	1,605,368
Gain on sale of bank premises, furniture, fixtures and equipment	11	**366,826**	747,725
Gain on sale of investment properties	13	**1,600**	950,959
Gain on sale of investment securities	9	**-**	34,680
Others		**2,269,209**	960,651
		P 32,834,974	P 38,489,410

In 2019, the Bank implemented a new policy for fees charged in the processing of loans. Processing fees ranging from P150 to P6,000 and P5,000 to P20,000 is charged for microfinance loans and SME and regular loans, respectively.

18.2 Other Operating Expenses

This account is composed of the following:

	Notes	2020	2019
Compensation and employee benefits	19.1	P 102,730,823	P 132,633,501
Depreciation and amortization	11, 12 13, 14	21,656,121	16,713,709
Taxes and licenses		20,098,162	23,186,748
Fuel and lubricants		6,511,053	9,609,069
Communication		4,269,031	4,901,523
Stationery and supplies		3,276,673	5,119,753
Repairs and maintenance		3,265,242	4,271,030
Occupancy	12.3, 22.1	3,107,397	5,847,475
Power, light and water		2,778,645	3,367,707
Transportation and travel		2,622,604	4,770,224
Insurance		1,913,441	1,557,813
Security and messengerial services		1,240,691	2,223,244
Miscellaneous		7,531,530	10,742,729
		P 181,001,413	P 224,944,525

19. EMPLOYEE BENEFITS

19.1 Employee Benefits

Expenses recognized for employee benefits are presented below.

	Notes	2020	2019
Salaries and wages		P 81,584,714	P 95,329,125
Social security cost		7,951,644	9,142,091
Bonus		7,766,705	13,593,431
Incentives and benefits		3,904,518	12,666,481
Retirement benefit	19.2	565,886	484,339
Others		957,356	1,418,034
	18.2	P 102,730,823	P 132,633,501

Bonus includes 13th month pay in 2020 and in 2019. Also included in 2019 bonus is the 14th month bonuses given by the Bank to its employees. There is no 14th month pay given in 2020.

Others include other allowances given to Bank's employees.

19.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank does not have an established retirement benefit plan and only conforms to the minimum regulatory benefit under the RA No. 7641 *Retirement Pay Law* , which is of the final salary defined benefit type and provides retirement benefit equal to 22.5 days' pay for every year of credited service. The regulatory benefit is paid in a lump sum upon retirement.

In accordance with the provisions of the Labor Code, the Bank is required to pay eligible employees at least the minimum regulatory benefit upon retirement, subject to age and service requirements. Since the Bank does not have any formal, trusteed Retirement Plan, the are no Trustees yet. Moreover, there are no unusual or significant risk to which the Retirement Obligation exposes the Bank. However, it should be noted that in the event a benefit claim arises under the Retirement Obligation, the benefit shall immediately be due and payable from the Bank.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding page are based on the actuarial valuation report obtained from an independent actuary in 2020 including the comparative year 2019 [see Note 2.2(a)(i)].

The movements in the present value of the post-employment benefit obligation recognized in the books are as follows:

	2020	2019
Balance at beginning of year	P 2,447,701	P 1,939,308
Current service cost	565,886	484,339
Interest expense	127,770	146,030
Benefits paid	-	(875,000)
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	644,053	654,203
Experience adjustments	110,565	417,241
Changes demographic assumptions	99,507	(318,420)
Balance at end of year	P 3,995,482	P 2,447,701

The retirement benefit obligation is presented as part of Accrued Expenses and Other Liabilities in the statements of financial position (see Note 16).

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2020	2019
Reported in profit or loss:		
Current service cost	P 565,886	P 484,339
Interest expense	127,770	146,030
	P 693,656	P 630,369

	2020	2019
Reported in other comprehensive loss –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	**P 644,053**	P 654,203
Experience adjustments	**110,565**	417,241
Changes in demographic assumptions	**99,507**	(318,420)
	P 854,125	P 753,024

The current service cost is presented in the statements of comprehensive income as part of Compensation and employee benefits under Other Operating Expenses (see Note 19.1). The related interest expense is included as part of Interest Expense in the statements of comprehensive income.

