

**RURAL BANK OF SOLANO (Nueva Vizcaya) Inc.**



**2020  
Annual Report**

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# Corporate Policy

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## ABOUT US

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Rural Bank of Solano (N.V.) Inc. was incorporated and registered with the Philippine's Securities and Exchange Commission (SEC) on December 22, 1969 with Registration No. 39997. On February 27, 1970, the Bangko Sentral ng Pilipinas (BSP) granted the Bank its Certificate of Authority to operate as a financial institution. Thereafter, RBS started operations on March 7, 1970.

The Bank was formed to carry and engage in the business of extending rural credits to small farmers and tenants and to deserving rural industries or enterprises, to have and exercise all authorities and powers, to do and perform all acts, to transact all business which may legally be had or done by rural banks organized under and in accordance with the Rural Bank's Act as it exists or may be amended; and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

The Bank's products and services are traditional deposits such as regular savings deposits and certificate of time deposits. The Bank also offers various types of loans such as agricultural, commercial/industrial, and various consumer loans and microfinance loans.

With the amendment of the company purpose that now include: sell, solicit or market microinsurance products and render services as insurance agent, provided that such products are issued by life and non-life insurance companies authorized by the Insurance Commission, in accordance with the Bangko Sentral ng Pilipinas rules and regulations. (Amended Articles of Incorporation as of May 4, 2013); the bank now cross-sells Micro Insurance.

The Bank's registered office address is located at Maharlika Highway, Brgy. Poblacion South, Solano, Nueva Vizcaya. The Bank is domiciled in the Philippines.

**The three (3) branches and two (2) Branch Lite Units of the Bank are located as follows:**

**BAGABAG BRANCH**

Address: Maharlika Highway, Brgy. San Pedro, Bagabag,  
Nueva Vizcaya  
Commencement Date: August 25, 1995

**BAMBANG BRANCH**

Address: Maharlika Highway, Brgy. Almaguer North, Bambang, Nueva Vizcaya  
Commencement Date: March 20, 2017

**BAYOMBONG BRANCH**

Address: Maharlika Highway, Brgy. Don Mariano Perez, Bayombong, Nueva Vizcaya  
Commencement Date: June 1, 2018

**BRANCH LITE UNIT-SOLANO**

Address: Gaddang St. Corner Calle Rosa, Brgy. Poblacion South, Solano, Nueva Vizcaya  
Commencement Date: July 23, 2018

**BRANCH LITE UNIT-MADDELA**

Address: National Road, Brgy. Poblacion Norte, Maddela, Quirino  
Commencement Date: June 27, 2019

## VISION-MISSION

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"We provide excellent and efficient banking and value added services, nurture relationships to foster beginnings, build lives and promote countryside development"

- P - Promote Countryside Development;
- R - Responding to Client Needs;
- O - Offering QUALITY Service grounded on Trust and Integrity;
- G - Going for Growth of Individuals, Groups and Communities;
- R - Respecting every individual;
- E - Enhancing Economic Activity;
- S - Serving Sincerely; and
- S - Staying Dependable

# PRODUCTS & SERVICES

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## DEPOSITS

- Regular Savings
- Kiddie and Teens Savings
- Time Deposit/Ruby Term Investment
- Regular Checking Account
- Combo Checking Account
- Micro & Kiddie Time Deposit
- Gift of Time Certificate



## LOANS

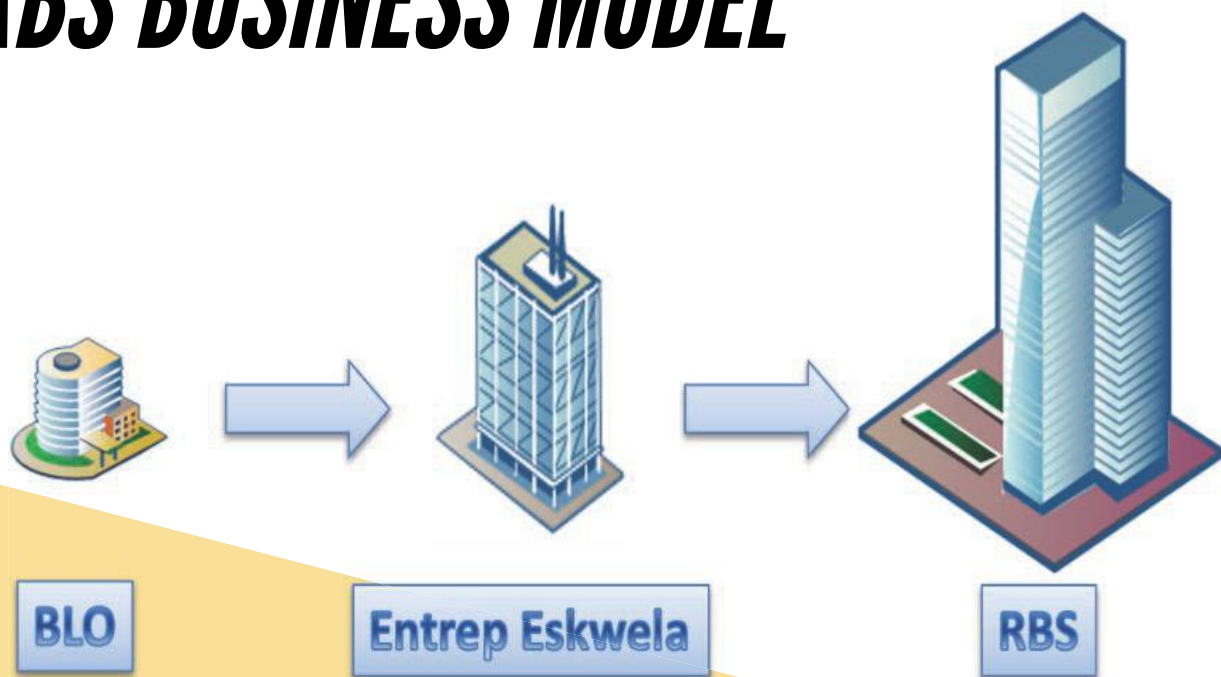
- Agricultural Loan
- Commercial/Industrial Loans
- Back to Back Support Loan
- Salary Loan and Other Loan
- Pangkabuhayan sa Barrio Loan
- TODA Loan
- ISALABAY Microfinance Loan
- Jewelry Loan
- Yaman sa Kaban Loan
- Micro Insurance Loan
- Bahay Loan
- e.Quipment (Gadget) Loan
- Heavy Equipment Loan
- Green Energy Loan



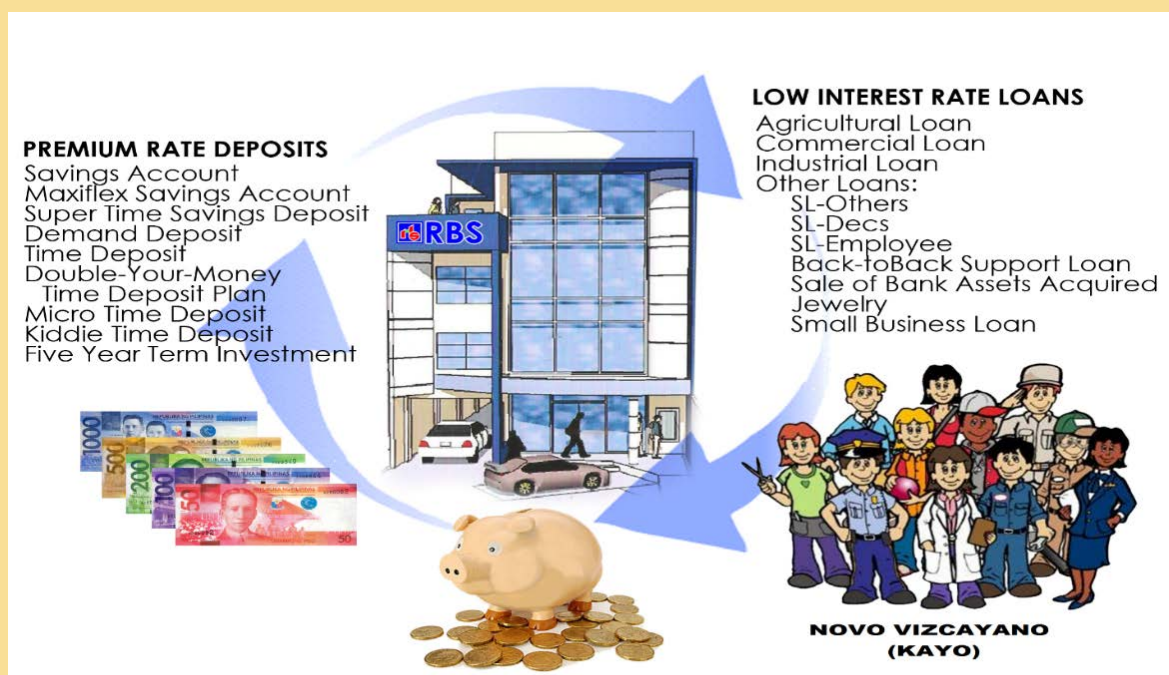
## OTHER SERVICES

- Sale of Assets Acquired
- POS Banking
- Micro Insurance
- Alalay sa Buhay Insurance (ASB)
- Motor Car Insurance
- Fire Insurance (for Buildings)
- Saveplus (Basic Deposit with Micro Insurance)
- DA-ACPC Loan Programs (PLEA, SURE, AFME, CLEA)

# RBS BUSINESS MODEL



# RBS CYCLE OF PROGRESS



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# President's Report

The logo for RBS 21 RISE. It features a yellow circle containing the letters 'rbs' in blue and red. To the right of the circle is a large yellow number '21'. A small blue figure of a person is standing on the top of the '1'. Below the '21' is the word 'RISE' in yellow, slanted upwards to the right.

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Greetings and welcome to the 2020-2021 annual stockholders meeting with the theme Rise'21!<sup>1</sup>

I don't want to give anymore attention to Covid 19. It has been on center stage of every conversation and it has already robbed so much from us: our time, lives, jobs, businesses, our economy. If at all, I would rather honor the front-liners and those who put their lives in danger: putting up pantries, donating time, effort and resources. Our 117 members of the RBS team are also



front-liners or bank-heroes. If you happen to meet one in the streets or in our offices, please make sure to give them a pat in the back. In time, we hope not to remember the difficulties of the pandemic but the people who came to work, and went into the field to deliver our services, thus, keeping RBS relevant and its Vision and Mission even more alive and meaningful. To all front-liners, our bank-heroes, a snappy salute!

Last year's theme "Journey2020"<sup>2</sup> gave us a sense of motion, of moving on and moving forward. That whatever we are faced with, if it is a problem or a challenge, it will pass and if it is a blessing, it is meant to flow and be shared. This is how we journeyed through 2020, counting and sharing blessings and finding blessings in every challenge, such as these:

### 1. BSP General Examination



We were blessed to have been visited by the Banko Sentral ng Pilipinas for the regular General Examination in January. It was like a timely motor vehicle check up before heading out into a long road trip.



The examination revealed our weaknesses but it also recognized how we have leveled up as a bank. This was a good start of the year, to be affirmed of our soundness and strength and our readiness for journey 2020. With a solid capital foundation, a healthy portfolio and good financial ratios, we know that we are able to help clients during the pandemic and until it is time to recover and bounce back. In that examination we have managed to retain our CAMELS rating of 4, possibly the last, as the BSP adopts a new rating system called SAFR.

1 Literally to rise from the destruction of Covid, and for us, to continue our ascent to being #1.

2 Pertains to the 50 years of service that RBS has rendered and it speaks of the many years yet to come.

3 Leveling up in everything we do.

## 2. The RBS team.

By the beginning of the year we have been blessed to have in our roster eighty (80) regular employees, 14 in probation, 17 trainees and 6 in contract of service. Compared to the number same time in previous year, it shows that we are a growing team in preparation for the Vision 20 in 2022.<sup>4</sup> When we post invitations for "Hiring", we receive hundreds of applications. It shows that we are a preferred place for work in the province.

We, however, are not spared from challenges, like:

### a. Fast Employee Turn over

While easy in hiring, we see a high turn over of employees especially for Account Officers (AO). The fast turn over results to high costs of training and failure to produce experienced and seasoned employees. Despite this challenge, we have a good number of dedicated, responsible and hardworking team members.

With the slowdown of transactions in 2020 and the skeletal force directives, we were given time to review various tasks and functions with the end in view of streamlining and/or automating tasks. This was also done in line with the full operations of our new core banking solution, RBSOFT. In addition, training programs, from within and outsourced, were also invested in to help our employees perform better and help them enjoy and keep their jobs.

It is another blessing that before the pandemic stopped the whole world, we were able to hype the plans for Journey 2020 and have our RBS team commit to achieving it.



### b. Unmanned HR Department and Pandemic

The department had no full time Manager and the supervisor resigned effective March, just days before lockdown. To make matters worse, pandemic came as a shock and our Business Continuity plan failed to anticipate such event.

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<sup>4</sup> Vision 20 in 2022 is the expansion plan of RBS that means presence through branch lites or branches in 20 strategic locations by the year 2022.

When lockdown was declared, it was a gargantuan task to ensure that all employees are taken cared of and that transactions continue. Nonetheless, the department was able to manage securing available support from SSS and DOLE as well as providing the necessary support for employees placed under quarantine or some on work from home. The desire to put our employees first, guided the department to perform with its meager resources.

### 3. COVID FUND

Timely, after years of follow up, we were able to get our unused fund from CARITAS, our previous HMO provider. Without burden to current operations, the fund was by board resolution declared as COVID FUND to be used for periodic issuances of immunity building supplements, food packs and Covid care support for our employees.

### 4. Responsible leaders

On same day the announcement for lockdown came, the leaders of RBS gathered to assess and plot out an effective Quick Response Plan:

Let me run trough some of what we did:

a. Foremost is to give support for the employees by giving out supplies of food and vitamins. To enable them to prepare for a strict lock down, we also released 1/2 of 13th month pay as early as March.



b. As banks are among the essentials allowed to open, we ensured safety and at the same time smooth delivery of service by forming teams A and B. This also abide by the directive to maintain skeletal work force.

c. Anticipating a strict lockdown, we devised ways and means to open and improve the communication lines within the organization and also to our clients. Our FB wall and our website was kept up to date for this purpose.

d. We quickly applied as conduit to be able to download various government support. As such, we were able to distribute 20M sure aid for farmers all over Nueva Vizcaya. This also gave us the opportunity to cross sell our agricultural products.



e. We served priority sectors and financed necessary businesses such as the small barrio talipapa or stores and food production.



f. We honor our bank-heroes and for increased mobility, we launched our Loan Rangers to reach even those on lockdown.



g. We launched an on-line and bank-wide Code of Ethics every Monday. This served as a platform for the team to get the weekly dose of motivation, health protocol reminders as well as more recent developments within the bank.

h. We made use of the business slowdown to do housekeeping, digitizing as well as running training or joining online seminars. There were days that we were attending several simultaneous seminars and this was made possible with the seminar halls we have in the Head Office and the BLO in Solano.

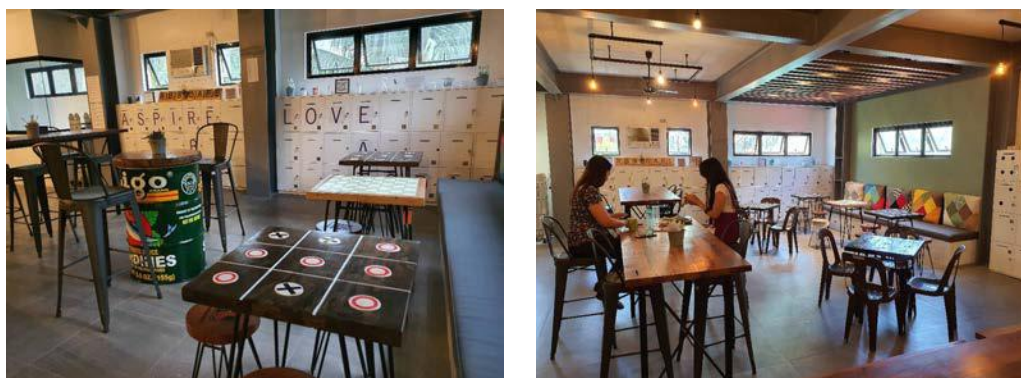


## 5. Festive Working Environment

Our planned grand celebration for the 50th anniversary of RBS may not have actually happened but the festive feeling raised our spirits high and saw us through the lockdown and business slowdown. The awards that should have been handed out during the gala night was done in small occasions, as if we were celebrating weekly.



It was also timely that our renovation at the head office was completed and the big pantry provided a very relaxing space big enough to allow distancing.



Our CSR programs also continued but this time were carried out in frequent and small groups or per department as safety protocols allowed. This did not only allow us to contribute but it also gave our employees a sense of normal in these unusual times.



## 6. Innovation Skill

The biggest challenge we faced and continue to face is the slowdown of businesses and economy. Resulting, thus, the rise of past due loans and the slump of loan applications as most businesses closed or operated at a minimum.

We are blessed that innovativeness has been among our strong points and top skill. With the slow down of MSMEs we looked at industries and activities that are least affected by the pandemic and we created products and services to serve them. When mobility became the concern, we had our Loan Rangers to the rescue.

With the primary purpose to support and handhold clients, we acted swiftly in order to provide relief even before our clients needed it. While the Bayanihan Heal Act 1 provided 30 days grace periods during lock down, we gave more leeway by giving another 30 days to allow clients to recover. While this may have resulted to a slump in our miscellaneous income, we have created and strengthened more relationships. Thus, the number of our loan accounts increased from 10,058 to 11,773 and savings accounts from 18,553 to 20,830.

Other institutions trusted us and we harnessed more strength in partnerships in 2020: Government,<sup>5</sup> Cooperatives, and suppliers like Comp Asia, all of which, gave us the opportunity to grow even in the tightest of lockdowns.



Indeed there are blessing even amidst the pandemic. We may have fallen short of our desired targets<sup>6</sup> but we have grown in all aspects save for the usual income that we decided to forego as relief to our clients and in compliance with the directives of the Bayanihan heal acts 1 and 2. By year end 2020 we still finished strong with the following financial ratios:

SELECTED FINANCIAL RATIOS AND FIGURES						
	2017	2018	2019	2020	RBS GROWTH RATIO	INDUSTRY RATIO
LOAN PORTFOLIO	323,561,410.00	388,494,673.00	445,529,096.00	508,119,044.00	14.05%	3.88%
DEPOSIT LIABILITIES	274,033,444.00	331,081,954.00	356,116,047.00	424,305,934.00	19.15%	9.10%
RESOURCES	495,288,290.00	571,743,814.00	650,244,890.00	744,276,342.00	14.46%	5.79%
LIQUIDITY RATIO	29.83%	26.52%	30.66%	32.88%		30.74%
EXPENSE TO INCOME	66.30%	69.57%	70.38%	70.64%		91.38%
PAST DUE RATIO	5.92%	8.73%	12.72%	17.12%		17.79%
GROSS INCOME	68,605,063.00	90,388,275.00	112,840,093.00	94,667,552.00		
CAR	40.01%	42.04%	38.98%	35.53%		19.03%
ROE	13.79%	14.80%	15.40%	11.13%		5.28%
ROA	5.12%	5.20%	5.47%	3.99%		1.02%

<sup>5</sup> Philguarantee, DA-ACPC, LBP, SB Corp

<sup>6</sup> Loan Releases 400M; New Loan 150M; Micro Insurance 20,000 Units; Past Due Ratio 15%; Sale of ROPA 3M (Principal); Collection of Written Off 1M; Deposit Liabilities 400M; Number of Clients 20,000; Net Income 20M.

There is a saying that character is revealed in times of crisis. For RBS the pandemic revealed our commitment to our Vision: providing value added services, nurturing relationships and building lives. As vaccination have already begun and the economy slowly opening, we are more than ready to foster beginnings and lead our partners to "Rise'21".<sup>7</sup>

To everyone who has been part of our journey our utmost gratitude:

To all stockholders, especially those who take time to participate in our affairs including attendees of capacity building seminars and director readiness program;

The Board of Directors and Management Committee, who are always in sync towards a common goal and direction,


The ever committed RBS Team, for braving the threats of the pandemic,

To all our Partners, for being reliable in good and hard times, and

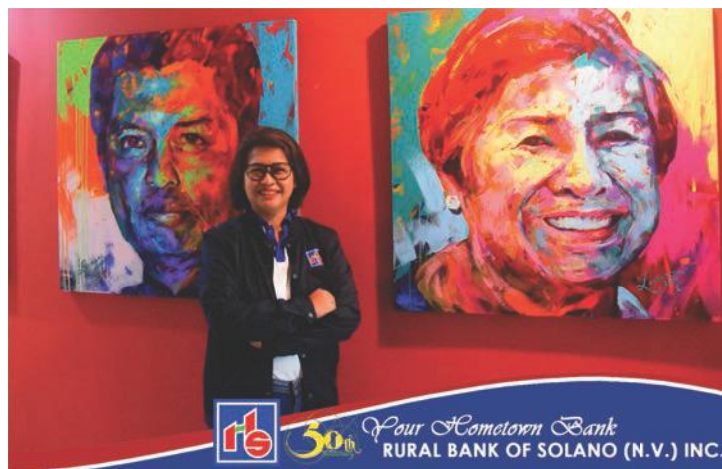
To God, who is behind, beside and ahead of us in this journey, we give all honor and glory! We know that by His grace, we shall all rise together to heal and recover from the rubbles of Covid. All that is asked of us is to keep the faith and remain steadfast in being a channel of God's blessings by fulfilling our Vision.



Thank you very much and more power to each one of you and to RBS.

Very Truly Yours,  


**ATTY. MARYANNE M. TUPASI**  
President/CEO and Chairman



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<sup>7</sup> Literally to rise from the destruction of Covid, and for us, to continue our ascent to being #1.

# REPORT ON DEPOSIT LIABILITIES & LIQUIDITY

Written by: Jocelyn Y. Ramos, Cashier

The Cash Department handles the daily management of cash inflows and outflows of the bank. It primarily generates funds through deposit generation and rediscounting which are used to finance the various cash outlay of the bank particularly loan releases. It is also responsible for the safekeeping of cash, checks, securities, pertinent financial documents, and other valuables of the institution. The department also maintains and controls the flow of various accountable forms.

The declaration of a national emergency due to the COVID-19 pandemic has greatly affected the normal operations of the bank. Personnel worked on a skeletal workforce arrangement as transactions were minimal considering the limited mobility of clients during the implementation of community quarantines and compliance to minimum health protocols.

Collections are low during the 1st semester of the year 2020 due to the suspension of business operations which was worsened by the eventual closure of some business establishments in the locality. The cash department, however, was able to recover as community restrictions were loosened in the 2nd semester. Hence, the deposit liabilities as of year-end is registered at P424M with an increase of P68M from 2019 ending balance of P356M. The bank was also able to get accreditation to be a conduit partner of the Agricultural Credit Policy Council of the Philippines (ACPC) and receive funding amounting to P40M. The department was able to finance P477.38M loan releases and P54.87 expenditures for the year. However, the 40% required liquidity ratio under the Fund Management Policy during pandemic was not met. As a result, no Cash Dividend was declared in 2020.

It was noted that despite the adverse global economic impact of the pandemic, Rural Bank of Solano has maintained its financial credibility as people continue to put their trust and confidence by banking and entrusting their finances with us.

Amid this pandemic, the cash department will continuously innovate and improve cash management to sustain its objective of maintaining the optimum level of liquidity at the lowest possible cost.



# LOAN PERFORMANCE REPORT

Written by: Ryan Anthony F. Coballes, Loan Manager

Annual Target	Original Target	Adjusted Target during COVID	Actual
<b>Total Releases</b>	<b>530 million</b>	<b>400 million</b>	<b>477,388,861.00</b>
<b>New Loans</b>	<b>200 million</b>	<b>150 million</b>	<b>178,307,401.46</b>

The pandemic that began in March 2020 brought new challenges to RBS. The company had to shift to a skeletal workforce as only 50% were allowed to report onsite. Innovative strategies to meet the annual target had to be made to consider this drastic shift in work arrangement.

A foremost strategy that the team took was Loan Ranger. "Loan Ranger" was designed to seek out new loans. Loan rangers worked tirelessly going out into the field and personally connecting with clients and applicants amidst the pandemic. As a result, they were able to successfully bring in new loans by focusing on agricultural, construction, and food-related businesses.

The concerted efforts of the team enabled them to exceed the adjusted total releases of 400 million, such that the actual total releases were 477 million. Similarly, the team was able to surpass the 150 million adjusted target reaching as much as 178 million actual new loans. Overall, the team was able to attain 90% of the original target of 530 million for total releases, and 89% of the original target for new loans which was set at 200 million.

## REPORT ON PAST DUE

Written by: Laurence S. Lannu, Remedial Management Unit (RMU) Manager

	2019	2020
<b>Past Due Amount</b>	<b>56,661,534.94</b>	<b>87,005,978.89</b>
<b>PDR</b>	<b>12.72%</b>	<b>17.12%</b>
<b>PD actual amount less AGFP @ 80%</b>	<b>36,528,032.81</b>	<b>38,953,808.79</b>
<b>PDR exc. AGFP @ 80% rate Guarantee</b>	<b>8.20%</b>	<b>7.67%</b>

The year 2020 was a very challenging year for everyone around the world due to the Covid-19 Virus pandemic that crippled and greatly affected every business.

As we face this challenge, the Past Due Ratio or PDR of the banking industry was in great trouble and rocketed to a high ratio. However, due to the fast action made by our Top Management to mitigate the possible effects of the Covid-19 pandemic, we implemented different programs like the Loan Recovery program for YSK and Pangkabuhayan, and repackaging loans affected by COVID before they fall due. As shown in the table above, there is an almost 4.4% increase in the past due ratio (PDR) from 2019 to 2020 as compared to the set budget of PDR for the year 2020 of 15%, thereby showing an increase of 2.12%. However, If we consider the guarantee payment of AGFP and exclude it in our actual past due amount PDR from 2019 as against 2020 has a slight decrease from 8.20% to 7.67% or .53%. The majority of the Past Due account comes from the YSK/Pangkabuhayan wherein the actual amount was 60,065,210.12 or 69.04% of the consolidated actual past due. Our partner from AGFP was able to pay in two tranches the amount of 5,283,230.37 wherein only 4,226,584.29 were applied to the actual loan outstanding balance due to long time processing of AGFP disbursement.

The Department was able to sell 2,093,452.11 foreclosed property, a 906,547.89 deficit from the budgeted sale of ROPA of 3,000,000.00.

# RBSOFTECH: THE NEW M.I.S.

Written by: Gene F. Baybayan, Bayombong Branch Manager

Everything changes for improvement; continuous innovation and technology are being revolutionized for everyone's convenience. With the power of today's technology, companies and institutions can quickly identify opportunities, monitor and analyze industry trends and scan the market to recognize other business ventures to invest in and improve sales. In addition, these technologies quicken monitoring thru its up-to-date data, and thus, proactive business decisions can be made.

As Rural Bank of Solano (N.V), Inc. continues to provide excellent and efficient banking services to clients, partners, stakeholders, and employees, the Bank embraces changes to improve its technology. With its vast scope of banking operations, RBS aims to have an effective information system and fully integrated data for greater productivity thru a good Management Information System (MIS).

The bank embraces a new banking solution called "RBSoftech" which originated from Rural Bank of Guinobatan of Albay. The board selected champions, headed by Ma'am Corazon G. Ramos, to undergo training on the RBSoftech System and test-check its capabilities.

Through a new MIS, employees can spend more time on tasks that will help businesses grow, rather than having to manually replicate data and wait for sluggish information to be sent. Reduced Risk of Errors is another advantage of having a new MIS. Due to the fact that data will not have to be manually replicated, more accurate information will be readily available and there will be less chance of human errors.

Along with the transition of data, there were lots of variances and amendments to the current RBS manual on operations. After a long test and paralleling of transactions, errors were resolved. Finally, data of the Bagabag Branch was the pioneering point and first to be migrated in September 2019, followed by Bayombong Branch in October 2019.

But with the resignation of previously assigned champions to the system and with the numerous products and services of the bank, some adjustments were made first, thus, full migration of Bambang Branch Data was only done by March 2020.

By June 2020, all three (3) branches ran parallel with the old MIS, and with that, by July 2020 all the branches went live.

The biggest challenge came with the migration of Head Office Data since it holds numerous and more complex transactions than that of the branches. These challenges that came along were conquered by the dedication of the assigned team, the cooperation of various employees, and the help of Almighty God.

Finally, on November 13, 2020, RBS officially dropped the old MIS and went live with its new MIS – Rbsoftech.

With the RBSoftech System today, tasks are made easier. The system can give consolidated and up to date company's performance report on loans, savings, and financial position with just a few clicks. We can therefore say that with RBSoftech, RBSolano can now give a MORE excellent and efficient banking service, more than ever before.

# RBS LOAN RANGERS, AT YOUR SERVICE!

The COVID-19 crisis in the Philippines that started in March 2020 created capacity constraints and the task of delivering financial services presented a major challenge for Rural Bank of Solano (RBS) due to travel restrictions and the myriad of differing requirements and protocols imposed by LGUs. Even in the best of times, most of the bank's clients, especially the small farmers that it caters to, are challenging to reach because of the remote nature, terrain, and distance of their place. Indeed, operating in the midst of a global pandemic makes it much more difficult but with the right planning and strategy, anything is possible.

To remain relevant and effective, RBS needed to be flexible and thus, the Loan Rangers was created last April 24, 2020 under Board Resolution No. 20-64. The Loan Ranger Guidelines was formulated to ensure the delivery of the much needed credit to farmers and fisherfolks amidst abnormal times, seeing to it that agricultural activities which are essential in ensuring food security are continuous and that the delivery of service are done expeditiously and in safe manner.

Under the foregoing guidelines, the assigned Account Officer in a particular area shall be the Loan Ranger in charge. He will be assisted by a team/group of employees, who will help in facilitating loans to be processed and ultimately disbursed to applicant-borrowers. Tarpaulins were posted in Barangays to inform the farmers about this initiative. Interested clients were encouraged to get their loan applications (LAs) from their respective Barangays and once filled up, these LAs will then be collected at a set date every week, processed, approved and scheduled for release. The scheduling of releases was done by batch with allotted time for each borrower, a queue card of which was provided to avoid crowding in the RBS offices.

Living by its Vision, Mission and Objectives, RBS unrelentingly provided financial assistance to its customers and stakeholders by observing strictly the safety protocols as mandated by the IATF in response to the COVID-19 pandemic.



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# Financial Section

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# COMPARATIVE STATEMENT OF CONDITION

## RURAL BANK OF SOLANO (N.V.) INC. For the year ended December 31, 2020

	12/31/2020	12/31/2019	Increase(Decrease)	
			Amount	%
<b>ASSETS</b>				
Cash on Hand	1,979,639.00	1,134,599.00	845,040.00	74.48%
Check and Other Cash Items	769,133.00	232,766.00	536,367.00	230.43%
Due from BSP	6,096,184.00	11,226,175.00	(5,129,991.00)	-45.70%
Due from Other Banks	130,663,159.00	96,579,447.00	34,083,712.00	35.29%
Total Cash and Due from Banks	139,508,115.00	109,172,987.00	30,335,128.00	27.79%
Held-To-Maturity Financial Assets	24,000,000.00	24,000,000.00	-	0.00%
Loans and Receivables-Current	421,116,033.00	388,894,819.00	32,221,214.00	8.29%
Loans and Receivables-Past Due/Items in Litigation	87,005,980.00	56,661,535.00	30,344,445.00	53.55%
Unamortized Discounts	(2,969.00)	(27,258.00)	24,289.00	-89.11%
Loans and Receivable, Gross	508,119,044.00	445,529,096.00	62,589,948.00	14.05%
Less: Allowance for Credit Losses	25,833,182.00	27,100,573.00	(1,267,391.00)	-4.68%
Net Loan Portfolio	482,285,862.00	418,428,523.00	63,857,339.00	15.26%
Sales Contract Receivable, Net	15,524,054.00	15,587,371.00	(63,317.00)	-0.41%
Accrued Interest Receivables	12,261,061.00	13,299,295.00	(1,038,234.00)	-7.81%
Bank Premises, Furniture, Fixtures & Equipment, Net	44,865,273.00	46,166,790.00	(1,301,517.00)	-2.82%
Real and Other Properties Acquired, Net	15,854,611.00	13,459,412.00	2,395,199.00	17.80%
Deferred Tax Assets	8,908,106.00	9,032,124.00	(124,018.00)	-1.37%
Other Assets	1,069,260.00	1,098,388.00	(29,128.00)	-2.65%
<b>TOTAL ASSETS</b>	<b>744,276,342.00</b>	<b>650,244,890.00</b>	<b>94,031,452.00</b>	<b>14.46%</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITY ACCOUNTS</b>				
Demand Deposit	14,338,132.00	9,795,775.00	4,542,357.00	46.37%
Savings Deposit	286,206,769.00	237,422,736.00	48,784,033.00	20.55%
Time Deposit	123,761,033.00	108,897,536.00	14,863,497.00	13.65%
Total Deposit Liabilities	424,305,934.00	356,116,047.00	68,189,887.00	19.15%
Accrued Interest Expense	1,672,152.00	1,341,007.00	331,145.00	24.69%
Income Tax Payable	4,114,472.00	6,052,177.00	(1,937,705.00)	-32.02%
Other Liabilities	50,506,887.00	50,852,795.00	(345,908.00)	-0.68%
<b>TOTAL LIABILITIES</b>	<b>480,599,445.00</b>	<b>414,362,026.00</b>	<b>66,237,419.00</b>	<b>15.99%</b>
<b>EQUITY ACCOUNTS</b>				
Common Stock	150,880,500.00	137,166,000.00	13,714,500.00	10.00%
Retained Earnings Free	84,842,397.00	65,138,665.00	19,703,732.00	30.25%
Retained Earnings - Reserves	157,867.00	157,867.00	-	0.00%
Undivided Profit	27,796,133.00	33,420,332.00	(5,624,199.00)	-16.83%
<b>TOTAL EQUITY</b>	<b>263,676,897.00</b>	<b>235,882,864.00</b>	<b>27,794,033.00</b>	<b>11.78%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>744,276,342.00</b>	<b>650,244,890.00</b>	<b>94,031,452.00</b>	<b>14.46%</b>

# COMPARATIVE STATEMENT OF INCOME & EXPENSES

RURAL BANK OF SOLANO (N.V.) INC.  
For the year ended December 31, 2020

	12/31/2020	12/31/2019	Increase(Decrease)	
			Amount	%
<b>INCOME</b>				
Interest Income				
Loans and Receivables	67,563,860.00	73,620,694.00	(6,056,834.00)	-8.23%
Held-to-Maturity Financial Assets	859,211.00	863,630.00	(4,419.00)	-0.51%
Due from Other Banks	505,070.00	659,995.00	(154,925.00)	-23.47%
Total Interest Income	68,928,141.00	75,144,319.00	(6,216,178.00)	-32.21%
Interest Expense				
Deposit Liabilities	5,686,026.00	4,291,991.00	1,394,035.00	32.48%
Borrowed Funds	-	223,292.00	(223,292.00)	-100.00%
Total Interest Expense	5,686,026.00	4,515,283.00	1,170,743.00	25.93%
NET INTEREST INCOME	63,242,115.00	70,629,036.00	(7,386,921.00)	-10.46%
PROVISION FOR CREDIT LOSSES	5,018,897.00	11,514,134.00	(6,495,237.00)	-56.41%
NET INTEREST INCOME AFTER PROVISIONS	58,223,218.00	59,114,902.00	(891,684.00)	-1.51%
Other Operating Income				
Gain/(Losses) from Sale/Derecognition of Non Financial Assets				
Real and Other Properties Acquired	6,934,282.00	11,880,231.00	(4,945,949.00)	-41.63%
Fees and Commissions Income	2,621,961.00	2,352,411.00	269,550.00	11.46%
Rent Income	516,650.00	916,771.00	(400,121.00)	-43.64%
Recovery on Charged-Off Assets	314,299.00	736,358.00	(422,059.00)	-57.32%
Miscellaneous Income	15,352,219.00	21,810,003.00	(6,457,784.00)	-29.61%
NET INCOME BEFORE OPERATING EXPENSES	83,962,629.00	96,810,676.00	(12,848,047.00)	-13.27%
Other Operating Expenses				
Compensation and Fringe Benefits	22,354,848.00	24,523,256.00	(2,168,408.00)	-8.84%
Taxes and Licenses	5,704,289.00	7,714,924.00	(2,010,635.00)	-26.06%
Depreciation Expense	5,353,852.00	4,350,775.00	1,003,077.00	23.06%
Security, Clerical, Messengerial and Janitorial Services	1,710,254.00	1,403,304.00	306,950.00	21.87%
Communication, Light and Water	1,302,261.00	1,257,750.00	44,511.00	3.54%
Insurance	1,096,193.00	1,325,662.00	(229,469.00)	-17.31%
Fuel and Lubricants	1,303,671.00	1,575,130.00	(271,459.00)	-17.23%
Repairs and Maintenance	802,820.00	707,016.00	95,804.00	13.55%
Representation and Entertainment	168,030.00	168,030.00	-	0.00%
Rent	105,259.00	170,600.00	(65,341.00)	-38.30%
Advertising and Publicity	40,663.00	76,243.00	(35,580.00)	-46.67%
Supervision Fees	129,991.00	113,230.00	16,761.00	14.80%
Litigation Expenses	411,808.00	498,927.00	(87,119.00)	-17.46%
Donation and Charitable Contributions	32,430.00	90,008.00	(57,578.00)	-63.97%
Others	4,155,147.00	5,426,002.00	(1,270,855.00)	-23.42%
TOTAL OTHER OPERATING EXPENSES	44,671,516.00	49,400,857.00	(4,729,341.00)	-9.57%
NET INCOME BEFORE TAX	39,291,113.00	47,409,819.00	(8,118,706.00)	-17.12%
Income Tax Expense	11,494,980.00	13,989,487.00	(2,494,507.00)	-17.83%
NET INCOME AFTER TAX	27,796,133.00	33,420,332.00	(5,624,199.00)	-16.83%

# FINANCIAL HIGHLIGHTS

I. BALANCE SHEET STRUCTURE					
	31-Dec-20	31-Dec-19	Increase (Decrease)	Industry Ratio	
<b>A. ASSETS</b>					
Cash & Due from Banks	18.74%	16.79%	1.95%	22.23%	
Loans & Receivables, Net	64.80%	64.35%	0.45%	50.47%	
Accrued Interest Receivable	1.65%	2.05%	-0.40%		
Investments	3.22%	3.69%	-0.47%	17.36%	
Bank Premises, FFE, Transp. Equipment, Net	6.03%	7.10%	-1.07%		
ROPA, Net	4.22%	4.47%	-0.25%	3.05%	
Deferred Tax Asset	1.20%	1.39%	-0.19%		
Others	0.14%	0.17%	-0.03%	6.88%	
<b>TOTAL ASSETS</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>	<b>100.00%</b>	
<b>B. LIABILITIES</b>					
Deposits	57.01%	54.77%	2.24%	73.55%	
Bills Payable	0.00%	0.00%	0.00%	3.35%	
Other Liabilities	7.56%	8.96%	-1.39%	3.50%	
<b>TOTAL LIABILITIES</b>	<b>64.57%</b>	<b>63.72%</b>	<b>0.85%</b>	<b>62.88%</b>	
<b>C. CAPITAL ACCOUNTS</b>					
Capital Stock	20.27%	21.09%	-0.82%	12.19%	
Retained Earnings-Free/ Re- serves	15.16%	15.18%	-0.03%	6.84%	
<b>TOTAL CAPITAL ACCOUNTS</b>	<b>35.43%</b>	<b>36.28%</b>	<b>-0.85%</b>	<b>37.12%</b>	
<b>TOTAL LIABILITIES &amp; CAPITAL ACCOUNTS</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>	<b>100.00%</b>	
<b>II. ACCOUNT LEVELS &amp; KEY RATIOS</b>					
NET INTEREST INCOME	63,242,115	70,629,036	(7,386,921)		
OTHER INCOME	25,739,411	37,695,774	(11,956,363)		
OPERATING EXPENSES	44,671,516	49,400,857	(4,729,341)		
PROVISION FOR CREDIT LOSSES	5,018,897	11,514,134	(6,495,237)		
<b>TOTAL INCOME</b>	<b>94,667,552</b>	<b>112,840,093</b>	<b>(18,172,541)</b>		
<b>TOTAL EXPENSES</b>	<b>66,871,419</b>	<b>79,419,761</b>	<b>(12,548,342)</b>		
<b>NET INCOME</b>	<b>27,796,133</b>	<b>33,420,332</b>	<b>(5,624,199)</b>		
TOTAL EXPENSES TO TOTAL INCOME	70.64%	70.38%	0.26%		
NET INCOME TO TOTAL INCOME	29.36%	29.62%	-0.26%		
RETURN ON AVERAGE EQUITY	11.13%	15.40%	-4.27%	5.36%	
RETURN ON AVERAGE ASSETS	3.99%	5.47%	-1.48%	1.03%	
<b>NET INTEREST MARGIN</b>	<b>9.07%</b>	<b>11.56%</b>	<b>-2.49%</b>	<b>9.00%</b>	

# FINANCIAL HIGHLIGHTS

			12/31/2020	12/31/2019	Increase (Decrease)	Industry Ratio
Liquid Assets			139,508,115.00	109,172,987.00	30,335,128.00	
Total Assets/ Resources			744,276,342.00	650,244,890.00	94,031,452.00	
Capital Accounts			263,676,897.00	235,882,864.00	27,794,033.00	
Capital Stock			150,880,500.00	137,166,000.00	13,714,500.00	
Retained Earnings			112,796,397.00	98,716,864.00	14,079,533.00	
Capital Accounts to Total Assets			<b>35.43%</b>	<b>36.28%</b>	<b>-0.85%</b>	<b>19.02%</b>
Risk Based Capital Adequacy Ratio			<b>35.53%</b>	<b>38.98%</b>	<b>-3.45%</b>	<b>19.62%</b>
Net Earnings per share of common stock			<b>18.42</b>	<b>24.36</b>	<b>(5.94)</b>	
Book Value per share of common stock			<b>174.76</b>	<b>171.97</b>	<b>2.79</b>	
Liquidity Ratio			<b>32.88%</b>	<b>30.66%</b>	<b>-2.22%</b>	<b>30.22%</b>
Total Loans			508,119,044.00	445,529,096.00	62,589,948.00	
Past Due Loans			87,005,980.00	56,661,535.00	30,344,445.00	
Past Due Ratio			<b>17.12%</b>	<b>12.72%</b>	<b>4.41%</b>	<b>17.49%</b>
Non-Performing Loans to Total Loans			<b>15.79%</b>	<b>8.79%</b>	<b>7.00%</b>	<b>14.58%</b>
Total Deposits			424,305,934.00	356,116,047.00	68,189,887.00	
Total Loans to Total Deposits			<b>119.75%</b>	<b>125.11%</b>	<b>-5.35%</b>	<b>74.60%</b>



# FINANCIAL REVIEW

## **A. TOTAL RESOURCES**

The total resources as of year-end was posted at P744.28M, showing an increase amounting to P94.03M or 14.46% from prior year's P650.24M.