Amounts recognized in other comprehensive income are considered as items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the post-employment defined benefit obligation, the following significant actuarial assumptions were used:

	2020	2019
Discount rates	**3.95%**	5.22%
Expected rates of salary increases	**2.00%**	2.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 30 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment benefit obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Explanation of Amounts Presented in the Financial Statements*

The plan exposes the Bank to actuarial risks such as interest rate risk, longevity risk and salary risk.

(i) *Interest Rate Risk*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the retirement obligation.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, and the timing and uncertainty of future cash flows related to the retirement plan is presented below.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as at December 31, 2020 and 2019.

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2020:			
Discount rate	**+/-1.00%**	**(P 613,186)**	**P 518,212**
Salary increase rate	**+/-1.00%**	**619,338**	**(532,091)**
December 31, 2019:			
Discount rate	+/-1.00%	(P 368,330)	P 312,895
Salary increase rate	+/-1.00%	376,959	(324,887)

The sensitivity analysis presented on the previous page is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Funding Arrangements and Expected Contributions

The plan is currently unfunded based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about ten years time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	2020	2019
Within one year to five years	P 240,819	P -
More than five years to ten years	1,239,580	1,496,851
	P 1,480,399	P 1,496,851

The weighted average duration of the defined benefit obligation at the end of the reporting period is 13.9 years.

20. RELATED PARTY TRANSACTIONS

The summary of the Bank's transactions with its related parties as of December 31, 2020 and 2019 is presented below.

Related Party Category	Note	2020 Amount of Transaction	2020 Outstanding Balance	2019 Amount of Transaction	2019 Outstanding Balance
Related parties under common ownership:					
Grant of loans	20.2	P 38,747,126	P -	P 28,380,195	P -
Purchase of assets	20.1	3,091,907	-	7,716,490	-
Key Management Personnel:					
Compensation	20.3	10,913,955	-	12,112,791	-
Deposit liabilities	20.4	2,506,646	12,975,416	2,583,396	10,468,770

20.1 Purchase of Assets

In 2020, the Bank purchased motor vehicles and accessories amounting to P2.07 million, P0.59 million, and P0.04 million from Bank of Makati, Motortrade Nationwide Corporation and Motortrade Topline, Inc., respectively. In the same year, the Bank made purchases of supplies from Contrade Intergrated Depot amounting to P0.39 million.

In 2019, the Bank purchased motor vehicles and accessories amounting to P6.12 million, P0.86 million, and P0.10 million from Bank of Makati, Motortrade Nationwide Corporation and Motortrade Topline, Inc., respectively. In the same year, the Bank made purchases of supplies from Contrade Intergrated Depot amounting to P0.66 million.

The Bank does not have any outstanding liability arising from these transactions as at December 31, 2020 and 2019.

20.2 Grant of Loans

In 2017, the Bank also entered into an agreement with BMI Finance Corporation and Fundline Finance Corp., a related party under common ownership, wherein the Bank will finance various salary loans of their respective employees. These loans are unsecured with a maturity period of six months to three years similar to the terms of regular loans, and with interest rate ranging from 12% to 18%. There is no outstanding balance as of December 31, 2020 and 2019.

20.3 Key Management Personnel Compensation

The key management personnel compensation amounted to P10.91 million and P12.11 million as at December 31, 2020 and 2019, respectively, and are shown as part of Compensation and employee benefits under Other Operating Expenses account in the statements of comprehensive income (see Note 18.2).

20.4 Bank Deposits from Key Management Personnel

As of December 31, 2020 and 2019, the Bank's key management personnel have savings deposit accounts which are presented as part of Deposit Liabilities account in the statements of financial position. These bank accounts are interest-bearing and subject to normal banking terms and conditions applied by the Bank to ordinary depositors (see Note 15).