The bulk of the bank's assets are on loans and receivables amounting to 482.29M which is 64.80%

## **B. LOAN PORTFOLIO**

The bank's loan portfolio at year-end was P508.12M, exhibiting a rise of 62.59M or 14.05% compared to last year's P445.53M.

Past due loans increased by P30.34M resulting to a past due ratio of 17.49%.

## **C. DEPOSIT LIABILITIES**

Deposit liabilities at year-end was reported at P424.31M. There was an increase of P68.19M or 19.15% compared to prior year's P356.12M.

## **D. STOCKHOLDER'S EQUITY**

Stockholder's equity as of year-end was P263.68M, showing an increase of P27.80M compared to prior year's 235.88M. During the year, the bank declared 10% stock dividends amounting to P13,716,600. Book value per share of common stock as of year-end is P174.76.

## **E. INCOME AND EXPENSES**

The bank was able to generate a net income after tax of P27.80M for the year 2020. It can be noted from the Comparative Statement of Income and Expenses that compared to the prior year's net income amounting to 33.42M, there is a decrease of 5.62M or 16.83%.

The reason for this is the Covid-19 pandemic wherein several restrictions were implemented which affected the over-all operations of the bank.

# CAPITAL ADEQUACY RATIO

The Capital Adequacy Ratio is a measurement of a bank's available capital expressed as a percentage of the bank's risk-weighted credit exposure. Under Section 127 of the MORB, the capital adequacy ratio for banks shall not be less than ten percent ( 10%). Expressed as a formula, the Capital Adequacy Ratio is equal to the sum of the bank's Tier one (1) capital plus Tier 2 capital, divide by the bank's risk-weighted assets.

As per BSP's Report of Examination that was completed on February 21, 2020, the bank's adjusted capital of P222.0 M and CAR of 41.3 percent are well above the minimum regulatory requirements and adequately support the bank's current and expected risk exposures. BSP said that the bank's strong capital level is a result of sustainable income, to support operation, to fund dividends and provide for organic growth through capital accretion.

## Capital Structure and capital adequacy:

<b>A.</b>	<b>QUALIFYING CAPITAL</b>	<b>2020</b>
	Gross Core Tier 1 Capital	263,676,897.00
	Regulatory Adjustments to Core Tier 1	
	Deferred Tax Asset	8,908,106.00
	Net Core Tier 1 Capital	254,768,791.00
	Add: Hybrid Tier Capital	-
	Tier 1 Capital	254,768,791.00
	Tier 2 Capital	3,317,563.00
	Total Qualifying Capital	258,086,354.00
<b>B.</b>	<b>RISK WEIGHTED ASSET</b>	
	Total Risk Weighted Assets	726,307,313.00
<b>C.</b>	<b>RISK BASED CAPITAL ADEQUACY RATIO</b>	
	Total Qualifying Capital	258,086,354.00
	Divide by Risk-Weighted Assets	726,307,313.00
	Risk-Based Capital Adequacy Ratio	35.53%
	Tier 1 Capital Ratio	35.08%

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# Risk Management

The logo features a yellow circle containing the RBS logo, followed by a large yellow number '21' with a small figure climbing it, and the word 'RISE' in yellow below it.

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## RISK GOVERNANCE

The main role of the Board of Directors of Rural Bank of Solano (NV) Inc. in risk management is strategic planning and oversight. The Board is responsible for setting up the bank's risk appetite and culture as well as the level of tolerance and is being communicated clearly throughout the organization. In addition to this, the Board oversees the creation of controls and ensures that there is an ongoing review of risk performance across the different risk categories.

To support the risk management of the Bank, adequate risk management policies are formulated and maintained to provide a directional tone to enable the various departments to better identify, assess and control risk within their areas.

The Risk Management Committee, sub-committee of the Board ensures that the risk management process is understood and managed pro-actively in order to optimize success by minimizing threats and maximizing opportunities and outcomes. As an independent unit, the committee performs oversight function and assist the board in monitoring all major risk areas (credit, market, operational, compliance, interest rate, liquidity, reputation, legal, IT risk, among others) of the bank.

During the year, the Risk Management Committee has reviewed and amended some of the bank's guidelines and manuals to improve the bank's operations.

- Last August, the Risk Management Committee has amended the Fund Management Guidelines and added specific roles of who will activate the contingency funding plan and the hierarchy of the contingent source of funds.
- The Risk Management Committee also amended the Business Continuity Plan wherein a response plan during a pandemic was proposed to be included. The Bank adopted a COVID 19 response plan with corresponding terms and officers.
- The Cash Operations Manual has also been updated particularly on the withdrawal procedures for incapacitated depositors, guidelines on the closing of accounts through a representative, and an increase in minimum deposit for current accounts.
- Clarification on the Fund Management Guidelines re: computation of liquidity ratio.
- Lastly, the Risk Management Committee amended the features of demand deposit accounts re: bank charges.

While the board's role is limited to risk oversight, they fulfill their role through frequent review and evaluation of policies and procedures around the risk that are consistent with the bank's strategy and risk appetite. Periodic follow-up on the implementation of these policies and practices encourages a culture of risk adjusting awareness.

The Management Committee (ManCom) also takes steps to ensure that the existing risk management policies are regularly reviewed to define gaps in the process-related risk. The designated staff and advisory of the various board committee assists in providing meeting materials for consideration and review by the board.

As part of the risk management process of the bank, Managers and Supervisors started to identify various risks affecting the bank's operation. The identified risks were summarized and evaluated by the Audit and Compliance Department by comparing the magnitude of each risk and ranking them according to prominence and consequence.

The Audit and Compliance Committee provides assurance that risks are properly managed. They ensure the integrity of reports and review the effectiveness of the bank's internal control and risk management.

## **RISK MANAGEMENT GOVERNANCE STRUCTURE**

The Board of Directors of Rural Bank of Solano (NV), Inc. is responsible for the formulation and maintenance of risk management policies and procedures of the bank. The Board Risk Management Committee, which is a subcommittee of the Board, assists the board in fulfilling its oversight responsibilities with regard to risk management of the bank.

The Board Risk Management Committee and its sub-committees (Credit Committee and Committee on Banking Operations) play a critical role in influencing management's processes for monitoring risk. They examine and determine the sufficiency of the bank's internal process for reporting and managing key risk areas. They ensure that there is a periodic review on the effectiveness of the bank's risk management system and corrective actions are promptly taken when needed.

## **ANTI-MONEY LAUNDERING**

The Rural Bank of Solano (NV), Inc. has adopted the Money Laundering and Terrorist Financing Prevention Program (MTPP) to promote high ethical and professional standards and to prevent the bank from being used, intentionally or unintentionally, for money laundering and terrorism financing.

The Program serves as a comprehensive operating guideline for the directors, bank officers, and employees in implementing the Anti-Money Laundering Law as amended and other rules and regulations issued by the Bangko Sentral ng Pilipinas and Securities and Exchange Commission to combat money laundering. The bank adopted the program in compliance with RA 9160 as amended to protect and preserve the integrity and confidentiality of bank accounts and to extend cooperation in transnational investigation and prosecution of persons involved in money laundering activities, wherever committed. It is, therefore, be the responsibility of all, whether directors, officers, supervisors, or rank and file, to uphold the implementation of the approved program. Any potential or actual violations, whether intentional or unintentional, should be brought to the attention of the Board of Directors for resolution or appropriate action.

The following basic principles and policies in the bank's wide drive to combat money laundering include:

### **1. Know your Customer at all times**

In all financial transactions, the Bank obtains competent evidence of the customer's identity, including their beneficial owners, if applicable. The rule on Know Your Customer is always coupled with the responsibility to know and understand the customer's business by determining the true identity of all customers seeking to conduct significant business transactions with the Bank, identifying the true owners when opening new accounts, and predicting with relative certainty the types of transactions in which a customer is likely to be engaged. It also includes the determination of any unusual transaction activity or activity that is disproportionate to the customer's known businesses and preventing the creation of fictitious accounts.

### **2. Know Your Customer Business**

The legal existence of customers that are corporations or other business entities must be properly established. Before establishing business relationships, the Bank shall endeavor to ensure that the customer that is a corporate or juridical entity has not been or is not in the process of being dissolved, wound up, or voided, or that its business or operations has not been or is not in the process of being closed, shut down, phased out, or terminate. In case of doubt as to the veracity of the corporation or identity of the directors and or officers or of the business of the partners, a search or inquiry with SEC or other relevant regulatory agency shall be made.

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## **3. Digitization of Customer Records**

The Bank comply with the mandate of the Anti-Money Laundering Council (AMLC) to store digitized customer records in its own central database to be able to promptly provide to AMLC the customer records in case of inquiry and investigation.

## **4. Compliance with laws**

The Bank ensures that business is conducted in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system, that rules and existing laws aimed at combating money laundering and terrorist financing are fully complied with by making sure that officers and employees are aware of their responsibilities, carrying them out in accordance with superior and principled culture of compliance, and that service is not provided where there is good reason to believe that transactions are associated with money laundering activities.

## **5. Cooperation with the Anti-Money Laundering Council (AMLC)**

Within the legal constraints relating to customer confidentiality, the Bank cooperate fully with the Anti-Money Laundering Council (AMLC) for the effective implementation and enforcement of the AMLA, as amended, and its RIRR. This includes taking appropriate measures allowed by law if there are reasonable grounds for suspecting money laundering. Disclosure of information for the purposes of the Act regarding covered transactions and suspicious transactions shall be made to the Anti-Money Laundering Council.

## **INTERNAL AUDIT**

The Internal Audit Function associated with money laundering and terrorist financing is being undertaken by the Internal Auditor who is independent of the office being audited and has a direct reporting line to the Board through the Audit and Compliance Committee.

The results of the internal audit are timely communicated to the Board of Directors and shall be open for scrutiny by BSP examiners in the course of the regular or special examination without prejudice to the conduct of its own evaluation whenever necessary. Results of the audit are likewise communicated to the Compliance Office for its appropriate corrective action. The Compliance Officer shall regularly submit reports to the BOD to inform them of management's action to address deficiencies noted in the audit.

## **COMPLIANCE**

The primary task of the Compliance Officer is the management of the implementation of the bank's Money Laundering and Terrorist Financing Prevention Program (MTPP). The Compliance Officer ensures that the bank keeps and maintains all records required by the AMLC. The Compliance Officer shall have a direct reporting line to the Board of Directors or board-level committee on all matters related to AML and TF compliance and its risk management.

## TRAINING

An annual Anti-Money Laundering (AML) training is being provided to all officers and personnel to enable them to fully and consistently comply with all the requirements of the Anti-Money Laundering Law, as amended, and its RIRR. The training includes awareness of the duties and responsibilities of each employee under the MTPP particularly in relation to the customer identification process, record keeping requirements, and Covered Transaction and Suspicious Transaction reporting as well as ample understanding of the internal processes including the chain of command for the reporting and investigations of suspicious and money laundering activities.

The bank's MTPP shall be updated once every two (2) years to incorporate changes in AML policies and procedures, the latest trends in money laundering and terrorist financing typologies, and the latest pertinent Bangko Sentral issuances. Any revision or update in the MTPP shall likewise be approved by the Board of Directors of the Bank.

## **RBS RESPONSE TO COVID-19**

The coronavirus pandemic (COVID-19) is unprecedented and hit countries all around the world in early 2020, posing huge problems to health systems and causing widespread shutdowns, school and business closures, and job losses. But Rural Bank of Solano (N.V.) Inc. remained steadfast despite the challenges imposed by the pandemic.

As it posed issues from our usual day-to-day business operations, we stayed committed to keeping our workers and clients safe and our operations running. Alternative methods and processes were created to continuously provide the products and services of the bank to our valued clients.

### **For our Employees, our actions include:**

The safety of RBS employees is our utmost priority. Rural Bank of Solano has closely followed and implemented guidelines issued by government authorities to protect the health and safety of employees across offices and designated areas/fields.

In line with recommendations to reduce large gatherings and increase social distancing, we implemented a skeletal workforce requiring a minimal number of employees to report to work. Due to restrictions on public transportation, the company has provided a shuttle service for employees and also encouraged employees to work from home and work remotely. We have also adopted a policy providing immune building supplement to employees as part of the medical reimbursement program and earmarked a COVID fund to give support to personnel who will be infected by the virus. Moreover, a Medical Teleconsultation policy is adopted to ensure that medical attention will be given to them.

In addition, we have implemented additional cleaning and sanitization routines, installing temperature checks, and making our employees answer the Health Declaration Checklist upon the entrance of the bank. If we become aware that an employee is ill or had direct or indirect contact with someone with COVID-19, we immediately implement isolation and sanitization protocols and begin any necessary quarantines, in line with guidance from local health officials.

## For our Clients and Potential Clients

Despite the restrictions from the community quarantine, Loan Ranger was launched to ensure the continuous availability of our products and services. This is to make certain the delivery of much-needed credit particularly to farmers and fisher-folks amidst the pandemic. This is the commitment of the bank to see to it that agricultural activities that are essential to ensure food security are continuous. Ensuring at the same time, the expeditious and safe manner of the delivery of service to clients. An example of this procedure is for the Loan Rangers or Account Officers to meet clients at checkpoints where they can submit their requirements when there are travel restrictions. But of course, personnel are oriented to always strictly comply with health protocols.

Scheduling of releases of loans was also implemented for a more organized process considering the fact that employees were in a skeletal workforce and at the same time adhere to the number of clients allowed inside the bank.



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# Corporate Governance

The logo features a yellow circle containing the letters 'rbs' in a stylized font. To the right of the circle is a large yellow number '21'. Below the '21' is the word 'RISE' in a bold, yellow, sans-serif font. A small silhouette of a person climbing a ladder is positioned at the top right of the '1' in '21'.

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Corporate Governance is one of the key facets of managing an organization in order to achieve its objectives. It is the combination of processes established and executed by the board of directors that are reflected in the organization's structure and how these are managed leading towards achieving goals. It is the overall management approach of senior executives in giving direction and controlling the entire organization, Governance activities ensure that critical management information reaching the executive team is sufficiently complete, accurate and timely to enable appropriate management decision making, and provide the control mechanisms, thus, ensure that strategies, directions and instructions from management are carried out systematically and effectively.

In the latter part of 2017, the Monetary Board approved the amendments to the corporate governance guidelines for BSP supervised financial institutions (BSFIs). Such amendment aimed at ensuring that the board of directors is comprised of a collective mix of individuals who possess the expertise and competence to be able to effectively manage the financial institution, promoting an environment that fosters the critical exchange of views and exercise of objective judgment, and promoting prudence and greater accountability in line with the implementation of continuing reforms in the financial sector. The duties and responsibilities of the board of directors were streamlined highlighting accountabilities in the following areas, to wit: (a) shaping the corporate culture and values, (b) setting out objectives and strategies and oversight on Management's implementation thereof, (c) appointing key members of senior management and control functions, (d) overseeing the corporate governance framework; and (e) adopting a robust risk governance framework.

The Bank subscribes to the philosophy of integrity, accountability, and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, the communities affected by its environmental/social activities and the various public; professionalism among its Board of Directors, executives and employees in managing the bank and respect for the laws and regulations of the country affecting its business. Internally, it follows a philosophy of rational checks and balances as well as a structured approach to its business operations. The Board and Management believe that corporate governance is a critical component of sound strategic business management. Furthermore, the Board and the committees continue to review and strengthen the corporate governance policies to adopt consistency in the corporate governance framework of the Bank.

The year 2020 marks the start of a stronger Board for the Rural Bank of Solano. With the approved Amendment of its Articles of Incorporation and By-Laws last March 15, 2019, the bank is now under the supervision of nine (9) directors, three (3) of whom are independent directors. As a result hereof, the Corporate Governance Committee was revived. Relative to the requirement on separation of the positions of Chairperson and Chief Executive Officer (CEO), BSP granted the bank's request that Atty. Mary Ann E.M. Tupasi shall be allowed to hold the positions of Chairperson of the Board of Directors and CEO of the bank until the date of the bank's annual stockholder's meeting in July 2021. Director Edgardo S. De Guzman serves as the Lead Independent Director (LID).

# SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

## I. BOARD OF DIRECTORS

### Nomination Process

- The committee shall identify the number of board seats each year and the necessary criteria to fill those seats.
- The committee shall pre-screen and shortlist all candidates nominated to become a member of the board in accordance with the minimum qualification and none of the disqualifications:
  - Independent Director
  - Regular Director
- A call for nomination will be made and interested parties will be encouraged to submit applications at least thirty (30) days before the annual stockholders meeting. The application should indicate if the nominee is vying for an independent director or regular director.
- Applications will be submitted to the Chairman of the committee and to be reviewed by the committee at least fifteen (15) days prior to the annual stockholders' meeting.

### Two-Part Election Process

#### Part 1. Election of Independent Directors

- The number of seats for independent directors shall be based on the minimum required under a three (3) board-level committee structure:
  - Audit & Compliance Committee
  - Risk Management Committee
  - Corporate Governance Committee
- Only the nominees approved by the committee through the nomination process set out in the bank's nomination and election committee charter shall be eligible for the election of independent directors.
- The Chairman of the committee shall inform the stockholders of the mandatory requirements of electing independent directors. He shall ensure that independent directors are elected during the Annual Stockholder's Meeting.
- The voting for the election of independent directors shall be by secret ballot. As such, ballots shall be prepared by the committee and shall be pre-signed by the Chairman of the committee.
- The committee shall immediately conduct the counting of the votes after the close of the voting.
- The committee shall declare the elected independent directors after the completion of the counting of votes.
- Any losing candidate for Independent Director may opt to run as a Regular Director.

#### Part 2. Election of Regular Director

- Only the nominees approved by the committee through the nomination process set out in the bank's nomination and election committee shall be eligible for the election of regular directors.
- The Chairman of the committee shall inform the stockholders of the mandatory requirements of electing regular directors.
- The voting for the election of regular directors shall be by secret ballot. As such, ballots shall be prepared by the committee for the election and shall be pre-signed by the Chairman of the committee.
- The committee shall immediately conduct the counting of the votes after the close of the voting.
- The committee shall declare the elected regular directors after the completion of the counting of votes.

## II. SENIOR MANAGEMENT

### A. CHAIRMAN

The Chairman shall have attended seminars required for BOD and in addition a seminar on how to handle board meetings and must have a good reputation in the community.

### B. VICE-CHAIRMAN

(same with the chairman)

## C. PRESIDENT & OTHER KEY OFFICERS

The President and Vice-President should be at least an MBA or with any post-graduate equivalent and must undertake post-graduate programs or studies related to banking operations. He/ She must have good leadership capabilities, with good moral and ethical background, and not be involved in any controversy or pending cases except where he is the plaintiff. He/She must be a good corporate citizen with a well-established social network and an active member of any social civic organization. Must undergo a continuous learning program from respectable providers and more specifically in aid of governance, risk, and audit management.

To qualify for the other key positions of the bank namely: CEHAC, AVP-General Services, AVP-Loans, AVP- Operations and Compliance Officer, the bank consider integrity/probity, education/training, knowledge and experience, skills, and diligence.

## DIRECTOR READINESS

**In order to prepare a pool of abled directors with the end in view of ensuring Succession and Good Corporate Governance, all stockholders, are enjoined to attend the Annual Stockholder's Meeting in person or by proxy, provided that in the later, he/she shall issue a certification of personal review over the Annual Report.**

**In addition, any stockholder who intends to qualify for a seat as a director shall attend all mandatory seminars e.g AMLA, Accounting for non-accountants, financial literacy, etc. especially those offered during the occasion of the Annual Meeting. Furthermore, to seat as an understudy by attending the orientation, at least six (6) board meetings and six (6) committee meetings ( two (2) meetings of each committee). Thirty percent (30%) may be attended virtually or online. Lastly, the completion of a director readiness training program does not guarantee an automatic qualification or set on the board.**

## BOARD'S OVERALL RESPONSIBILITY

The Board of Directors of Rural Bank of Solano (N.V.), Inc. acts in a manner that is consistent with their oversight functions and ensures the success of the bank by directing bank affairs and at the same time meeting the appropriate interest of its shareholders. The board is responsible for providing effective leadership and set the overall direction to promote good corporate governance by strong adherence to ethical standards and compliance with regulatory requirements.

The RBS Board is as well responsible for defining the bank's corporate culture and values, approving the bank's objectives and strategies, and overseeing its implementation. They are also responsible for the appointment or selection of key members of senior management including the heads of units that exercise control functions as well as the approval of remuneration and other incentive policies for personnel.

Finally, included in the board's responsibility is the approval and oversight on the implementation of the bank's corporate and risk governance framework.

### **ALL MEMBERS OF THE RBS BOARD ARE REGARDED AS LIKELY TO ABIDE BY THE FOLLOWING:**

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- Remain fit and proper for the position for the duration of his term.
- Conduct fair business transactions with the bank and ensure that personal interest does not bias Board decisions.
- Act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stock holdings, and other stakeholders such as depositors, investors, borrowers, other clients, and the general public.
- Devote time and attention necessary to properly discharge their duties and responsibilities.
- Act Judiciously.
- Contribute significantly to the decision-making process of the board.
- Exercise independent judgment.
- Have a working knowledge of the statutory and regulatory requirements affecting the institution, the requirements of the Bangko Sentral ng Pilipinas, and the requirements of other regulatory agencies.
- Observe confidentiality
- Attend orientation and training.

# DESCRIPTION OF THE ROLE AND CONTRIBUTION OF THE LEAD INDEPENDENT DIRECTOR AND OF THE CHAIRMAN OF THE BOARD

## LEAD INDEPENDENT DIRECTOR

- The Lead Independent Director shall perform a more enhanced function over the other independent directors which includes the following:
- Approved any change of dates of meetings. Moreover, no meetings where policies are taken up shall be held where the independent directors are not present;
- Call for audit and special meetings with External Auditors and Internal Audit and Compliance Department or with any officer and employee of the bank;
- Make any direct representation to the BSP, PDIC, and other regulatory bodies as to any matter pertaining to the business.
- Presides at all meetings of the independent directors and any Board meeting when the Chairman and Chief Executive Officer (“CEO”) is not present, including executive sessions of the independent directors and/or non-executive directors;
- Provides feedback from executive sessions of the independent directors and/or non-executive directors to the Board Chairman and CEO and other senior management;
- Approves and advises the Chairman and CEO as to the quality, quantity, and timeliness of information sent to the Board;
- Reviews and approves with the Chairman/CEO, agenda items for Board and Board Committee meetings, advises on the sufficiency of time for discussion of agenda items, and has the authority to add agenda items at his discretion;
- Has the authority to call meetings of the independent directors and serves as the principal liaison and facilitator between the independent directors and the Chairman/CEO;
- Serves a key role in the Board evaluation processes and in the evaluation of the CEO;
- Has the power to initiate the suspension of the CEO up to fifteen (15) days if warranted and cause investigation by an independent body;
- Responds directly to shareholder and other stakeholder questions and comments that are directed to the Lead Independent Director or to the independent directors as a group, when appropriate;
- Performs such other duties as the Board may delegate from time to time.

## CHAIRMAN OF THE BOARD OF DIRECTORS

- The Chairperson of the Board provides leadership in the board of directors;
- She ensures a sound decision-making process;
- She encourages and promotes critical discussions;
- She ensures that members of the board receive accurate, timely, and relevant information;
- She ensures the conduct of proper orientation for first-time directors and provides training opportunities for all directors; and
- She ensures the conduct of performance evaluation of the board of directors at least once a year.

# THE EXECUTIVE BOARD OF DIRECTORS



## MARY ANN E. M. TUPASI - SADDUL

Atty. Mary Ann Elizabeth Mercado Tupasi – Saddul is the Chairman of the Board of Directors. She is also a Director of the Agricultural Guarantee Fund Pool (AGFP) from 2017 to 2019 and the President/CEO of the bank for twenty years now. She has been a director of the bank since the year 2000 and the Chairman of the Management Committee of the bank. Back in 1997, she assumed as the Vice-President of the bank up until 2000. She also served as a Director of the Rural Bankers Association of the Philippines (RBAP). She holds a degree in Bachelor of Science in Hotel and Restaurant Management from the University of the Philippines and finished her Juris Doctor at Ateneo de Manila University in 1995. For eighteen years, she also served as a Director of Cordillera Savings Bank Incorporated. She owns 320,804 shares of common stocks or 21.26% stockholdings of the bank.



## ROQUE FELIPE MERCADO GRANADA

Mr. Roque Felipe Mercado Granada is the Vice-Chairman of the Board and at the same time, the Vice President of the bank. He is also a member of the Risk Management Committee and Head Office August 24 and 28, 2018 Collection Committee, and has been a director of the bank since 2012. He is currently the General Manager of DM Consunji Training Center, Inc. since January 2019. He also worked as President/CEO of Pre-Size Consultancy from 2017-2019, Senior Vice President in Sales/Marketing for Automated Technologies Incorporated from 2012-2017, PSI Technologies Inc. from 2008-2012 and Edge Worth Corporation in 2007. He finished his Mini Masters in Business Administration at Digital Marketing Compass in 2014 and his Bachelor of Science in Industrial Engineering at the University of the Philippines back in 1981. He owns 29,905 shares of common stocks or 1.98% stockholdings of the bank.



## LOUIE GUILLERMO TIONGSON

Mr. Louie Guillermo Tiongson is the Treasurer of the corporation. He is also a member of the Risk Management and the Chairman of the Credit Committee. He holds a degree in Computer Systems Design and Programming from AMA Computer School at Bayombong, Nueva Vizcaya. He is also the owner of various enterprises such as the LGT Trading, Farmacia Ibung, and Ibung Computer Center. He's been a Director of the Bank since 2014. He owns 3,804 shares of common stocks or .25% stockholdings of the bank.

## THE NON-EXECUTIVE BOARD OF DIRECTORS



### TERESITA GARINGAN VENTURINA

Ms. Teresita Garingan Venturina is a Director of the bank since 2012 and a member of the Credit and Collection Committee and Audit & Compliance Committee. Back in 1984, she held the position of Loans Clerk at Rural Bank of Solano. She also worked at Cordillera Savings Bank, Inc. as a Branch Manager for seven years (1995-2002), Cashier from 1990 to 1995 and Teller for eleven years from 1989 to 1978. She holds a degree in Bachelor of Science in Commerce – Major in Banking and Finance from the University of Santo Tomas. She owns 5,989 shares of common stocks or .40% stockholdings of the banks.



### SYLVIA DORETA JACQUELINE TUPASI- GOMEZ

Ms. Sylvia Doreta Jacqueline Tupasi-Gomez has been a Director of the bank since 2013 and a member of the Committee on Banking Operations and Committee on Corporate Governance. At the same time, she is also a Director of Corporate Int'l Travel and Tours. From 2012 to 2017, she served as a Director of Cordillera Savings Bank, Inc. She holds a degree in Bachelor of Science in Business Administration from University of the Philippines Diliman. She owns 108,689 shares of common stock or 7.20 % stockholdings of the bank.



### HECTOR VICENTE MERCADO TUPASI

Mr. Hector Vicente M. Tupasi is an entrepreneur engaged in business. He is the owner/manager of HMT Commercial Stalls and a Managing Director of JZJ Food Corporation, franchisee of Mang Inasal Solano and Bambang branch since 2012. He is a member of Credit Committee and alternate member of the Corporate Governance Committee. He is a graduate of Saint Mary's College with a degree of Bachelor of Science in Commerce Major in Business Management. He owns 146,801 shares of common stocks or 9.73% stockholdings of the bank



## THE INDEPENDENT DIRECTORS



### EDGARDO SANTOS DE GUZMAN

Engr. Edgardo Santos De Guzman is the Lead Independent Director of the bank. He is also the Chairman of the Audit and Compliance Committee of the bank, and a member of the Committee on Corporate Governance. He holds a degree of Bachelor of Science in Civil Engineering from Nueva Ecija University of Science and Technology (formerly Central Luzon Polytechnic College) and has more than 6 years of experience in directorship. He is a licensed engineer and the Chairman/CEO of E.S. De Guzman Construction. He is the Manager of Buildhaus Centre and co-owner of Balai Gloria Hotel & Restaurant. He has been an independent director of the bank since April 2012. Also, he has been the Chief Compliance Officer of the bank from March 2013 to April 2016. In 1987, he worked as a Resident Engineer at Urban Integrated Consultant up until 1992. During the early 1980's he was associated with Certeza Development Corporation as an Assistant Project Manager and Quality Cost Manager. He owns 342 shares of common stocks or 0.02% stockholdings.



### PATRICIA ANNE TIONGSON SEVILLA

Ms. Patricia Anne Tiongson Sevilla is an Independent Director of the bank. She is the Chairman of Risk Management Committee and the Vice Chairman of Audit and Compliance Committee. She has been a director of the bank since April 2017 and holds a degree of Bachelor of Science in Nutrition and Dietetics from the University of Santo Tomas. She is the Manager and owner of Taycan Marketing and the Operations Manager of Shoppers General Merchandise. At the same time, she supervises the Bascaran Family Resort. In 2013, she served as a Merchandising Supervisor at Supervalve Incorporated up until 2014. Also, she was associated with St. Luke's Medical Center Global City as a Therapeutic Dietitian for more than a year. She owns 290 shares of common stocks or 0.02% stockholdings.



### MARK STEPHEN TIONGSON MEJIA

Mr. Mark Stephen T. Mejia is an Independent Director of the bank. He is the Chairman of the Corporate Governance Committee and a member of the Risk Management Committee. He is a graduate of the University of Santo Tomas with a degree in BS Pharmacy in 2009. He is a young entrepreneur engaged in various businesses. He has been a manager of their family-owned Tiongson Drugstore from 2010 until 2012. Currently, he is managing their businesses namely Tiongson Farm Supply since 2012 and Better Health Pharmacy since 2019. He owns 231 shares of common stock or .01% stockholdings.

# BOARD QUALIFICATION

1. He/she shall be college graduate or with at least five (5) years' experience in business.
2. He shall be a shareholder of at least 1 share of stock.
3. He/she filed a nomination form one month prior to the Annual Stockholder's Meeting and shall be duly elected.
4. He/she must have attended the following seminars:

## BOARD IN GENERAL

**A. Orientation seminars(budget /operations)** - To be done prior to the first BOD meeting facilitated by the MANCOM

**B. Corporate Governance** - Within the first three (3) months. A repeat BOD must take refresher course every three (3) years.

**C. Accounting for Non-Accountants** - From organizational meeting or at least twelve (12) units of accounting.

ADDITIONAL SEMINARS TO BE ATTENDED BY THE FOLLOWING COMMITTEE	
CHAIRMAN	
COMMITTEE	SEMINARS
Committee on Banking Operation	Strategic Planning, MTP and TOL
Risk Management	Risk Management and Internal Audit
Corporate Governance Committee	Risk Management, Internal Audit and TOL
Credit Committee	Cash Flow and Property Appraisal
Audit and Compliance Committee	Risk Management and Internal Audit

He must be fit and proper to attend to the rigors of the job of a director

An Independent Director (Under Sec 131 of MORB) shall mean a person who:

(a) Is not or has not been an officer or employee of the bank (Under Article V Sec 1 of the Corporate By-laws, to wit "The Officers of the Corporation shall be a Chairman of the Board of Directors, Vice-Chairman, a President, one or more Vice-Presidents, a Treasurer, a Secretary, and a Comptroller, all of whom shall be elected by the Board of Directors. The Board of Directors may appoint such officers as they shall deem. If necessary, proper or convenient who shall have such authority and perform such duties as from time-to time may be prescribed by the Board One person may hold more than one office, except when the offices are incompatible with each other"), its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election;

(b) Is not a director or officer of the related companies of the institution's majority stockholder;

(c) Is not a majority stockholder of the institution, any of its related companies or of its majority shareholders;

(d) Is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or majority, shareholder of the bank or any of its related companies;

(e) Is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its b." substantial shareholders, and;

(f) Is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm, is independent of management and free from any business or other relationship, has not engaged and does not engaged in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

## BOARD COMMITTEES

To guide the management in implementing sound corporate governance, the Board has created several committees which regularly hold meetings as mandated in their respective Charters.

### A. AUDIT AND COMPLIANCE COMMITTEE

- Monitor and evaluate adequacy and effectiveness of internal control system;
- Appoint internal and external auditors;
- Coordinate, monitor and facilitate compliance with all existing laws, rules and regulations with all regulatory agencies directly involved;
- Establish and ensure compliance with sound written internal policies and procedures in relation to the management of compliance risk;
- Formulate the compliance program;
- Initiate and direct audit in matters not included or included or covered in the audit plan;
- Recommend policies to ensure adequacy and effectiveness of internal control and compliance.

### B. COMMITTEE ON CORPORATE GOVERNANCE

- Formulate policies on employees as embodied in the personnel manual;
- Establish compensation package and fringe benefits;
- Select and appoint key personnel and staff;
- Prepare program for development of human resources;
- Monitor and assess performance of management in line with corporate values and codes of conduct and behavior.

### C. COMMITTEE ON RISK MANAGEMENT

- Establish bank policies on investments and loans, assets and liability management;
- Formulate business strategies for planning and budgeting;
- Review regularly the performance of management against the business plans and strategies;
- To take actions to ensure that the business strategies are achieved;
- Established policies to limit, or mitigate risk exposures;
- Periodically review risk exposures of the bank.

### D. COMMITTEE ON BANKING OPERATIONS

- Formulate, adopt and maintain adequate policies, guidelines and procedures on finance and fund generation in relation to the management of liquidity and interest rate risks;
- Set pricing on Deposit Liabilities to match with investment and loans;
- Monitoring body for pricing of loans, interest rates on deposits and proper management of all funds of the bank;
- Study and recommend allowance investment plans and allied undertakings;
- Approve fund management plan and periodically review bank cash flow.

### E. COMMITTEE ON CREDIT AND COLLECTION

- Formulate, adopt and maintain adequate lending and investment policies, guidelines and procedures relating to the management of credit risk;
- Evaluate and recommend loans for board approval;
- Review credit and all loan product manuals;
- Pass upon and evaluate markets surveys and establish necessary policies in creation of new loan product and service areas;
- Monitoring body for the proper administration of ROPA.

**RURAL BANK OF SOLANO (N.V.), INC.**  
**BOARD WORKING COMMITTEES**  
**2020-2021**

Approved by BR No. 20-04, June 26,2020

**1. RISK MANAGEMENT COMMITTEE**

Chairman	---	PATRICIA ANNE T. SEVILLA
Vice-Chairman	---	MARY ANN M. TUPASI
Member	---	MARK STEPHEN T. MEJIA ROQUE FELIPE M. GRANADA (Alternate of Atty. M. TUPASI)
Staff & Advisory	---	CORAZON G. RAMOS

**Sub-Committees:**

**a. Committee on Banking Operations (CBO)**

Members:

1. MARY ANN M. TUPASI
2. PATRICIA ANNE T. SEVILLA
3. SYLVIA DORETA J.T. GOMEZ  
TERESITA G. VENTURINA (Alternate)  
Staff and Advisory – CORAZON G. RAMOS

**b. Credit Committee (CRECOM)**

Members:

1. LOUIE G. TIONGSON
2. HECTOR V.M. TUPASI
3. TERESITA G. VENTURINA  
ROQUE FELIPE M. GRANADA (Alternate)  
Staff & Advisory --- RYAN A. COBALLES

**2. AUDIT AND COMPLIANCE COMMITTEE**

Chairman	---	EDGARDO S. DE GUZMAN
Vice-Chairman	---	PATRICIA ANNE T. SEVILLA
Member	---	TERESITA G. VENTURINA
Ex-Officio	---	EVELYN C. GARCIA
Staff & Advisory	---	MA. CHERIL C. DEL ROSARIO

**3. CORPORATE GOVERNANCE COMMITTEE**

Chairman	---	MARK STEPHEN T. MEJIA
Vice-Chairman	---	EDGARDO S. DE GUZMAN
Members	---	ROQUE F.M. GRANADA SYLVIA D.J.T. GOMEZ (Alternate of R. M. GRANADA)
Staff & Advisory	---	CATHERINE F. TUPASI

## AUDIT AND COMPLIANCE COMMITTEE

The main objective of the Audit and Compliance Committee (ACC) is to provide assistance to the Bank's Board of Directors in fulfilling its oversight responsibilities specifically on 1) financial reporting framework; 2) internal control system; 3) internal audit function; 4) external audit function; 5) compliance function; 6) implementation of corrective action, and 7) investigation of significant issues or any matter within its terms of reference.

The ACC through its Audit and Compliance Unit exercised its oversight on Senior Management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The ACC is composed of three (3) independent, non-executive directors under the Chairmanship of Engr. Edgardo S. De Guzman, who also serves as Lead Independent Director and Vice Chairman of the Corporate Governance Committee. The two (2) other members of the ACC hold concurrent roles in other Board-level Committees, as follows: Dir. Patricia Anne T. Sevilla, as Chairman of the Risk Management Committee; Dir. Teresita G. Venturina, as member of the Credit Committee and alternate member of the Committee on Banking Operations, sub-committee of the Risk Management Committee. All of them are highly qualified business professionals, possessing the expertise and experiences required to be able to provide value to strengthening and upholding good governance practices in the bank. The ACC has two (2) advisories: CEHAC Evelyn C. Garcia and Compliance Officer Cheril C. Del Rosario. With the massive economic disruption brought by the terrifying disease COVID-19 which started in the Philippines in the first quarter of 2020, it has become significantly important for these officers to stay technically up to date with emerging laws and regulations from the BSP, BIR, and other regulatory bodies. It is a blessing in disguise, that even in this difficult time, seminars and training flourished through webinars and online training.

### INTERNAL AUDIT

The Bank's internal audit function directly reports to the Audit and Compliance Committee. The scope of work of Internal Audit encompasses the examination and evaluation of all the Bank's business systems, processes, operation, function, and activities. Such scope of work determines the adequacy and effectiveness of the Bank's risk management, control, and governance process to provide reasonable assurance that risks are appropriately identified and managed; resources are acquired economically, used efficiently, and protected adequately; management and financial information systems are reliable and effective and resulting data has integrity; significant financial, managerial and operating information is accurate, reliable and timely; and regulatory issues impacting the Bank are appropriately recognized and addressed. As partners to management, an internal audit helps protect the bank against both traditional and emerging risks; provide consultation about how opportunities and vulnerabilities can be balanced; and make valuable recommendations to strengthen corporate governance.

The main thrust of internal audit is to advise and counsel Senior Managers and the Board on everything from analysis of operations and assessment of risk to recommendations to improve corporate governance. Evaluating emerging technologies, analyzing opportunities, assessing quality, economy, and efficiency, and providing accurate and timely communication are just some of the activities internal auditors conduct on a daily basis.

In 2020, the challenges faced by the Bank more particularly on compliance with new regulations, diversification, and innovation, and technological advancements were aggravated by the COVID-19 crisis. Various initiatives were made by the Bank in order to stay competitive like acquisition of the new software “RBSOFT core banking solution”, and partnership with Agricultural Credit Policy Council (ACPC) which resulted to the introduction of new products. The Bank has been approved as a Lending Conduit of ACPC in its rollout of credit funds for the financial needs of small farmers and fisherfolks.

As the Bank dealt with the many issues that arise as a result of the pandemic, the audit team needed to keep up and be vigilant about the functionalities of the new software and fundamentals of doing business with ACPC. Sometimes they get pulled into new roles that may test their independence, however, the essential attributes of maintaining independence in terms of accountability and reporting, and keeping an objective mindset were preserved while adding value across the organization. The internal audit complies with all applicable professional standards and code of ethics and the relevant requirements of the Bangko Sentral ng Pilipinas.

During the year, the internal audit’s independent review of the newly acquired RBSOFT system helped in ensuring a controlled and reliable IT environment. The consulting service that was provided to Senior Management and the Board added value to the decision-making process, more informed and better decisions.

Finally, as a result of audit findings, the ACC endorsed to the Board/other Board Committees for the approval, enhancement, and/or formulation of various guidelines and procedures, in addition to the corrective actions it recommended for the improvement of the Bank’s operations.

## COMPLIANCE

The Compliance Office' function is to ensure that the bank is adhering to governmental regulations and laws. Its role is to work closely with upper management and banking staff to ensure that the bank is conducting its business in full compliance with existing laws, rules and regulations.

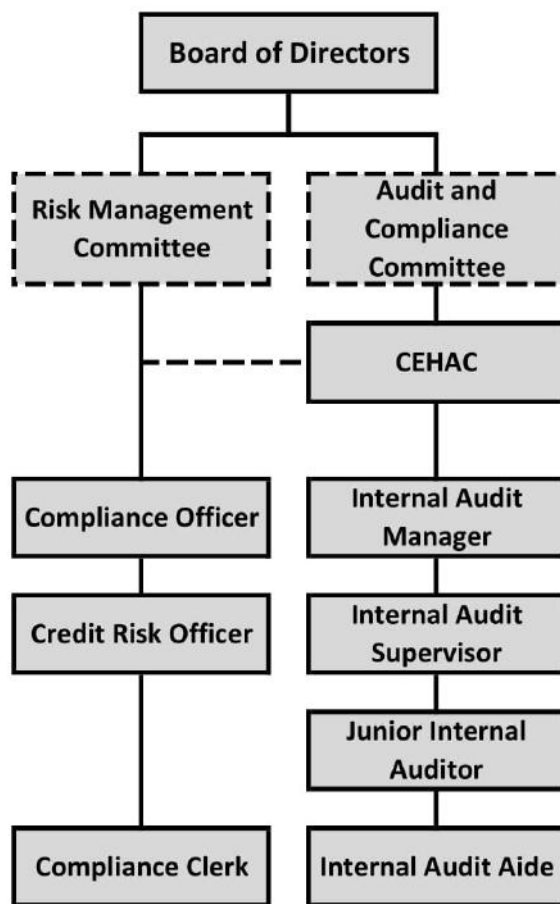
Despite the pandemic, the Compliance Officer has been conducting periodic compliance testing to monitor possible breaches in the compliance policy. In addition to this, the Compliance Officer dedicates her time to search for the latest regulatory issuances and advisories in order for the bank to be apprised with the latest compliance trends in the industry. These new circulars and advisories were also disseminated throughout the organization. As such, seventeen (17) office memos relating to regulatory compliance were served by the Compliance Officer during the year. The bank's Money Laundering and Terrorist Financing Program (MTPP) has also been amended to incorporate changes and to enhance the reporting procedures of covered transactions.

The Compliance Officer also ensures that copies of new laws and regulatory issuances, interpretations and amendments thereto are filed with the bank. She builds up a library of all relevant laws, rules and regulations issued by regulatory bodies such as the BSP, SEC, CDA, PDIC, BIR, SSS, local government and other regulatory bodies and the respective implementing guidelines of said laws and issuance.

During the year, the Compliance Program has been amended to incorporate the calendar of activities for the year 2020 as approved by the Board under BR No. 20-115. The plan of activities that are being set up in this program includes the review and implementation of specific policies and procedures, compliance testing, monitoring of risk exposure, educating staff on compliance matters and reporting to the board or board-level committees. The Compliance Officer was also appointed as Data Privacy Officer (DPO) under BR No. 20-94 who shall be responsible in ensuring the confidentiality of customer information.

Finally, to help the bank in promoting culture of compliance through continuing education and strengthening professional development, the Compliance Officer has also participated in some virtual workshops/webinars conducted by the BSP and other agencies pertaining to compliance.