21. TAXES

The components of tax expense (income) as reported in profit or loss and other comprehensive loss are as follows:

	2020	2019
Reported in profit or loss		
Current tax expense:		
Regular income tax (RCIT)	P 15,183,618	P 21,792,420
Final tax at 20%	1,745,178	1,829,110
	16,928,796	23,621,530
Deferred tax income relating to origination and reversal of temporary differences	(13,855,609)	(4,322,576)
	P 3,073,187	P 19,298,954
Reported in other comprehensive loss		
Deferred tax income relating to origination and reversal of temporary difference	(P 256,238)	(P 225,907)

A reconciliation of tax on pretax income computed at the applicable statutory rates to tax expense reported in profit or loss is as follows:

	2020	2019
Tax on pretax income at 30%	P 2,785,352	P 19,308,098
Adjustment for income subjected to lower tax rates	(872,589)	(914,555)
Tax effect of non-deductible expenses	1,160,424	905,411
Tax Expense	P 3,073,187	P 19,298,954

The net deferred tax assets as at December 31 relates to the following:

	Statements of Financial Position		Statements of Comprehensive Income			
			Profit or Loss		Other Comprehensive Income (Loss)	
	2020	2019	2020	2019	2020	2019
Allowance for impairment	P 44,606,152	P 30,902,242	(P 13,703,910)	(3,700,023)	P -	P -
Unearned income	1,851,143	1,952,124	100,981	(490,639)	-	-
Right-of-use assets	(5,682,487)	(6,050,696)	(368,209)	(2,555,447)	-	-
Lease liabilities	5,932,373	6,255,999	323,626	2,350,144	-	-
Retirement benefit obligation	1,198,646	734,311	(208,097)	73,389	(256,238)	(225,907)
Deferred Tax Assets – Net	P 47,905,827	P 33,793,980				
Deferred Tax Income – Net			(P 13,855,609)	(P 4,322,576)	(P 256,238)	(P 225,907)

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As of December 31, 2020 and 2019, the Bank has unrecognized deferred tax assets of P2.05 million on allowance for impairment of loans and receivables.

The Bank is subject to Minimum Corporate Income Tax (MCIT), which is computed at 2% of gross income, as defined under the tax regulations, or regular corporate income tax, whichever is higher. No MCIT was reported in 2020 and 2019 as the RCIT was higher than MCIT in both years.

The Bank claimed itemized deductions in 2020 and 2019 in computing for its income tax due.

22. COMMITMENTS AND CONTINGENCIES

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

22.1 Operating Lease Commitments – Bank as Lessee

The Bank entered into various short-term lease agreements under operating leases covering the office spaces of its branches. The short-term leases have terms ranging from 6 to 12 months, with renewal options subject to mutual agreement.

At December 31, 2020 and 2019, the Bank is committed to short-term leases, and the total commitment at these dates is P0.68 million and P0.40 million, respectively.

The total rentals from these operating leases amounted to P3.11 million and P5.85 million in 2020 and 2019, respectively, are presented as Occupancy under Other Operating Expenses in the statements of comprehensive income (see Note 18.2).

Rental deposits amounting to P6.47 million and P6.20 million as at December 31, 2020 and 2019, respectively, are shown as Security deposits under the Other Resources account in the statements of financial position (see Note 14).

22.2 Others

There are other commitments and contingencies that arise in the normal course of the Bank's operations that are not reflected in the financial statements. As at December 31, 2020 and 2019, management is of the opinion that losses from these commitments and contingencies will not have a material effect on the Bank's financial statements.