# AUDIT AND COMPLIANCE COMMITTEE STRUCTURE



## BOARD ATTENDANCE

JULY 2020-JULY 2021

Name Of Directors	Board Meetings		Risk Management Committee		Credit Committee Meetings		Audit and Compliance Committee		Corporate Governance Committee	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Atty. Marry Ann Elizabeth M. Tupasi-Saddul	13	100%	6	100%	-	-	-	-	-	-
Roque Felipe M. Granada	13	100%	5	83%	10	83%	-	-	5	83%
Edgardo S. De Guzman	13	100%	-	-	-	-	9	90%	6	100%
Patricia Anne T. Sevilla	13	100%	6	100%	-	-	10	100%	-	-
Mark Stephen T. Mejia	13	100%	5	83%	-	-	-	-	6	100%
Teresita Garingan-Venturina	7	54%	-	-	10	83%	8	80%	-	-
Hector Vicente M. Tupasi	13	100%	-	-	12	100%	-	-	-	-
Sylvia Doreta Jacqueline M. Tupasi-Gomez	12	92%	-	-	-	-	-	-	6	100%
Louie G. Tiongson	13	100%	-	-	12	100%	-	-	-	-
<b>Total Number of Meeting held during the year</b>	<b>13</b>		<b>6</b>		<b>12</b>		<b>10</b>		<b>6</b>	



# LIST OF EXECUTIVE OFFICERS / SENIOR MANAGEMENT / KEY OFFICERS

NAMES	RELEVANT QUALIFICATIONS
<p><b>MARY ANN ELIZABETH M. TUPASI-SADDUL</b>  <i>PRESIDENT/CEO/CHAIRMAN OF THE BOARD</i>                      54 years old</p>	<p><b>Educational Background</b>                      BS HRM; Juris Doctor Bachelor of Law</p>
<p><b>EVELYN C. GARCIA</b>  <i>Chief Executive Head of Audit and Compliance (CEHAC)</i>                      57 years old</p>	<p><b>Educational Background</b>                      BSC Accounting; CPA; Master in Business Administration</p> <p><b>Past Positions in this Institution/Work Experience</b>                      RBS- EVP/General Manager                      RBS- AVP-Accounting/General Services                      RBS- AVP-Internal Auditor/Compliance Officer                      RBS- AVP-Accounting/General Services                      RBS- Internal Auditor/Compliance Officer                      RBS- General Bookkeeper/Accountant                      RBS- Assitant Internal Auditor</p>
<p><b>CATHERINE F. TUPASI</b>  <i>AVP-General Services</i>                      47 years old</p>	<p><b>Educational Background</b>                      BSC Accounting</p> <p><b>Past Positions in this Institution/Work Experience</b>                      RBS- AVP-General Services                      RBS- AVP-BCOO                      RBS- Loan Manager                      RBS- Management Trainee-Loans/Branch OIC                      RBS- Savings Subsidiary Bookkeeper                      RBS- Audit Aide                      RBS- Accounting Clerk</p>
<p><b>CORAZON G. RAMOS</b>  <i>AVP-Operations</i>                      50 years old</p>	<p><b>Educational Background</b>                      BSC Accounting</p> <p><b>Past Positions in this Institution/Work Experience</b>                      RBS- Accounting Manager                      RBS- Branch Manager                      RBS- Loans Subsidiary Bookkeeper                      RBS- Teller                      RBS- Accounting Clerk                      RBS- Savings Solicitor</p>
<p><b>MA. CHERIL C. DEL ROSARIO</b>  <i>Compliance Officer</i>                      52 years old</p>	<p><b>Educational Background</b>                      BSC Accounting</p> <p><b>Past Positions in this Institution/Work Experience</b>                      RBS- Internal Auditor/Compliance                      RBS- General Bookkeeper                      RBS- Branch/Cluster Manager                      RBS- Subsidiary Loan Bookkeeper                      RBS- Accounting Clerk</p>

# PERFORMANCE ASSESSMENT PROGRAM

The bank has adopted the Guidelines on BOD Assessment and Evaluation to serve as the basis in ensuring that appropriate processes are in place and that each director is fulfilling his/her duties and responsibilities by giving due diligence in planning and oversight.

The BOD Assessment and Evaluation is designed as an annual board evaluation which seeks to help the board in taking an objective look at themselves as individual director and how they function as a group.

For officers and employees, the Human Resource Department will conduct the evaluation by distributing the questionnaire among the officers and employees. The Internal Audit Department will compute, compile and summarize and then Human Resource Department will report on the results.

Board evaluation is to be done preferably towards the end of the year and be included in the board's annual agenda.

Aside from this self-evaluation questionnaire, the following factual information shall be the basis for the board individual performance evaluation:

## A. BOD/Committees

1. Regularity of meetings
  - a. **BOD** (as a whole)- minimum of one (1) meeting per month as fixed in the organizational meeting
  - b. **Committee**- at least six (6) meetings per year or more if necessary
2. Attendance – measured as body per month then per year.
3. Performance
  - a. Planning
  - b. Setting objectives
  - c. Evaluation/Performance Review-self

## B. INDIVIDUAL DIRECTOR

1. Membership in committee
2. Attendance
3. Resolutions proposed

## C. MANAGEMENT COMMITTEE

1. Frequency of MANCOM Meetings
2. Attendance
3. Performance

The Corporate Secretary presents the summary of the overall rating/performance of the Board to stockholders every Annual Stockholder's Meeting.

## **ORIENTATION AND EDUCATION PROGRAM**

As modern technology and the improvement strategies in the workplace arises, these scenarios call for the need for employers and employees to meet the changes and align their knowledge and skills through training programs.

Rural Bank of Solano is committed to providing a strong learning and development platform across the organization. The Human Resource Department, in particular, facilitates various capacity training programs and seminars among all bank personnel. As a result, the human resource which includes the unbanked and underserved clients, the department and branch managers, Accounts Officers, and support staff, will effectively and efficiently perform their basic functions and responsibilities.

For the entry-level and newly hired employees, an INDUCTION PROGRAM is conducted in order for them to have a grasp about the company as a whole particularly on how it was started and an overview of each department's function and operation. As part of the readiness training for managers and supervisors, a MANAGEMENT TRAINING PROGRAM was developed and implemented. For Account Officers, enhanced MABSTER training was provided. The Board of Directors and management officers are sent to attend training or seminars conducted by the Bangko Sentral ng Pilipinas and/or the Rural Bankers' Association of the Philippines.

The compliance officer also initiates an annual AML training to provide officers and personnel with an efficient, adequate, and continuous education program to enable them to fully and consistently comply with all their obligations under the AMLA.

## **MANAGEMENT TRAINEESHIP PROGRAM**

All organizations, no matter their size, need succession planning. It ensures that employees are prepared and make available people ready to occupy higher positions in the organizations.

Leadership Roles can easily be filled because of the availability of capable individuals who are prepared to assume such roles as they become readily available.

One of the training that Rural Bank of Solano (N.V.) , Inc have, is the Management Traineeship Program (MTP). The purpose of this Program is to ensure continuous training of employees and thereby provide a pool of multi-task able and capable employees as well as to support an effective succession plan for managerial or senior management positions. The goal is to increase productivity and confidence of aspiring managers. MTP will boost our knowledge when it comes to business and banking operations.

All current interested employees take the pre qualifying test and pass . They will sign a Memorandum of Undertaking to take an eight( 8) week Management Traineeship Program course and undergo all the modules . Upon completion of Management Traineeship Program , plan-out and apply for an immersion program in other areas of operation of at least ten (10) days per year with a minimum of three( 3) in any given department. All Trainees will complete Management Traineeship Program and immersions , for a period of six( 6) months. The trainees shall take further qualifying ( written and oral) tests and pass , in order to prequalify for promotion.

As part of the Bank's efforts to widen the employees' knowledge and be aware of the latest practices in the banking industry, RBS has invested in different trainings and seminars for 2020. The Management believes that allotting resources for trainings improve the morale and performance of its workforce. Conducting seminars also serves as a way for the management to ensure that the employees continuously possess the qualifications needed for their respective positions.

Date of Webinar/ Seminar	Seminar Title/Topic	Facilitator/Provider
January 06, 2020	Induction of Newly Hired Employees	Rural Bank of Solano
January 07-17, 2020	Account Officers Training Program	Rural Bank of Solano
January 21, 2020	ACPC Products Orientation	Rural Bank of Solano
January 31, 2020	Account Officers Enhancement Program	Rural Bank of Solano
February 22, 2020	Beyond Customer Service Training (DAY 1)	Rural Bank of Solano
February 23, 2020	Basic Management Course (DAY 2)	Rural Bank of Solano
March 12, 2020	Account Officers Enhancement Program	Rural Bank of Solano
July 29, 2020	Account Officers Enhancement Program	Rural Bank of Solano
August 06, 2020	Strengthening Internal Control in Rural Banks	RBAP
August 07, 2020	Corporate Governance for RB Directors	RBAP
August 12-13, 2020	Risk-Based Pricing and Loan Restructuring	RBAP
August 14, 2020	Basic Cashiering Course Webinar	RBAP
August 27, 2020	RB Solano: Adult Learning Webinar	ACPC
September 01, 2020	RB Solano: Financial Literacy Webinar	DA-ACPC
September 02, 2020	Trainers' Training: Bookkeeping Webinar	DA-ACPC
October 7-8, 2020	RISK-BASED COMPLIANCE PROGRAM Webinar	RBAP
October 08, 2020	Webinar on Rice Tariffication Law	DA-ACPC
October 16, 2020	Data Privacy Act	GHP Law Office and Associates
October 16, 2020	Online Technical Compliance Workshop	CIC
October 20, 2020	Why we need to love our Job more than ever	Paulo Tibig
October 29, 2020	Product Development for Retail and SME Banking Services	RBAP
November 24, 2020 – December 7, 2020	Account Officers Enhancement Program	Rural Bank of Solano
December 09, 2020	Replacement of CAMELS and ROCA Ratings to Supervisory Assessment Framework (SAFr)	RBAP

## SUCCESSION PLAN

The Rural Bank of Solano (N.V.), Inc. has adopted a Succession Plan to ensure right leaders and capable individuals are in place.

The bank's Succession Plan defines the standards for choosing candidates who has the capacity to fill key positions in the company. It focuses on the qualifications of the Board of Directors and Independent Directors, Executive Officers and Senior Management positions.

The Bank's Succession Plan also includes performance evaluation for the members of the Board of Directors, Individual Directors and Management Committee which is based on board and committee meetings, attendances and performances.

Lastly, the director readiness program is also incorporated in the Bank's Succession Plan purposely to prepare a pool of abled directors with the end in view of ensuring good corporate governance.

## RETIREMENT PLAN

The retirement plan for the employees of the bank is covered by Provident Fund, a contribution plan which provides for the payment of benefits to deserving regular and permanent officers and employees or their heirs upon their secession/retirement. It was approved by the Board of Directors of Rural Bank of Solano (NV), Inc. pursuant to Board Resolution No. 81-137.

Only full-time and regular employees of the Bank shall be eligible for the membership of the fund. Membership in the fund shall be mandatory and shall continue until the member has been separated for cause, resign, or in any way terminated or in the event of total and permanent incapacity or disability to discharge the function of his office.

A member who retires/resigns with at least fifteen (15) years of continuous and uninterrupted service with the bank shall be entitled to the full amount of his/her personal contributions, the total contributions of the bank corresponding thereto and to the aggregate proportionate earnings plus the proportionate share of the bank's contributions and its earnings.

Any member who resigns and/or terminates his/her services with the bank with less than five (5) years membership with the fund shall be entitled to recover only his/her amount of personal contributions and earnings corresponding thereto.

For this purpose, mandatory retirement shall be at age sixty-five (65).

As approved by BR No. 14-66 dated May 15, 2014, a member who retires with at least twenty (20) years of continuous and uninterrupted service with the bank shall be entitled to receive one (1) token share as part of his/her retirement benefit.

# BOARD COMPENSATION

The Board Compensation is governed by the bank's By-Laws and in accordance with the guidelines of the regulatory agencies.

The Board of Directors are entitled to per diem, representation and Director's allowance during board meetings. They are also entitled Committee Allowance in excess of the regular committee meeting prior to board meeting, transportation, telecommunication and per diem for attending seminars and training. During the year, the guidelines on Board Compensation has been amended to include the allowance of a trainee Director.

Prior to the closing of each fiscal year, the compensation structure for both Board of Directors and Executive Officers are being reviewed by the Corporate Governance.

All amendments to the compensation structure shall take effect as per resolution and declaration of the Board of Directors. The Compensation structure of the Board of Directors shall, however, take effect only the following fiscal year and benefit the in-coming set of directors.

All remuneration owing to the Board of Directors shall be credited to him/her on the day of holding of meeting at the end of each month. No board remuneration shall be drawn by way of cash advances.

Any member of the Board of Director joined by at least one(1) independent director may call the suspension of any payment of remuneration if he/she deems it in violation of the law, regulation, resolution or any policy and guideline of the Rural Bank of Solano. The matter shall then be taken up and decided in the next board meeting.

With respect to Senior Officers, the remuneration is in accordance with the bank's pay structure as approved by the board. Compensation package includes basic pay, standard allowances, fringe benefits, bonuses, car plan, specific purpose allowances and benefits such as representation and equity pay of the President/CEO, staff and advisory allowances, per diem and recognition and rewards for meeting the bank's targets.

Other indirect compensation that are regulated under existing laws such as the bank's share to SSS, Pag-ibig Fund, Philhealth, Provident Fund and various leave benefits authorized by the Department of Labor and Employment.

An annual review of the compensation structure for the rank and file is to be done annually by the Committee on Banking Operation together with the Administrative Head In-Charge of the Human Resource in tandem with the Risk Management Committee.

## **RELATED PARTY TRANSACTIONS (RPT)**

The bank has adopted Related Party Transactions Policy in accordance with the regulations, policies and guidelines issued by the Bangko Sentral ng Pilipinas in order to avoid risks of conflict of interest and to ensure that all transactions are done on an arm's length basis.

The primary role of the Board is to exercises appropriate oversight on the implementation of the policy while the Senior Management ensures that appropriate controls are effectively managed.

The bank's related parties include the bank directors, officers, stockholders and related interest (DOSRI), as well as their close family members within the second degree of consanguinity or affinity, legitimate or common law, and the corresponding persons in affiliated companies.

The bank's related party transactions cover not only transactions that give rise to credit but also those that could pose material risk or potential abuse to the bank and its stakeholders. The Board did not set any materiality threshold on all related party transaction hence, all shall be reported all to BSP.

The Internal Auditor conducts periodic formal review of the effectiveness of the bank's system and internal control governing the related party transactions to assess consistency with the Board approved policy. The Compliance Officer also ensures compliance with relevant rules and regulations applying to related party transactions. In addition to that, she is responsible in monitoring and reporting related party transactions to BSP. Finally, the Compliance Officer ensures the maintenance of inventory of related parties to capture organizational and structural changes in the bank and its related parties.

The Audit and Compliance Committee shall, in respect to related party transactions judge if the transaction is the ordinary course of the business or at arm's length basis. In case the committee is not able to arrive at such decision, the same shall be referred to the board, which shall decide if the transaction is the ordinary course of business or arm/s length basis.

The members of the board, stockholders and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the bank. Directors and officers with personal interest in the transactions shall abstain from the discussion, approval and management of such transactions or matter affecting the bank.

### **SELF-ASSESSMENT FUNCTION**

The internal audit function directly reports to the Audit and Compliance Committee. The scope of work of Internal Audit embraces the examination and evaluation of the entire business systems, processes, operation, function and activities. The compliance function remains independent of the operations that it conducts compliance testing and assessments to enable her to perform her duties in a manner, which facilitates fair and effective professional judgments and recommendations. The compliance function has no operational responsibilities. The compliance function reports directly to the Audit and Compliance Committee on a monthly basis.

## DIVIDENDS DECLARED

Under Section 124 of the MORB, the liability for dividends shall be taken up in the books upon its declaration. The Bank through Board Resolution No. 20-135 dated August 20, 2020, declared stock dividend amounting to P13,716,600. Later on, the Bank decided to convert stock dividends amounting to P2,100 into cash dividends.

On December 20, 2019, the Bank through Board Resolution No. 19-199 declared stock dividend amounting to ₱ 12,469,880. Later on, the Bank decided to convert stock dividends amounting to P2,680 into cash dividends. On December 27, 2019, all stock dividends were issued resulting to an increase in capital stock.

# CORPORATE SOCIAL RESPONSIBILITY

At Rural Bank of Solano, we take corporate governance and business ethics seriously. Corporate responsibility is integrated into our business practices.

It is a reflection of our values, and the way we do business. The RBS Mission, Vision and Core Values serve as our compass for us to consistently act without compromise as we build trusted relationships with all customers. At RBS, our customers are not just our current clients but also the employees, directors, stockholders and potential clients (which is the general public).

Since its conception in 1999, our Core Values and our Mission and Vision statement form the base upon which we continue to build our policies, programs and services. In 2010, RBS launched the “GO GREEN POLICY STATEMENT” because we recognize our role of corporate social responsibility to the environment. As such, RBS is committed to operate in a way that respects what is environmentally acceptable and to promote environmental awareness and social responsibility.

Rural Bank of Solano is committed to: (1) 3R's – reduce, reuse and recycle; (2) conserve energy; (3) make a difference by creating social impact.





## *EcoGreen Solutions, the RBS way!*

*Written by: Jamayne Batad, Management Trainee*

Journey 2020 had its ups and downs, but RBS paved various opportunities for its clientele while keeping its mission of P.R.O.G.R.E.S.S. despite the pandemic crisis. One of the new products launched is the GREEN ENERGY LOAN (GEL): a financing package partnered with a solar system solution for fast and affordable electricity sustainability.

RBS Green Energy Loan aims to promote green energy and electricity independence through the use of solar panels. It also envisions protecting oneself against unpredictable increases in utility prices, enjoys cheap electricity, at the same time, protecting Mother Earth. Considering also that electric bills are incurred monthly despite lockdowns, GEL is seen to be pandemic-proof, as well as an electric price-hike-proof product.

This loan packaging of GEL is based on the bill savings or cash flow of the borrower not to exceed 8 years and it also considers the quoted price of the partner solar system provider.

Currently, this loan product is available as a Secured Loan and is offered for commercial and residential installation purposes only. Eligible borrowers should be a (1) person of legal age and with good moral character; (2) with an existing business or stable source of income; and (3) savings account holder of RBS.

Green Energy Loan processing includes the procurement of project proposal from solar energy provider as conformed to by the client, preparation of term and loan package; client submission of his Loan Application Form and Documentary Requirements to designated Account Officer, preparation of necessary credit documents and CIBI.

## *Trees: A Journey 2020 Legacy*

*Written by: Jamayne Batad, Management Trainee*

Planting trees is like making one's legacy not only for himself but also for his loved ones and the planet. As Lucy Larcom once said, "**He who plants a tree, plants hope**".

Each ring on a planted tree stands for another year where one made a difference, and with this in mind, RBS has planted more than a hundred trees of Avocado, Guyabano, Coconut and Bugnay at the Bangaan Rolling Hills of Solano and Coffee Trees along the slopes of Mount Pawac in Masoc, Bayombong. Included in this simple activity was a "garbage-picking drive" where employees helped keep our forest garbage-free along the Masoc-Ambaguio Road.

With adherence to IATF protocols despite challenges brought by the pandemic, those planted trees by RBS employees will soon grow and shelter a person from the heavy downpour of rain; shade from the heat of the sun and help the stronghold of soil each time a typhoon passes by – truly, a remarkable Journey 2020 legacy. #RBSrise21

# CONSUMER PROTECTION

The Rural Bank of Solano (N.V.) fully supports the policy of Bangko Sentral ng Pilipinas in providing an enabling environment that protects the interest of financial consumers and be responsive to their needs. It complies to the minimum standards of consumer protection in providing disclosure and transparency, protection of client information, fair treatment, effective recourse and financial education.

The bank is committed to provide fast, efficient and reliable services to continuously strive towards the attainment of best practices in its service delivery. The Customer Care Center has the duty to provide personalized service to customers. They attend to customer's need at the most convenient time and immediately attend to all clients as well as guests and promptly refer them to appropriate officers. They see to it that complimentary customer service is always available.

Bank personnel are always available during banking hours. Communication lines are always open to encourage relationship with customers. The bank also welcomes customer's suggestions, complaints and feedbacks which the bank consider in improving its products and services. However, due to the outbreak of COVID 19, the board has approved several action plans to ensure that the bank nevertheless continue to provide basic banking service while ensuring the safety of personnel. Furthermore, to ensure safe delivery of credit to farmers and fisher folks amidst this abnormal times, the Board has approved the Loan Ranger Guidelines to ensure expeditious and safe manner of service delivery.

The bank provides express lanes and priority service for the elderly, pregnant women and persons with disability to give full support to the improvement of their well-being and their full participation in the society and to encourage them to contribute to nation building. The signage of express lane is prominently displayed in the transaction counters of the head office and in all banking units. The bank has also installed and incorporated in its building and other banking offices ramp and railings to support in enhancing the mobility of disabled persons for them to access banking services.

Bank products and services offered to customers contain necessary information to meet the full disclosure requirements of the law. The terms and conditions that apply to the product or service are presented in a manner that facilitates consumer's comprehension. The bank provides adequate time for the customers to review the terms and conditions and to ask questions prior to the execution of transactions or contracts. The bank provides proof of transaction immediately after the transaction has been completed.

Advertising and promotional materials of the bank are easily readable and understandable by the general public.

The bank ensures that customers are treated fairly, honestly and professionally and allows the customer to choose from a range of available products and services that can meet their needs.

The bank has a Code of Conduct that is applicable to all staff that spells out organizational values and standards of professional conduct that uphold protection of customers. The bank ensures that recruitment and training policies are aligned around fair and responsible treatment of customers. It ensures that staff who interact directly with customers received adequate training suitable for the complexity of the products or services the bank sells.

During the year, all customer requests and complaints were resolved and investigated within the timeframe listed in the policy. Incident reports were duly accomplished for the record and for speedy resolutions. Copies of complaints/requests including supporting documents thereto shall be maintained within a period of two (2) years from date of resolution.

All customer records containing personal information that is in possession of the bank are used only for the purpose directly related to the bank's business. The bank has appropriate systems in place to protect the confidentiality and security of customer's personal data against any threat to the security or integrity of the information and against unauthorized access.

### **Role and Responsibility of the Board and Senior Management**

The Board and Senior Management are responsible for the development of consumer protection strategy and the establishment of an effective oversight over the bank's consumer protection programs. The Board is primarily responsible for approving and overseeing the implementation of the bank's consumer protection policies as well as the mechanism to ensure compliance with policies while senior management is responsible for the implementation of the consumer protection policies approved by the Board.

### **Consumer Protection Risk Management System**

The CPRMS of the bank comprises of identifying, assessing, measuring, monitoring and controlling consumer protection risk inherent to the bank operation. Managing risk effectively is critical and has become essential as new technologies, product innovation and the size of financial transactions have changed the nature of financial service markets. It is always important to have an adequate risk management as an appropriate oversight function of the board.

#### **1. Board and Senior Management Oversight**

The Board and Senior Management shall periodically review the effectiveness of the bank's consumer protection risk management system and ensures that weaknesses are addressed and corrective actions are taken in a timely manner.

#### **2. Compliance Program**

The Consumer Protection Compliance Program is an essential component of the Consumer Protection Risk Management System (CPRMS). The purpose of this program is to prevent breaches of the bank's legal obligation from occurring. To ensure that the bank is achieving efficient and superior customer service, compliance must be delicately and diligently managed. The Compliance Officer shall be responsible for the periodic and continuous monitoring and testing of consumer protection laws, rules, and regulations including the need to appropriately assess risk management.

#### **3. Policies and Procedures**

The bank's policies and procedures on consumer protection were prepared to promote and protect the rights and interests of consumers and to address conflicts that are inimical to the interest of the financial consumer. The board ensures that policies are reviewed periodically and kept to date as it serves as a reference for employees in their day-to-day activities.

#### **4. Internal Audit Function**

Internal audit on consumer protection practices is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rule and regulations.

In order to meet the objectives of consumer protection, a well-designed and implemented Consumer Protection Audit Program is in place in order for the board to make an assessment on the effectiveness of the implementation of said policies.

## **5. Training**

The Bank's Consumer Protection Training Program aims to provide continuing education to all relevant personnel on an annual basis specially those whose roles and responsibilities have customer interface, to acquaint them with the provisions of the law, how to market bank's product and services, know the rights that customers have and to ensure compliance. The bank ensures continuing education on consumer protection laws, rules and regulation as well as related bank policies and procedures to maintain a sound Consumer Protection Compliance Program.

### **CONSUMER ASSISTANCE MANAGEMENT SYSTEM (CAMS)**

The Bank's Consumer Protection Assistance System aims to handle consumer complaints, inquiries and request from financial consumers. The Head Consumer Assistance Officer of the bank is concurrently the Bank Cashier who is responsible in handling consumer complaints. She has the duty to monitor the consumer assistance process, identify and analyze the nature of complaints and recommend solutions and ensure immediate escalation of any significant complaint to the concerned unit of the bank. Branch Managers and BLO Heads act as the Consumer Assistance Officer in their respective units/branches. The Customer Care Center serves as a consumer assistance helpdesk or hotline.

The role of the Board and Senior Management in Consumer Assistance Management System is to approve, ensure compliance, conduct periodic review and oversee the implementation of the Consumer Assistance policies and procedures.

Monthly summary of complaint including reasons for such complaint and recommended solutions shall be submitted to Senior Management and to Bangko Sentral ng Pilipinas.

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# Corporate Information

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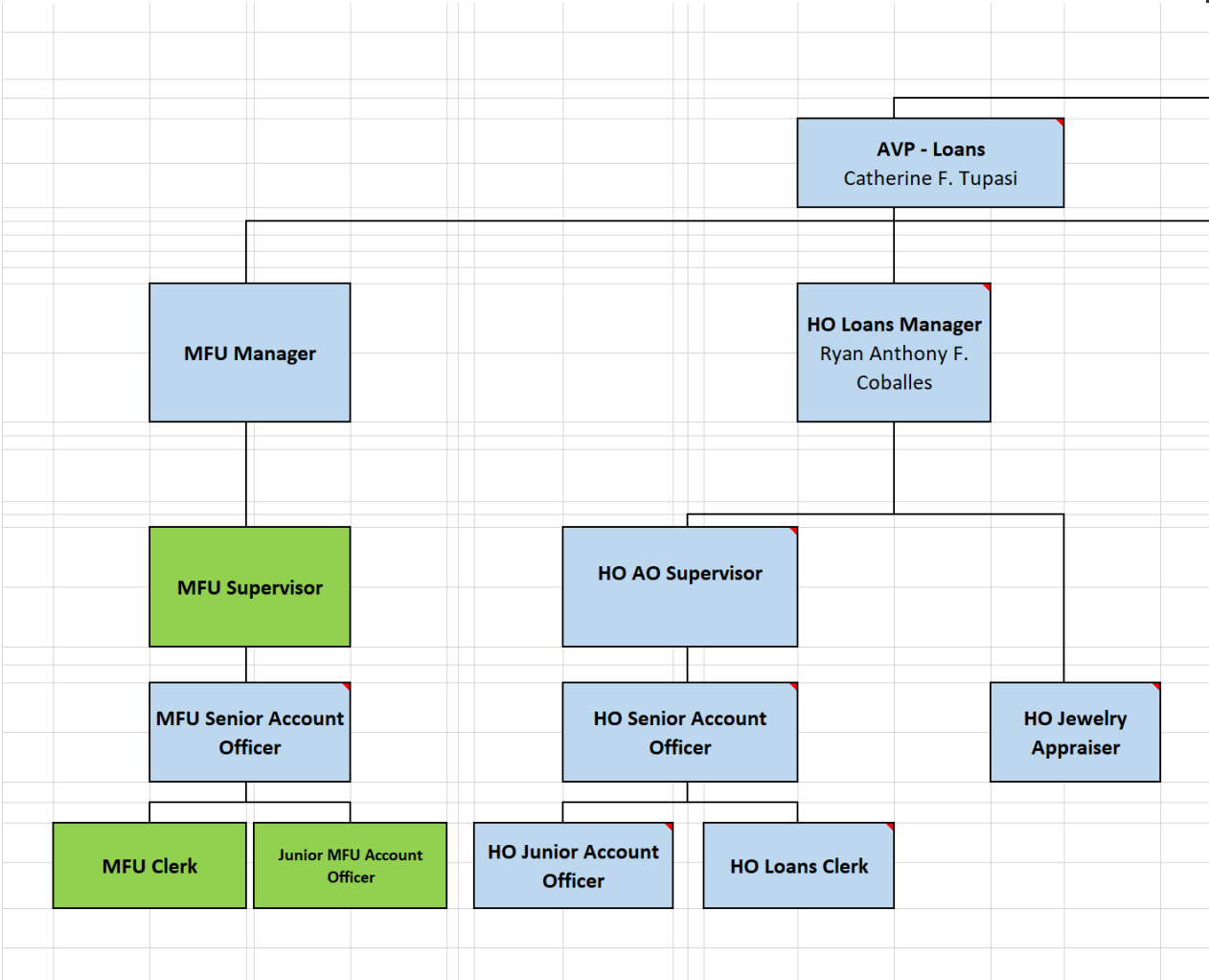




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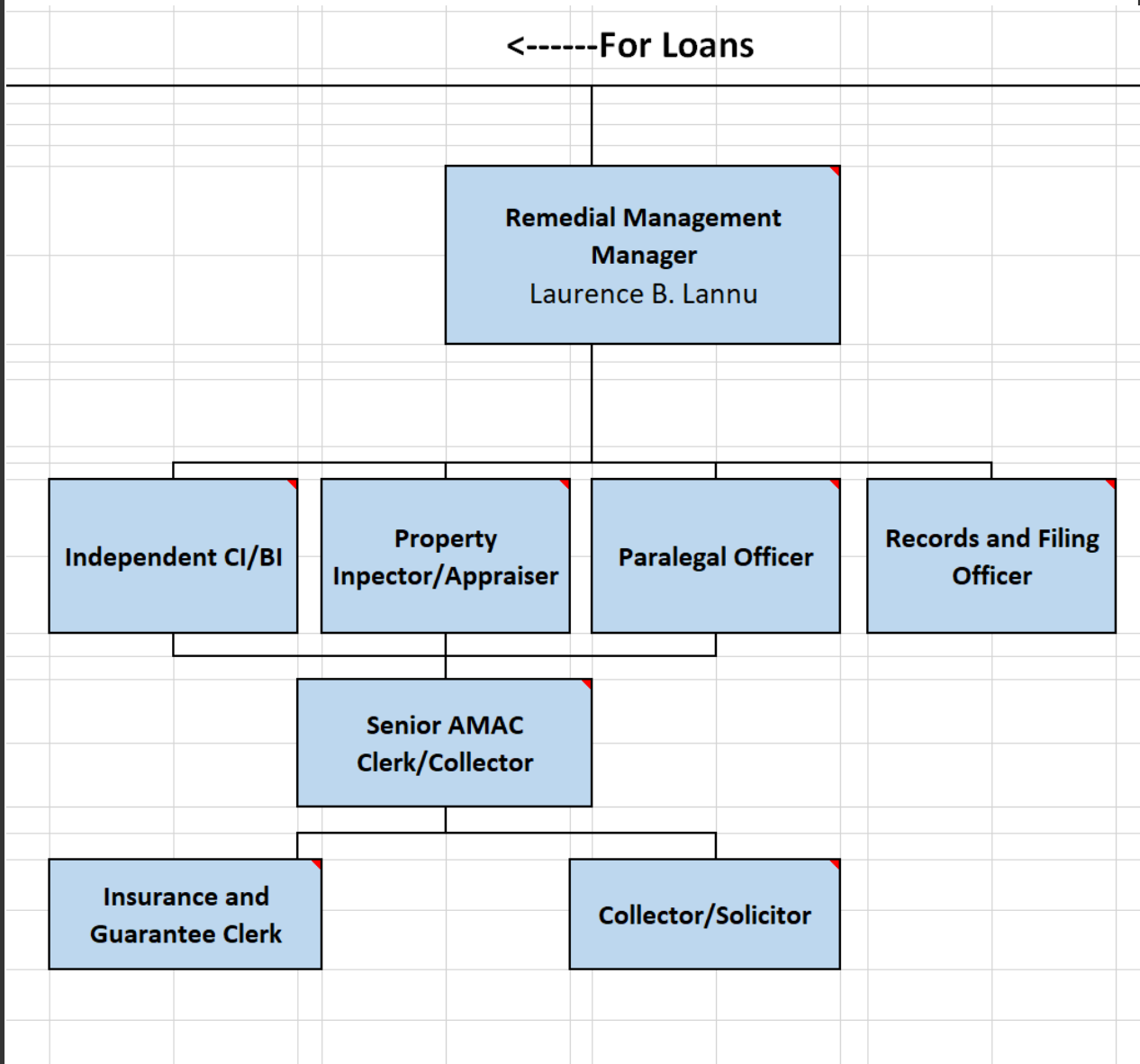
Departments under AVP-Loans:

- AVP - Loans
- MFU Manager
- HO Loans Manager



2

Departments under AVP-Loans:  
• Remedial Management Manager

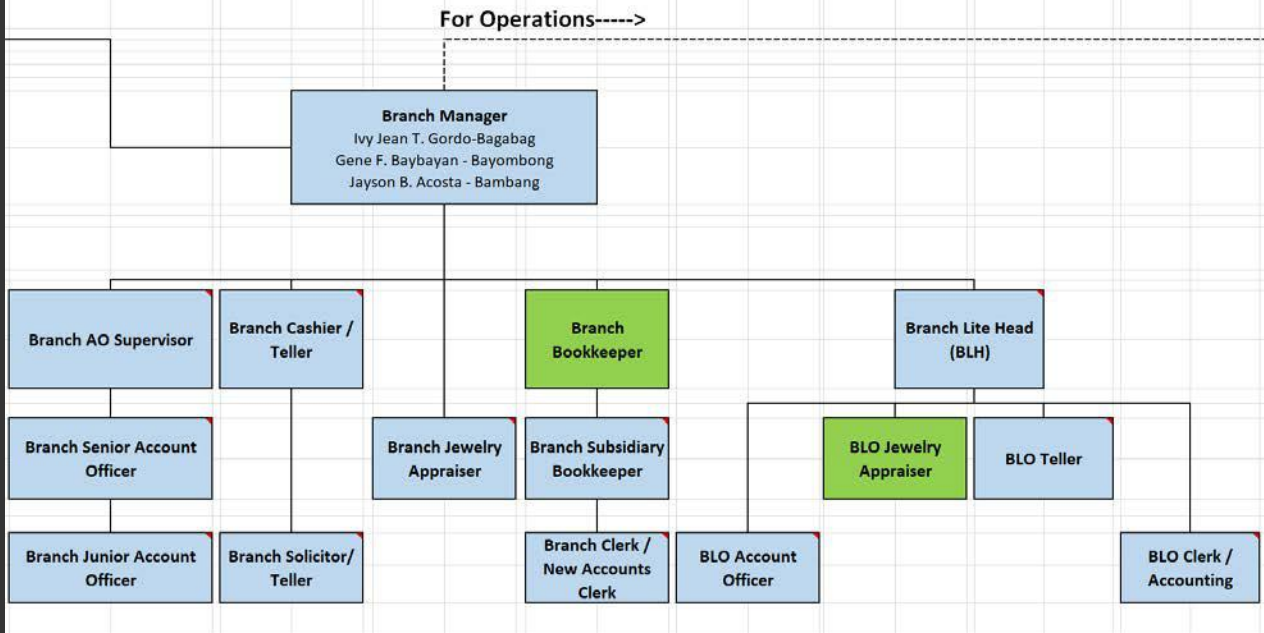




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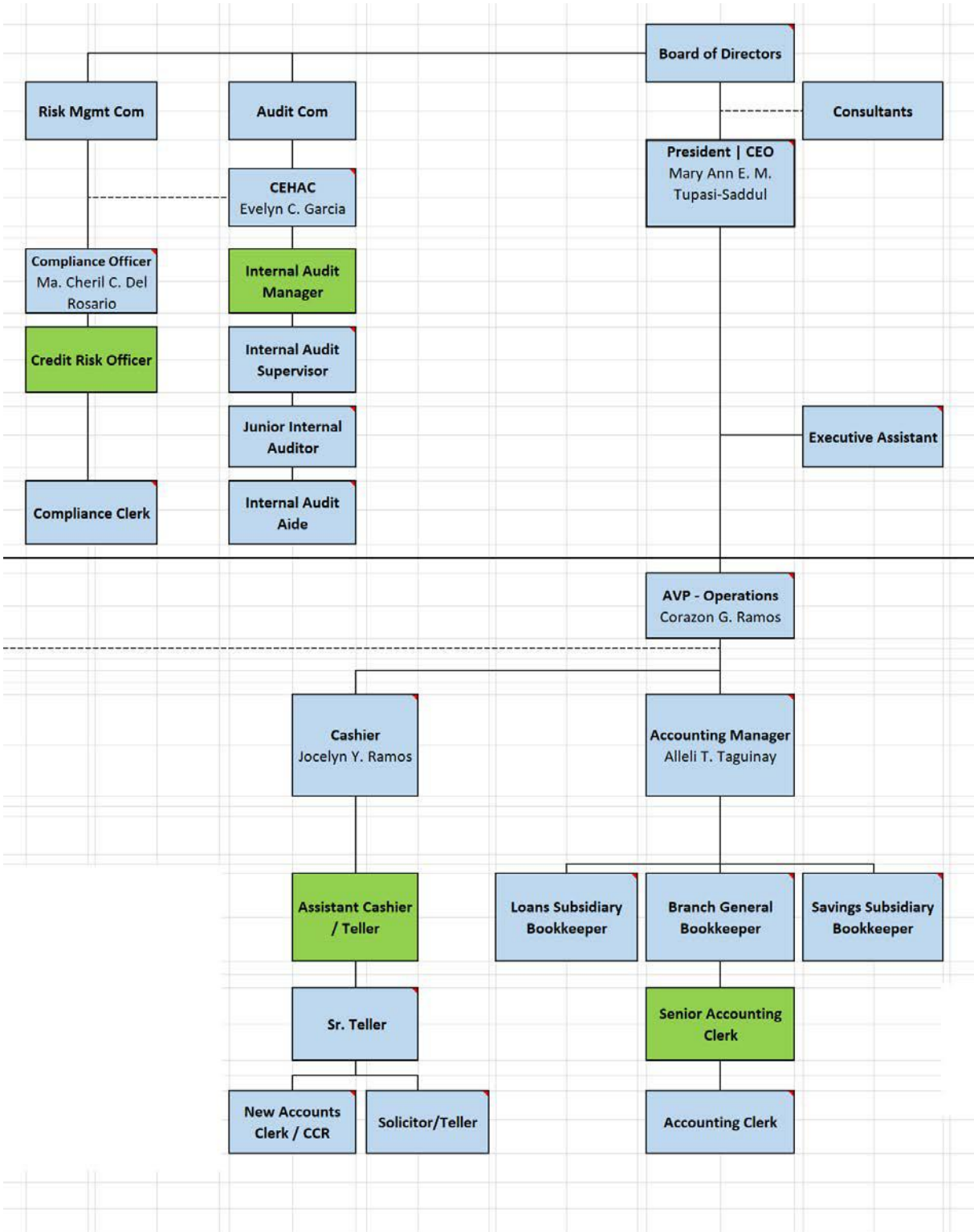
## Departments under AVP-Loans:

- Branch Manager



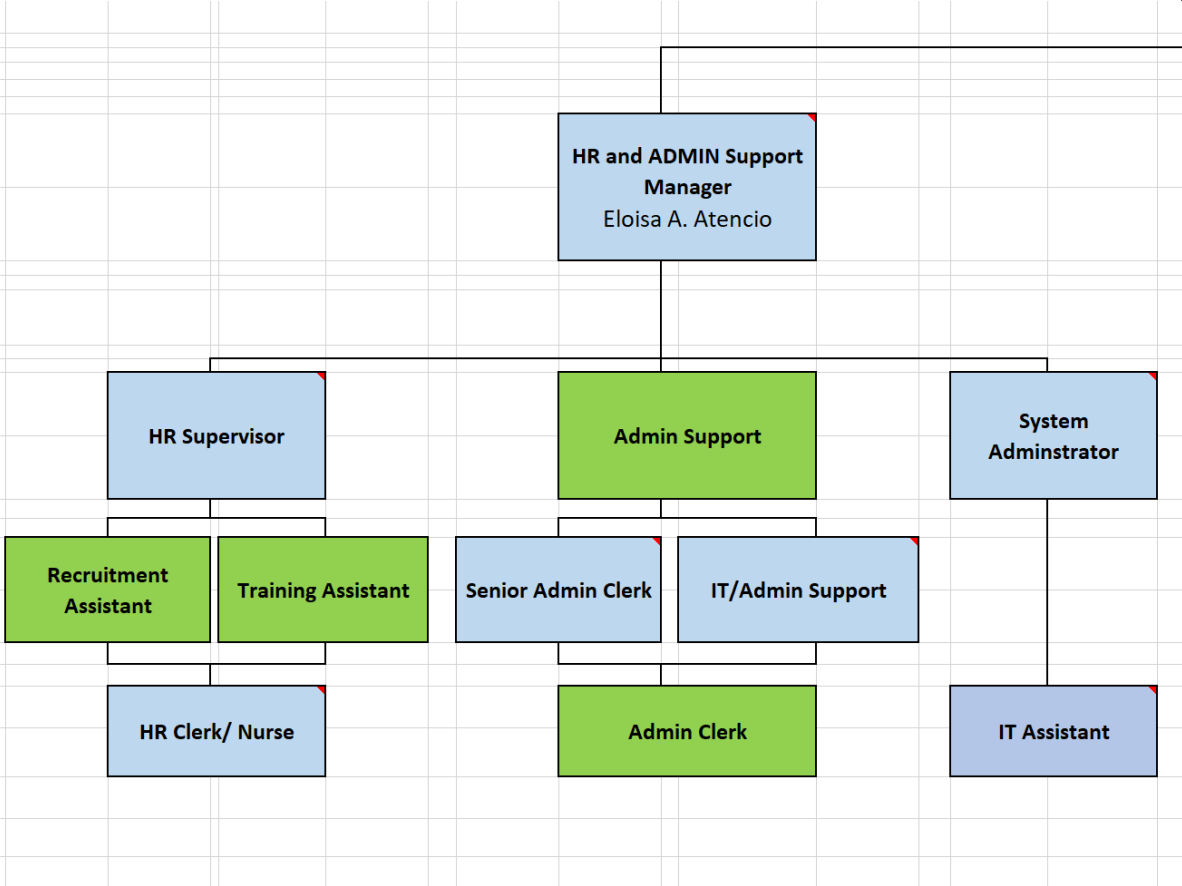
# 4

- Board of Directors
- Corporate Governance Committee
- Credit and Collection Committee
- Committee on Banking Operations
- AVP-Operations
  - Accounting Department
  - Cash Department