23. EVENT AFTER THE END OF THE REPORTING PERIOD

On March 26, 2021, RA No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, amending certain provisions of the National Internal Revenue Code (NIRC) of 1997, as amended, was signed into law with veto on certain provisions and shall be effective 15 days after its publication. The CREATE Act has several provisions with retroactive effect beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to the Bank:

a. RCIT rate is decreased from 30% to 25% starting July 1, 2020;
b. MCIT rate is decreased from 2% to 1% starting July 1, 2020 until June 30, 2023;
c. the imposition of 10% tax on improperly accumulated retained earnings is repealed; and,

d. the allowable deduction for interest expense is reduced to 20% (from 33%) of the interest income subjected to final tax.

Given that the CREATE Act was signed after the end of the current reporting period, the Bank determined that this event is a non-adjusting subsequent event. Accordingly, its impact was not reflected in the Bank's financial statements as of and for the year ended December 31, 2020, and instead, will be taken up prospectively in the next applicable reporting period. The Bank used the prevailing tax rates as of December 31, 2020 in determining its current and deferred taxes in its 2020 financial statements.

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return (ITR) of the Bank, would be lower than the amount presented in the 2020 financial statements. Presented below is the reconciliation of the impact of the application of CREATE Act between the Bank's 2020 financial statements and 2020 annual ITR.

	Per 2020 Financial Statements	Impact of CREATE Act	Per 2020 ITR
Current tax expense (RCIT)	P 15,183,618	(P 1,421,277)	P 13,762,341
Income tax payable	4,236,183	(1,421,277)	2,814,906

In addition, the recognized net deferred tax assets as of December 31, 2020 would be remeasured to 25% in the 2021 financial statements. This will result in a decline in the recognized deferred tax asset in 2020 by P7.98 million and will be charged to 2021 profit or loss, unless it can be recognized in other comprehensive income as provided in the applicable financial reporting standard.

24. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below and in the succeeding page are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP MORB to be disclosed as part of the notes to financial statements.

a) Selected Financial Performance Indicators

The following are some of the financial performance indicators of the Bank:

	2020	2019
Return on average equity:		
Net income after income tax / Average total equity	**1.49%**	11.54%
Return on average assets:		
Net income after income tax / Average total resources	**0.71%**	5.83%

	2020	2019
Net interest margin:		
Net interest income / Average interest earning assets	**32.99%**	45.07%

b) *Capital Instruments Issued*

As of December 31, 2020 and 2019, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which may include, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

c) *Credit Status of Loans*

The breakdown of receivable from customers as to status is shown below.

	2020		
	Performing	**Non-performing**	**Total**
Gross Carrying Amount:			
Microvariant	P 141,979,909	P 158,750,700	P 300,730,609
Micro100	61,278,754	90,078,504	151,357,258
Regular	48,533,051	1,598,876	50,131,927
Small and medium-sized	16,838,348	4,904,431	21,742,779
Under litigation	-	42,905,879	42,905,879
	268,630,062	298,238,390	566,868,452
Allowance for ECL	(12,762,336)	(141,458,625)	(154,220,961)
Net Carrying amount	**P 255,867,726**	**P 156,779,765**	**P 412,647,491**

	2019		
	Performing	Non-performing	Total
Gross Carrying Amount:			
Microvariant	P 210,714,761	P 96,607,661	P 307,322,422
Micro100	86,581,530	94,714,421	181,295,951
Regular	43,297,874	934,263	44,232,137
Small and medium-sized	8,473,013	9,513,571	17,986,584
Under litigation	-	27,790,413	27,790,413
	349,067,178	229,560,329	578,627,507
Allowance for ECL	(10,142,791)	(99,101,727)	(109,244,518)
Net Carrying amount	P 338,924,387	P 130,458,602	P 469,382,989

d) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of loans as to secured and unsecured (gross of unearned discounts and allowance for impairment) follows:

	2020	2019
Secured	**P 14,907,421**	P 12,669,733
Unsecured	**551,961,031**	565,957,774
	P 566,868,452	P 578,627,507

e) *Information on Related Party Loans*

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as at December 31 in accordance with BSP reporting guidelines:

	DOSRI Loans		**Related Party Loans (inclusive of DOSRI)**	
	2020	2019	**2020**	2019
Total outstanding loans	**P -**	P -	**P -**	P -
% of loans to total loan portfolio	**0.0%**	0.0%	**0.0%**	0.0%
% of unsecured loans to total DOSRI/ related party loans	**0.0%**	0.0%	**0.0%**	0.0%
% of past due loans to total DOSRI/ related party loans	**0.0%**	0.0%	**0.0%**	0.0%
% of non-performing loans to total DOSRI/ related party loans	**0.0%**	0.0%	**0.0%**	0.0%

f) *Secured Liabilities and Assets Pledged as Security*

The Bank does not have any secured liabilities nor assets pledged as security as at December 31, 2020 and 2019.

g) *Contingencies and Commitments Arising from Off-balance Sheet Items*

The Bank does not have any contingencies and commitments arising from off-balance sheet items as of December 31, 2020 and 2019.

25. SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR

Following is the supplementary information which is required by the BIR under its revenue regulations (RR) No.15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

(a) *Gross Receipts Tax (GRT)*

In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries performing quasi-banking function pursuant to Section 121 of the NIRC, as amended.

In 2020, the Bank reported total GRT amounting to P14,486,185 which is shown as part of Taxes and licenses under Other Operating Expenses in the 2020 statement of comprehensive income [see Note 25(d)]. There were outstanding GRT payables as at December 31, 2020 amounting to P4,372,555 presented as part of Accrued taxes and licenses under Accrued Expenses and Other Liabilities in the 2020 statement of financial position (see Note 16).

GRT is levied on the Bank's lending income, which includes interests and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income.

(b) Documentary Stamp Tax

For the year ended December 31, 2020 documentary stamp tax (DST) affixed amounted to P4,604,330. Of this amount, P2,291,498 was charged to clients while the balance of P2,312,832 was for the account of the Bank and accordingly charged to profit or loss [see Note 25(d)].

(c) Withholding Taxes

Details of total withholding taxes for the year ended December 31, 2020 are shown below.

Compensation and benefits	P	2,557,049
Final		1,458,976
Expanded		1,129,899
	P	**5,145,924**

(d) Taxes and Licenses

Details of taxes and licenses in 2020 are as follows:

	Notes		
GRT	25(a)	P	14,486,185
Local taxes and business permits			2,927,153
DST	25(b)		2,312,832
Miscellaneous			371,992
	18.2	**P**	**20,098,162**

(e) Excise Taxes

The Bank does not have excise taxes accrued in 2020 since it does not have any transactions subject to excise tax during the year.

(f) Taxes on Importation

The Bank has not paid or accrued any customs duties and tariff fees as it has no importation for the year ended December 31, 2020.

(g) Deficiency Tax Assessment and Tax Cases

The Bank paid deficiency taxes on income tax amounting to P176,753 for tax assessments related to taxable calendar year 2017. The total interest and compromise penalty paid in relation to this deficiency tax amounted to P49,034.

Other than the foregoing, the Bank does not have any final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

CORPORATE OFFICES

MAIN BRANCH OFFICE

3RD AND 4TH FLOOR SP. JUNCTION BLDG., JUNCTION OF NATIONAL HIGHWAY AND A. MABINI ST., BRGY. NUEVA, SAN PEDRO CITY, LAGUNA