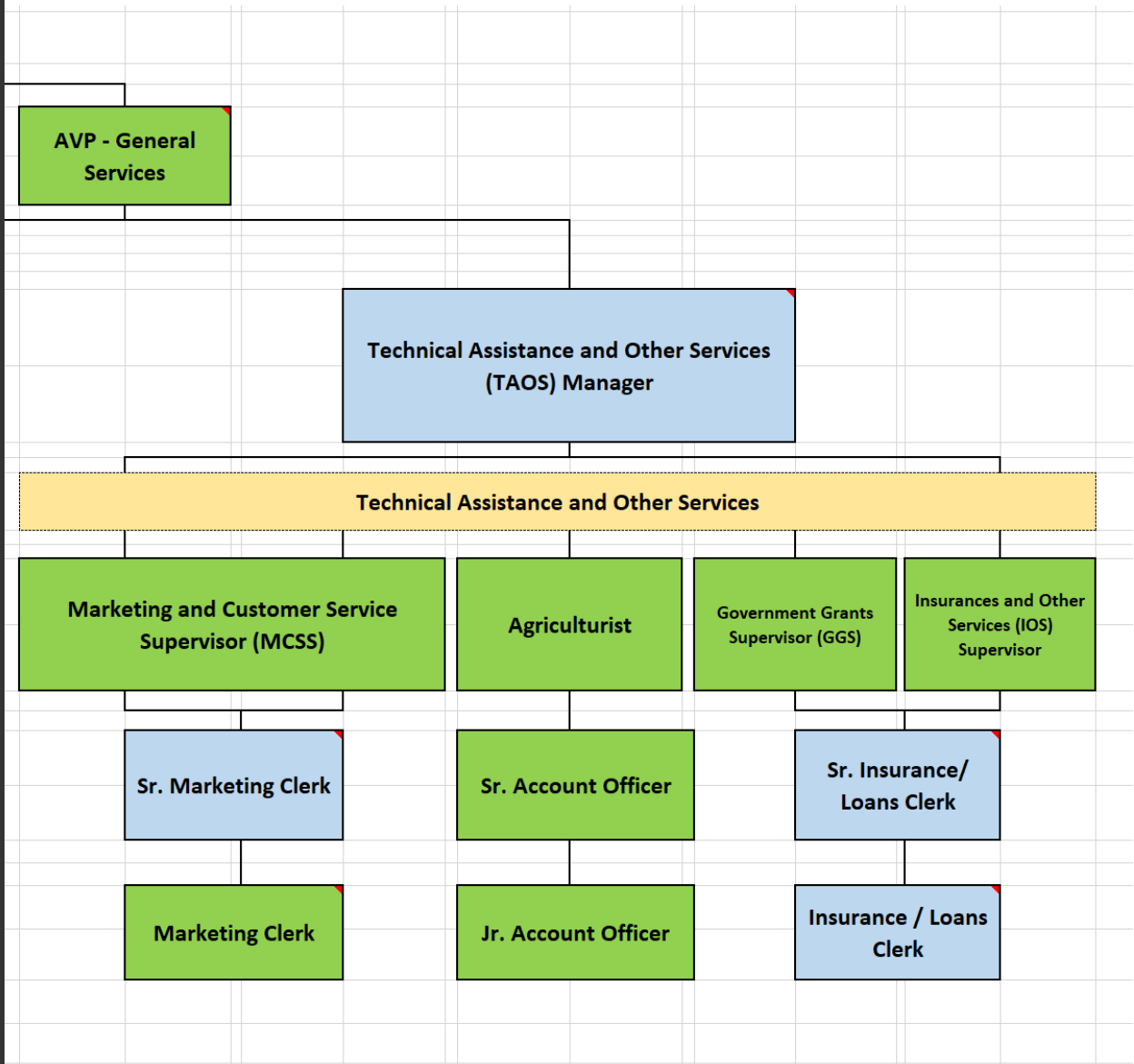
# 5

- HR and Admin Support
  - HR Department
  - Admin Department
  - IT Department



6

- Departments under the AVP-General Services:
  - Technical Assistance and Other Services (TAOS) Department



As of December 31, 2020

<u>NAME OF STOCKHOLDER</u>	<u>Subscribed Shares</u>	<u>Amount</u>	<u>Amount Paid-up</u>	<u>Ratio</u>
1 MARY ANN M. TUPASI	320,804	32,080,400.00	32,080,400.00	21.26%
2 ESTATE OF F. TUPASI	180,323	18,032,300.00	18,032,300.00	11.95%
3 RBS PROVIDENT FUND	163,813	16,381,300.00	16,381,300.00	10.86%
4 HECTOR VICENTE M.TUPASI	146,801	14,680,100.00	14,680,100.00	9.73%
5 SYLVIA T. GOMEZ	108,689	10,868,900.00	10,868,900.00	7.20%
6 GRACIA ANNE T. TIONGSON	85,753	8,575,300.00	8,575,300.00	5.68%
7 FLORANTE GIL M. TUPASI	83,666	8,366,600.00	8,366,600.00	5.55%
8 NATIVIDAD M. GRANADA	57,543	5,754,300.00	5,754,300.00	3.81%
9 ROQUE FELIPE M. GRANADA	29,905	2,990,500.00	2,990,500.00	1.98%
10 ESTATE OF F. PURUGGANAN	26,076	2,607,600.00	2,607,600.00	1.73%
11 JOSE LUIS B. SADDUL	25,148	2,514,800.00	2,514,800.00	1.67%
12 ROSALIE T.TIZON	20,978	2,097,800.00	2,097,800.00	1.39%
13 NESTOR A. TIONGSON	20,978	2,097,800.00	2,097,800.00	1.39%
14 AIDA T. MEJIA	20,747	2,074,700.00	2,074,700.00	1.38%
15 IMELDA T. SEVILLA	20,693	2,069,300.00	2,069,300.00	1.37%
16 GLORIA T. DE GUZMAN	20,488	2,048,800.00	2,048,800.00	1.36%
17 SONIA TIONGSON	19,735	1,973,500.00	1,973,500.00	1.31%
18 LYDIA M. VILLANUEVA	16,226	1,622,600.00	1,622,600.00	1.08%
19 CATHERINE F. TUPASI	14,960	1,496,000.00	1,496,000.00	0.99%
20 PACITA DUMPIT	12,815	1,281,500.00	1,281,500.00	0.85%
21 FLORAN'S MINI FARM	10,720	1,072,000.00	1,072,000.00	0.71%
22 RODOLFO HERMOSO	9,517	951,700.00	951,700.00	0.63%
23 JOSEPH G. MERCADO	8,753	875,300.00	875,300.00	0.58%
24 JOHN PAUL G. MERCADO	8,459	845,900.00	845,900.00	0.56%
25 FELICIDAD G. ANG	7,236	723,600.00	723,600.00	0.48%
26 MARIE THERESE G. SANTOS	6,264	626,400.00	626,400.00	0.42%
27 MA. LOURDES D. TUPASI	6,160	616,000.00	616,000.00	0.41%
28 TERESITA G. VENTURINA	5,989	598,900.00	598,900.00	0.40%
29 LOUIE TIONGSON	3,804	380,400.00	380,400.00	0.25%
30 LEE ANDREW T. TIONGSON	3,743	374,300.00	374,300.00	0.25%
31 KATRINA ISABEL T. GOMEZ	3,327	332,700.00	332,700.00	0.22%
32 EMILIO VICENTE T. GOMEZ	3,327	332,700.00	332,700.00	0.22%
33 MILAGROS M. DELA CRUZ	2,582	258,200.00	258,200.00	0.17%
34 ESATE OF ANICETA M. TUPASI	2,316	231,600.00	231,600.00	0.15%
35 SERGIA ARREOLA	2,229	222,900.00	222,900.00	0.15%
36 TEODORICA G. TIONGSON	1,905	190,500.00	190,500.00	0.13%
37 MIGUELITA G. TIONGSON	1,905	190,500.00	190,500.00	0.13%
38 ROMULO G. TIONGSON	1,905	190,500.00	190,500.00	0.13%
39 CLARO G. TIONGSON	1,905	190,500.00	190,500.00	0.13%
40 CATALINO G. TIONGSON JR.	1,905	190,500.00	190,500.00	0.13%
41 DAVID G. TIONGSON	1,905	190,500.00	190,500.00	0.13%
42 ESTATE OF M. SERENILLA	1,757	175,700.00	175,700.00	0.12%
43 GENOVEVA G. DELOS TRIÑOS	1,486	148,600.00	148,600.00	0.10%
44 KRISTOPHER DELOS TRIÑOS	1,486	148,600.00	148,600.00	0.10%
45 KRISTIAN DELOS TRIÑOS	1,486	148,600.00	148,600.00	0.10%
46 ESTELITA M. BALUT	1,309	130,900.00	130,900.00	0.09%
47 JOSE ANTONIO R. G. SANTOS	1,299	129,900.00	129,900.00	0.09%
48 PAOLO NICCOLO G. SANTOS	1,299	129,900.00	129,900.00	0.09%
49 GABRIELLE ANGELA G. SANTOS	1,299	129,900.00	129,900.00	0.09%
50 DIWA Q. TIONGSON	953	95,300.00	95,300.00	0.06%
51 ANGELO Q. TIONGSON	952	95,200.00	95,200.00	0.06%
52 FLORAMANTE GV C. TUPASI	940	94,000.00	94,000.00	0.06%
53 JOHN LORENZO C. TUPASI	905	90,500.00	90,500.00	0.06%
54 EDGARDO S. DE GUZMAN	342	34,200.00	34,200.00	0.02%
55 MADONNA M. A. SERENILLA	331	33,100.00	33,100.00	0.02%
56 PATRICIA ANNE T. SEVILLA	290	29,000.00	29,000.00	0.02%
57 MARK STEPHEN T. MEJIA	231	23,100.00	23,100.00	0.02%
58 ALFRED D. T. DE GUZMAN	145	14,500.00	14,500.00	0.01%
59 EDUARDO G.D. GRANADA	128	12,800.00	12,800.00	0.01%
60 JERILEE ANN G. SAMANIEGO	127	12,700.00	12,700.00	0.01%
61 ERLINDA M. PEREZ	26	2,600.00	2,600.00	0.00%
62 CESAR M. SERENILLA	13	1,300.00	1,300.00	0.00%
63 THOMAS GARINGAN	4	400.00	400.00	0.00%
	<b>1,508,805</b>	<b>150,880,500.00</b>	<b>150,880,500.00</b>	<b>100.00%</b>

THEIR STOCKHOLDINGS AND CONSOLIDATED LIST OF STOCKHOLDERS

# PRODUCTS & SERVICES

## DEPOSIT ACCOUNTS

**Regular Savings** - is an interest bearing deposit which is withdrawal by the presentation of a duly accomplished withdrawal slip and evidenced by a passbook; for individuals/sole proprietors and corporations/organizations.

**Kiddie and Teens Savings** - Savings account for children 1-19 years of age (amended by BR No. 19-102, June 21, 2019)

**Time Deposit/Ruby Term Investment** - A deposit placement where specific amount is given predetermined rate for a fixed term and evidenced by a certificate of Time deposit; term of the deposit shall range from 90 days, 180 days or 365 days with interest payable upon maturity.

**Regular Checking Account** - Initial deposit shall not be less than P5,000.00. This is a non-interest-bearing deposit without passbook.

**Combo Checking Account** - Initial deposit shall not be less than P20,000.00. This is a non-interest bearing deposit with passbook.

**Micro & Kiddie Time Deposit** - A time deposit for Microfinance clients/Kiddie savers

**Basic Deposit Account (Micro Savings)** - An interest bearing savings account with NO maintaining balance and a maximum balance of 50,000.00; to earn interest - 1,000 minimum balance.

**Gift of Time Certificate (GoTC)** - teaches the public the value of saving and at the same time raising funds to match long-term investments; it can be given as a gift for occasions like birthday, graduation, baptism, wedding, Christmas, etc.

## LOAN PRODUCTS

**Agricultural Loans** - This type of loan is granted to farmers for purposes of aiding or helping the borrower directly involved in farming by providing them with additional capital needed for their agricultural endeavor on a per crop basis.

**Commercial/Industrial Loans** - This type of loan is granted to Small/Medium Scale Enterprises for purposes of aiding or helping the borrower engaged in any commercial or industrial businesses by providing him with capital needed for his endeavor or to expand his existing businesses. (see Credit Policy Manual page 31 of 121; last amended by BR No. 19-170, October 25, 2019)

**Back to Back Support Loan** - This type of loan is being proposed for purposes of aiding or helping the borrower procure documents or visa for travel as well as other business requirements. This financing scheme can range from P 50,000.00 and up to amount required without having to exceed the SBL and subject to opening of a contra account in the form of a Deposit.

**Salary Loan/ Other Loan** - Loans extended to individual borrowers the proceeds of which are intended for personal consumption (see Credit Policy Manual page 31 of 121; last amended by BR No. 19-170, October 25, 2019)

**Jewelry Loan** - This type of loan is intended primarily to provide instant/emergency loans to borrowers by pledging their jewelries (acceptable are at least 14K gold)

**ISALABAY Microfinance Loan** - a product for Micro entrepreneurs aiming to make available an affordable credit to help them expand their present business activities and increase income. It focuses on microenterprises that generate regular daily or weekly sales and on microenterprise operators who don't have access to better credit and currently falling prey to informal and high cost moneylenders.

**TODA Loan** - provide the tricycle owners/operators financial assistance for repair and maintenance of motorcycle, renewal of franchise/Mayor's permit/registration, purchase of sidecar and others - for the continuation of its operation.

**Pangkabuhayan sa Barrio Loan** - Is intended primarily to support the rural folks (Small Crop Growers, Poultry and Livestock Raisers and Fisher folks) engaged in agricultural food commodity production by providing them financial assistance, the amount of which shall depend on their needed working capital for their farms/projects.

**Yaman sa Kaban Loan** - a loan intended to give access to the agricultural sector more particularly to tenants and other land workers/tillers who otherwise are prey to high cost lending called "Kaban". This product is also for intensifying our compliance to AGRI AGRA and our mission/vision of building lives and developing the countryside.

**Bahay Loan** - To finance clients in the construction of a house which they can call their own through housing loan (for Purchase of House and lot, townhouse and any other single dwelling unit / Purchase of lot and construction of house / Construction of house on owned lot /Purchase of residential lot / Repair, improvement or expansion of existing dwelling unit)

**Motor Vehicle Loan**- Motor Vehicle Loan is a fast, affordable and convenient way to be offered to qualified borrowers to finance their various motor vehicle needs. It is also intended to refinance existing vehicle of the owner. Existing vehicle may be used as security/collateral for certain loan purpose.

**Micro Insurance Loan** - This product is in support to the Country's Financial Inclusion Plan by promoting the acquisition of a Micro Insurance Policy thereby averting common adversities brought about by illness and death in the family; 10 months' term

**Green Energy Loan** - To promote green energy and electricity independence thru the use of solar panels. This aims to protect oneself against unpredictable increases in utility prices, enjoy cheap electricity, at the same time, protecting Mother Earth.

## OTHER SERVICES

**Paired Products** - This type of product is a loan-deposit pairing offered to address the following needs:

(a) Depositors:

- Those who have the liquidity and who are in search for best returns for their placements.
- Those who don't want to be burdened by the intricacies of processing and collection of loans, thereby using the professional service of the bank in deposit, lending and collection.
- Those who don't want to deal with direct lending to family, friends and employees.

(b) Borrower:

- Those who want to borrow at rates lower than published. This is the case where the interest on deposit may be pegged at a low rate.

### Sales of Assets Acquired

### Western Union Remittance

### POS Banking/Automated Teller Machine (DBP)

**Motor Vehicle Insurance/Fire Insurance** (in partnership with Country Bankers Non-Life Insurance Corp.)

**Micro Insurance** - In partnering with the Country Bankers Life Insurance Corporation, we are providing specific insurance, insurance-like and other similar products and services that meet the needs of the low-income sector for risk protection and relief against distress, misfortune and other contingent events.

**Saveplus (Basic Deposit with Micro Insurance)** - RBS product which is basically a whole package ready to be purchased and given away. It thereby gives the recipient an opportunity to be covered by a Micro Insurance Policy and have a savings account.

## **CORPORATE HEAD OFFICE**

Address: Maharlika Highway, Brgy. Poblacion South, Solano, Nueva Vizcaya

Landline: (02) (078) 326 - 5509

Phone Numbers: 0917-843-0035 / 09178406076

Email: support@rbsolano.com

Website: [www.rbsolano.com](http://www.rbsolano.com)

Facebook page: @rbsolano.nv

## **BAGABAG BRANCH**

Address: Maharlika Highway, Brgy. San Pedro, Bagabag, Nueva Vizcaya

Landline: (02) (078) 332 - 2192

Phone Number: 0917-843-0198

Email: bagabag@rbsolano.com

## **BAMBANG BRANCH**

Address: Maharlika Highway, Brgy. Almaguer North, Bambang, Nueva Vizcaya

Landline: (02) (078) 431 - 3401

Phone Number: 0917-626-3454

Email: bambang.rbsolano@gmail.com

## **BAYOMBONG BRANCH**

Address: Maharlika Highway, Brgy. Don Mariano Perez, Bayombong, Nueva Vizcaya

Landline: (02) (078) 321 - 2109

Phone Number: 0917-627-6446

Email: bayombong.rbsolano@gmail.com

## **BRANCH LITE UNIT - SOLANO**

Address: Gaddang St. Corner Calle Rosa, Brgy. Poblacion South, Solano, Nueva Vizcaya

Landline: (02) (078) 326 - 6970

Phone Number: 0917-112-7252

Email: solano2.rbsolano@gmail.com

## **BRANCH LITE UNIT - MADDELA**

Address: National Road, Brgy. Poblacion Norte, Maddela, Quirino

Phone Number: 0917 - 6247 - 882

Email: maddela.rbsolano@gmail.com

# **LIST OF BANKING UNITS**



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# Audited Financial Statements

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**RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.**  
**SOLANO, NUEVA VIZCAYA - PHILIPPINES**

**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 and 2019**



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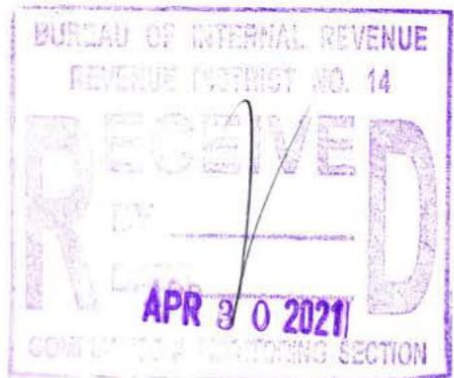
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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR ANNUAL INCOME TAX RETURN**

The Management of **RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2020. Management is likewise responsible for all information and representations contained in financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

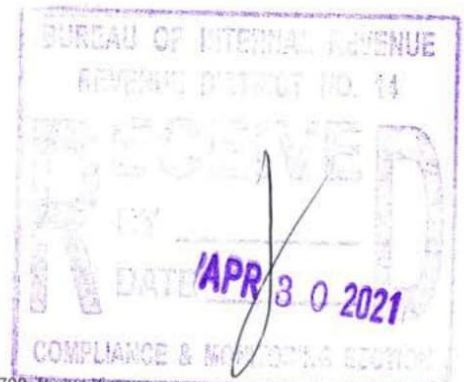
In this regard, the Management affirms that the attached audited financial statements for the years ended December 31, 2020 and 2019, and the accompanying Annual Income Tax Return are in accordance with the books and records of **RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.**, complete and correct in all material respects. Management likewise affirms that:

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

  
**ATTY. MARY ANN E. M. TUPASI**  
President/Chairman of the Board

  
**LOUIE G. TIONGSON**  
Treasurer

Signed this 19<sup>th</sup> day of March, 2021.





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

The Management of **RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.** (the "Bank"), is responsible for the preparation and fair presentation of financial statements including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

**Alas, Oplas & Co., CPAs**, the independent auditor appointed by the stockholders for the years ended December 31, 2020 and 2019, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

**ATTY. MARY ANN E. M. TUPASI**  
President/Chairman of the Board

**LOUIE G. TIONGSON**  
Treasurer

Signed this 19<sup>th</sup> day of March, 2021.



# Alas Oplas & Co., CPAs

Alas Oplas & Co., CPAs  
Makati Head Office  
10/F Philippine AXA Life Centre  
1286 Sen. Gil Puyat Avenue  
Makati City, Philippines 1200  
Phone: (632) 7759-5090 / 92  
Email: aocheadoffice@alasoascpas.com  
www.alasoascpas.com

Independent Member of  
**BKR**

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

To the Stockholders and the Board of Directors  
**RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.**  
Maharlika Highway, Poblacion South,  
Solano, Nueva Vizcaya

We have examined the financial statements of **RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.** for the years ended December 31, 2020 and 2019, on which we have rendered the attached report dated March 19, 2021.