BANK BRANCH OFFICE

UNIT 13 & 14 HONACO BLDG., BRGY. NANCAYASAN, URDANETA CITY, PANGASINAN

BRANCH-LITE UNITS

AGOO

326 NATIONAL HIGHWAY, SAN ANTONIO, AGOO, LA UNION

CALAMBA

DENCRIS BUSINESS CENTER LOCATED AT NATIONAL HIGHWAY, BRGY. HALANG CALAMBA CITY, LAGUNA

CAMILING

GROUND FLOOR, ALK BLDG. LUNA ST., BRGY. POBLACION C, CAMILING, TARLAC

CATANAUAN

BARANGAY 10 (POB.) CATANAUAN, QUEZON

CONCEPCION

551 AND 552 BITUIN BLDG. L. CORTEZ ST., SAN NICOLAS, CONCEPCION, TARLAC

GUMACA

AQC BLDG. J.P. RIZAL ST., BRGY. PENAFRANCIA, GUMACA, QUEZON

LAS PIÑAS

0021 (C1) URCI LAS PIÑAS CITY TOWNHOMES ST., PAMPLONA III, LAS PIÑAS CITY, METRO MANILA

LIGAO

LLADOC BUILDING, CRESPO ST., GUILID, LIGAO CITY, ALBAY

ALAMINOS

87 SADSARAN ST. POBLACION, ALAMINOS CITY, PANGASINAN

CALAUAG

J.P RIZAL ST., BRGY. STA. MARIA, CALAUAG, QUEZON

CANDELARIA

MAHARLIKA HIGHWAY CORNER ONA ST., POBLACION, CANDELARIA, QUEZON.

DASMARINIAS

275 FOX GLOBE HOLDING BLDG., AGUINALDO HIGHWAY, BRGY. SAMPALOC 1, DASMARIÑAS CITY, CAVITE

IMUS

LMCOR BLDG. #155 NUENO AVE. IMUS, CAVITE

LUCBAN

GROUND FLOOR, ELMA BLDG. SAN LUIS ST., BRGY. 8, LUCBAN, QUEZON

LAOAG

GEN. SEGUNDO AVENUE, BRGY. 13, LAOAG CITY, ILOCOS NORTE

LUCENA

GROUND FLOOR OF TAN BLDG. BRGY. 7 JUAREZ COR. GRANJA ST. , LUCENA CITY

BRANCH-LITE UNITS

MARIKINA
474 J.P. RIZAL ST. STO. NIÑO, MARIKINA CITY

NORTH CALOOCAN
UNIT 2 - ARYANNA VILLAGE CENTER, BRGY. 175 SUSANO ROAD CAMARIN, CALOOCAN CITY

SAN CARLOS
GROUND FLOOR, PALISOC BLDG. #9 BONIFACIO ST., SAN CARLOS CITY PANGASINAN

SINILOAN
M. PANDENO ST., BRGY. PANDENO, SINILOAN LAGUNA

STA. CRUZ
MARCELINO ROSARIO CO. BLDG. QUEZON AVENUE BRGY. STO. ANGEL SUR, STA. CRUZ, LAGUNA

TANZA
1ST FLOOR, ROOM 101-102 OF JACKSON HEIGHTS DEVELOPMENT & MANAGERS CO. BLDG., LOCATED AT BRGY. DAANG AMAYA I, TANZA, CAVITE

TAYABAS
QUEZON AVENUE CORNER GENERAL LUNA ST., BRGY. ANGELES, ZONE 3, TAYABAS CITY, QUEZON

PANIQUI
ODK BLDG. MCARTHUR HIGHWAY, BRGY. ESTACION, PANIQUI, TARLAC

SAN PABLO
ULTIMART SHOPPING PLAZA, M. PAULINO ST., SAN PABLO CITY, LAGUNA

SOUTH CALOOCAN
#524 EDSA, BRGY. 094, DISTRICT 2, CALOOCAN CITY

TAGUIG
61 M.L QUEZON ST., BARANGAY WAWA, TAGUIG CITY

TARLAC
GROUND FLOOR JNLB BLDG., LIGTASAN, TARLAC CITY

VALENZUELA
293 MAYSAN ROAD, PASO DE BLAS, CITY OF VALENZUELA

VIGAN
MCL BLDG. 20 LIBERATION BLVD., VIGAN CITY, ILOCOS SUR