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

### ALAS, OPLAS & CO., CPAs

BOA Registration No. 0190, valid from September 4, 2019 to October 30, 2022  
SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022  
TIN 002-013-406-000  
BIR A.N. 08-001026-000-2021, issued on January 11, 2021; effective until January 10, 2024

By:



**RYAN A. SABUG**

Partner

CPA License No. 0111183

SEC A.N. (Individual) 111183-SEC, issued on February 4, 2021; effective until February 3, 2026

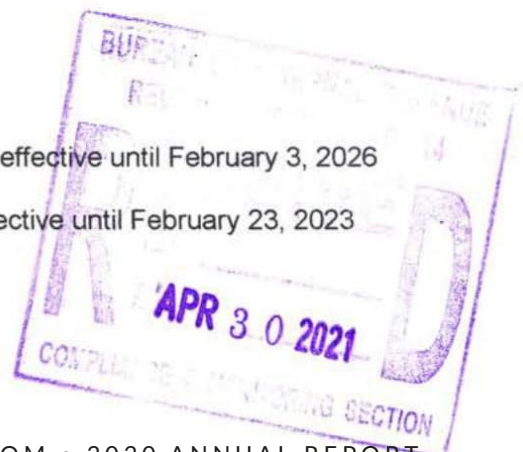
TIN 232-158-286-000

BIR A.N. 08-006531-001-2020, issued on February 24, 2020; effective until February 23, 2023

PTR No. 8533770, issued on January 4, 2021, Makati City

March 19, 2021

Makati City, Philippines



# Alas Oplas & Co., CPAs

## INDEPENDENT AUDITORS' REPORT

Alas Oplas & Co., CPAs  
Makati Head Office  
10/F Philippine AXA Life Centre  
1286 Sen. Gil Puyat Avenue  
Makati City, Philippines 1200  
Phone: (632) 7759-5090 / 92  
Email: aocheadoffice@alasoascpas.com  
www.alasoascpas.com

Independent Member of  
**BKR International**

To the Stockholders and the Board of Directors  
**RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.**  
Maharlika Highway, Poblacion South,  
Solano, Nueva Vizcaya

### Opinion

We have audited the financial statements of **RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.** (the "Bank") which comprise the statements of financial position as of December 31, 2020 and 2019, and the related 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.

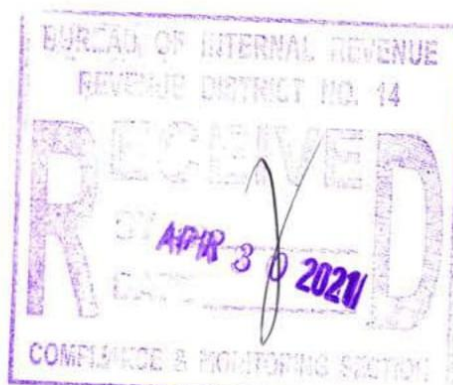
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

### Basis for Opinion

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

### Other Matter

We draw attention to Note 5 to financial statement which describes the basis used by the Bank in setting up allowance for credit losses. As stated in Bangko Sentral ng Pilipinas (BSP) Circular 1011, BSP-supervised financial institutions with credit operations that may not economically justify adoption of simple loan loss estimation methodology that is compliant with PFRS 9, shall, at a minimum, be subject to regulatory guidelines in setting up allowance for credit losses prescribed under Appendix 15 of the Manual of Regulations for Banks. Following the guidance of Circular 1011 and Appendix 100 of the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas in adopting PFRS 9 impairment requirements, the Bank assessed the ECL in accordance with the said standard and based on management judgement it was determined that the amount recognized as allowance based on Appendix 15 is reasonable amount. Our opinion is not modified in respect of this matter.



# Alas Oplas & Co., CPAs

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

Management is responsible for the preparation of the financial statements in accordance with Philippine Financial Reporting Standards, as modified by the application of the financial reporting reliefs issued by the BSP and approved by SEC, as described in Note 2 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

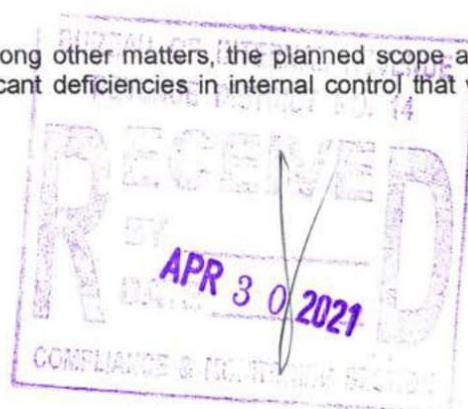
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in accordance with PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and approved by SEC, as described in Note 2 to the financial statements.

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.





# Alas Oplas & Co., CPAs

## Report on Other Legal and Regulatory Requirements

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

### ALAS, OPLAS & CO., CPAs

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

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

TIN 002-013-406-000

BIR A.N. 08-001026-000-2021, issued on January 11, 2021; effective until January 10, 2024

By:



**RYAN A. SABUG**

Partner

CPA License No. 0111183

SEC A.N. (Individual) 111183-SEC, issued on February 4, 2021; effective until February 3, 2026

TIN 232-158-286-000

BIR A.N. 08-006531-001-2020, issued on February 24, 2020; effective until February 23, 2023

PTR No. 8533770, issued on January 4, 2021, Makati City

March 19, 2021

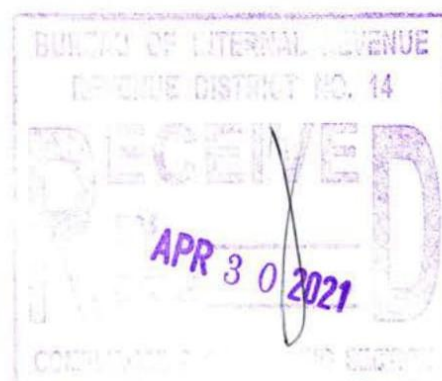
Makati City, Philippines



**RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2020 AND 2019**  
**In Philippine Peso**

	Notes	2020	2019
<b>ASSETS</b>			
Cash and other cash items	8	2,748,772	1,367,365
Due from Bangko Sentral ng Pilipinas	8	6,096,184	11,226,175
Due from other banks	8	130,663,159	96,579,447
Investment securities at amortized cost	9	24,000,000	24,000,000
Loans and other receivables – net	10	510,070,977	447,315,189
Bank premises, furniture, fixtures and equipment – net	11	44,865,273	46,166,790
Investment properties – net	12	15,854,611	13,459,412
Deferred tax assets	26	8,908,106	9,032,124
Other assets	13	1,069,260	1,098,388
<b>TOTAL ASSETS</b>		<b>744,276,342</b>	<b>650,244,890</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposit liabilities	14	424,305,934	356,116,047
Accrued and other liabilities	17	52,179,039	52,193,802
Income tax payable		4,114,472	6,052,177
Total Liabilities		480,599,445	414,362,026
<b>EQUITY</b>			
Capital stock	19	150,880,500	137,166,000
Surplus reserve	20	157,867	157,867
Surplus free	20	112,638,530	98,558,997
Total Equity		263,676,897	235,882,864
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>744,276,342</b>	<b>650,244,890</b>

See Notes to Financial Statements.



**RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**  
**In Philippine Peso**

	Notes	2020	2019
<b>INTEREST INCOME</b>			
Loans and other receivables	10	<b>67,563,860</b>	73,620,694
Investment securities at amortized cost	9	<b>859,211</b>	863,630
Due from other banks	8	<b>505,070</b>	659,995
		<b>68,928,141</b>	75,144,319
<b>INTEREST EXPENSE</b>			
Deposit liabilities	14	<b>(5,686,026)</b>	(4,291,991)
Bills payable	15	<b>—</b>	(223,292)
		<b>(5,686,026)</b>	(4,515,283)
<b>NET INTEREST INCOME</b>		<b>63,242,115</b>	70,629,036
<b>OTHER INCOME</b>	22	<b>25,739,411</b>	37,695,774
<b>TOTAL OPERATING INCOME</b>		<b>88,981,526</b>	108,324,810
<b>OTHER EXPENSES</b>	23	<b>(44,671,516)</b>	(49,400,857)
<b>NET OPERATING INCOME BEFORE PROVISIONS</b>		<b>44,310,010</b>	58,923,953
<b>PROVISION FOR CREDIT LOSSES</b>	24	<b>(5,018,897)</b>	(11,514,134)
<b>PROFIT BEFORE TAX</b>		<b>39,291,113</b>	47,409,819
<b>INCOME TAX EXPENSE</b>	26	<b>(11,494,980)</b>	(13,989,487)
<b>PROFIT</b>		<b>27,796,133</b>	33,420,332
<b>OTHER COMPREHENSIVE INCOME</b>		<b>—</b>	—
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>27,796,133</b>	33,420,332

See Notes to Financial Statements.



**RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**  
**In Philippine Peso**

	Capital Stock (Note 19)	Surplus Reserve (Note 20)	Surplus Free (Note 20)	Total
<b>Balance at December 31, 2018</b>	<b>99,698,200</b>	<b>157,867</b>	<b>90,078,425</b>	<b>189,934,492</b>
Transaction with the owners				
Issuance of share capital	25,000,600	-	-	25,000,600
Stock dividend declared (Note 19)	-	-	(12,469,880)	(12,469,880)
Stock dividend distributed (Note 19)	12,467,200	-	-	12,467,200
Cash dividends declared (Note 21)	-	-	(12,469,880)	(12,469,880)
Total transactions with the owners	37,467,800	-	(24,939,760)	12,528,040
Comprehensive income				
Profit	-	-	33,420,332	33,420,332
<b>Balance at December 31, 2019</b>	<b>137,166,000</b>	<b>157,867</b>	<b>98,558,997</b>	<b>235,882,864</b>
Transactions with the owners				
Stock dividend declared (Note 19)	-	-	(13,716,600)	(13,716,600)
Stock dividend distributed (Note 19)	13,714,500	-	-	13,714,500
Total transactions with the owners	13,714,500	-	(13,716,600)	(2,100)
Comprehensive income				
Profit	-	-	27,796,133	27,796,133
<b>Balance at December 31, 2020</b>	<b>150,880,500</b>	<b>157,867</b>	<b>112,638,530</b>	<b>263,676,897</b>

See Notes to Financial Statements.



RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
 In Philippine Peso

	Notes	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		39,291,113	47,409,819
Adjustments for:			
Interest income	8,9	(1,364,281)	(1,523,625)
Gain on sale of bank premises, furniture, fixtures and equipment	11	—	(4,486)
Gain on sale of investment properties	12,22	(6,934,282)	(11,880,231)
Interest expense on lease liability	17	100,966	82,143
Depreciation	23,25	5,353,852	4,350,775
Loss on reversal of sale of investment properties	23	—	173,000
Provision for credit losses	24	5,018,897	11,514,134
Operating income before working capital changes		41,466,265	50,121,529
Increase in operating assets:			
Loans and other receivables		(70,959,441)	(57,197,817)
Other assets		(29,626)	(410,989)
Increase in operating liabilities:			
Deposit liabilities		68,189,886	25,034,092
Accrued expenses and other liabilities		12,622	43,224,099
Cash generated from operations		38,679,706	60,770,914
Income tax paid		(13,308,667)	(15,763,615)
Interest received		1,150,214	1,323,321
Net cash generated from operating activities		26,521,253	46,330,620
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from redemption of investment securities at amortized cost	9	—	1,476,320
Proceeds from sale of bank premises, furniture fixtures and equipment	11	—	4,516
Acquisition of bank premises, furniture fixtures and equipment	11	(3,723,286)	(11,751,720)
Proceeds from disposal of investment properties	12	7,667,611	11,060,595
Net cash generated from investing activities		3,944,325	789,711
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from bills payable	15	—	14,300,000
Payments of bills payable	15	—	(27,111,000)
Payment of lease liability – principal and interest	17	(126,000)	(106,500)
Dividends paid	21	(4,450)	(12,833,446)
Net cash used in financing activities		(130,450)	(25,750,946)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>30,335,128</b>	<b>21,369,385</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>			
Cash and other cash items		1,367,365	2,738,851
Due from Bangko Sentral ng Pilipinas		11,226,175	10,847,363
Due from other banks		96,579,447	74,217,388
		109,172,987	87,803,602
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>			
Cash and other cash items	8	2,748,772	1,367,365
Due from Bangko Sentral ng Pilipinas		6,096,184	11,226,175
Due from other banks		130,663,159	96,579,447
		139,508,115	109,172,987

See Notes to Financial Statements.



**1. CORPORATE INFORMATION**

**RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.** (the "Bank") was incorporated and registered with the Philippine and Securities and Exchange Commission (SEC) on December 11, 1969 with Registration No. 39997. On February 27, 1970, the Bangko Sentral ng Pilipinas (BSP) granted the Bank its Certificate of Authority to operate as a financial institution.

The Bank was formed to carry and engage in the business of extending rural credits to small farmers and tenants and to deserving rural industries or enterprises, to have and exercise all authorities and powers, to do and perform all acts, to transact all business which may legally be had or done by rural banks organized under and in accordance with the Rural Banks' Act as it exists or may be amended; and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

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

Based on Section 11 of Republic Act No. 11232 – An Act Providing for the Revised Corporation Code of the Philippines, a corporation shall have perpetual existence unless its articles of incorporation provides otherwise.

The Bank's registered office address is located at RBS Corporate Head Office, Maharlika Highway, Poblacion South, Solano, Nueva Vizcaya. The Bank is domiciled in the Philippines.

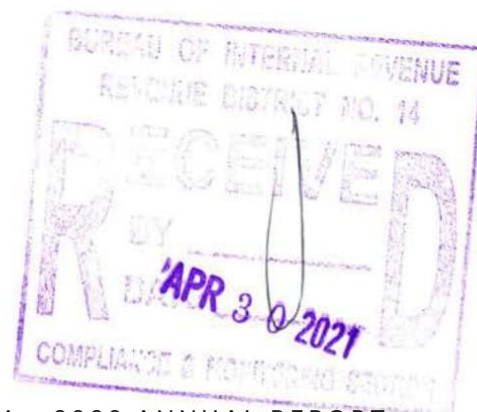
The Bank currently has three (3) branches and two (2) Branch Lites located as follows:

Branches	Address	Commencement Date
Bagabag Branch	San Pedro, Bagabag, N. Vizcaya	August 25, 1995
Bambang Branch - <i>formerly MBO Bambang</i>	Bernabe Valley Homes Subd, Bambang, N. Vizcaya	March 20, 2017
	Banggot, Bambang, N. Vizcaya	September 29, 2011
Bayombong Branch - <i>formerly MBO Bayombong</i>	Don Tomas Maddela, Bayombong, N. Vizcaya	July 23, 2018
	Don Tomas Maddela, Bayombong, N. Vizcaya	September 29, 2011
MBO Solano	Poblacion South, Solano, N. Vizcaya	March 15, 2012
BLU Maddela	National Highway, Poblacion Norte, Maddela, Quirino	June 27, 2019

On July 13, 2017, the Bangko Sentral ng Pilipinas approved the conversion of the Micro Banking Office located in Maharlika Road, Bambang, Nueva Vizcaya to a regular branch.

On July 23, 2018, the Bangko Sentral ng Pilipinas approved the conversion of the Micro Banking Office located in Don Tomas Maddela, Bayombong, Nueva Vizcaya to a regular branch.

On March 15, 2018, the Bangko Sentral ng Pilipinas approved the establishment of branch-lite unit in Maddela, Quirino.



## 2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

### 2.01 Statement of Compliance

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

PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC. All provisions and requirements of PFRSs are applied by the Bank in preparation of its financial statements except for the requirements of the following standard:

PFRS 9 Financial Instruments – For impairment, the Bank adopted Appendix 15 of Manual of Regulations for Banks (MORB) that provides arbitrary rates for provisioning based on number of days past due, collaterals, and type of loan, which are inconsistent with the requirements of the new standard.

### 2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI).

### 2.03 Presentation and Functional Currency

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

### 2.04 Use of Judgments and Estimates

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

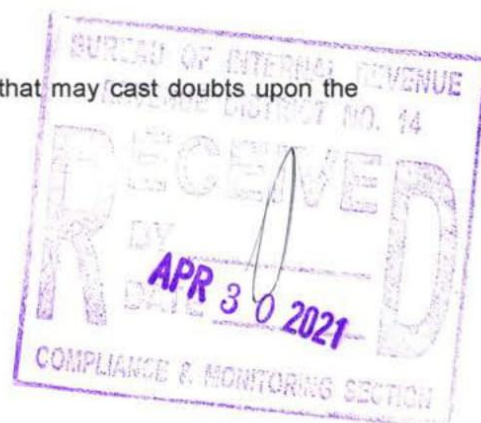
Judgments are made by management in the development, selection and disclosure of the Bank’s significant accounting policies and estimates and the application of these policies and estimates.

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

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

### 2.05 Going Concern Assumption

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



### 3. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

#### 3.01 New and Amended Standards, and Philippine Interpretation Adopted

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

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

##### 3.01.01 Amendments Adopted by the Bank

##### Amendment to PFRS 3, Definition of a Business

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. These amendments will apply on future business combinations of the Bank.

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

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgment.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

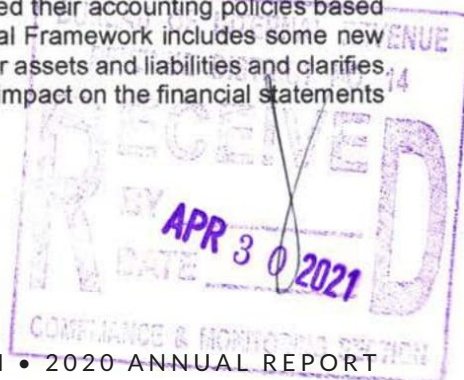
These amendments are not expected to have a significant impact on the Bank.

##### Amendments to PFRS 7, PFRS 9 and PAS 39 Interest Rate Benchmark Reform

The amendments to PFRS 9 and PAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

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

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the International Accounting Standards Board in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.





### Amendments to PFRS 16 Covid-19 Related Rent Concessions

The amendments provide relief to lessees from applying the standard's guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under the standard, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. These amendments had no impact on the financial statements of the Bank.

### **3.02 Standards Issued but not yet Effective**

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

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

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

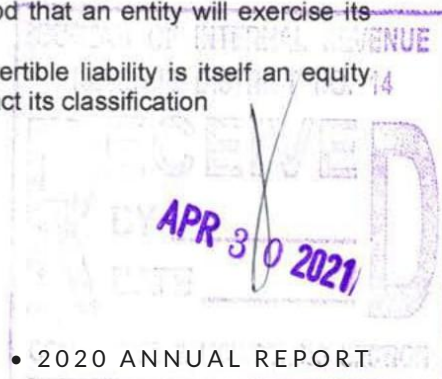
The Insurance Commission, in coordination with Philippine Insurers and Reinsurers Association, is currently reviewing the impact of PFRS 17 across the entire industry and has established a project team to manage the implementation approach.

The Bank does not expect any effect on its financial statements upon effectivity.

### Amendments to PAS 1: Classification of Liabilities as Current or Non-current

In January 2020, amendments were issued to paragraphs 69 to 76 of the Standard to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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



The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Bank does not expect any effect on its financial statements upon adoption.

Reference to the Conceptual Framework – Amendments to PFRS 3

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

At the same time, the existing guidance in PFRS 3 for contingent assets that would not be affected was clarified by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to PAS 16

In May 2020, *Property, Plant and Equipment – Proceeds before Intended Use* was issued, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Bank.

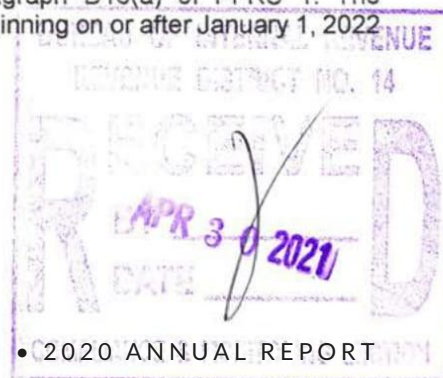
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to PAS 37

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

PFRS 1 First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1. The amendment is effective for annual reporting periods beginning on or after January 1, 2022, with earlier adoption permitted.



*PFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*

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

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

*PAS 41 Agriculture – Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Bank.

*Deferred effectivity*

Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* - The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

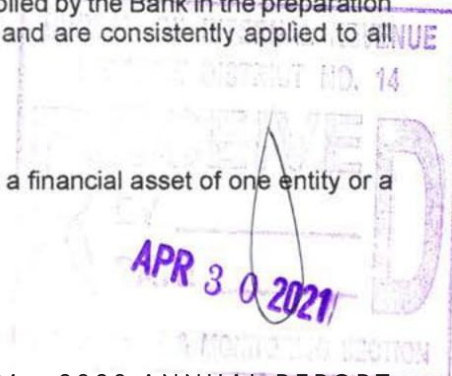
The Bank does not expect any effect on its financial statements upon adoption.

**4. SIGNIFICANT ACCOUNTING POLICIES**

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

**4.01 Financial Instruments**

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



Date of Recognition

The Bank recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

4.01.01 Financial Assets

**Initial Recognition and Measurement**

Financial assets are recognized initially at fair value, which is the fair value of the consideration given. The initial measurement of financial assets, except for those designated at FVPL, includes transaction cost.

**Classification**

The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at amortized cost, (b) financial assets at FVOCI, and (c) financial assets at FVPL. The classification of a financial asset at initial recognition largely depends on the Bank's business model for managing the asset and its contractual cash flow characteristics.

Financial Assets at Amortized Cost

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

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

As of December 31, 2020, the Bank's cash and cash equivalents, due from BSP, due from other banks, investment securities and loans and receivables are classified under this category as disclosed in Notes 8, 9 and 10.

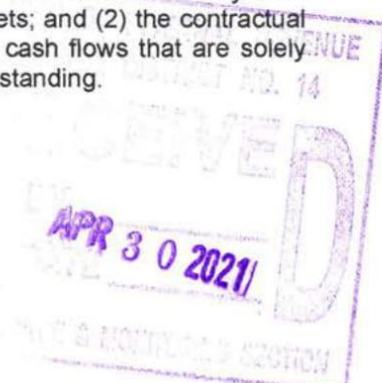
Cash and cash equivalents include cash on hand, cash in bank, and short-term placements. These are highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial assets at FVOCI

Financial assets at FVOCI include debt and equity securities.

Debt Instruments at FVOCI

For debt instruments that are not designated at FVPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met: (1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (2) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.



After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment gains or losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

As of December 31, 2020, the Bank does not have debt instruments at FVOCI.

#### *Equity Instruments at FVOCI*

For equity instruments that are not held for trading, the Bank may irrevocably designate, at initial recognition, a financial asset to be measured at FVOCI when it meets the definition of equity instrument under PAS 32, *Financial Instruments: Presentation*. This option is available and made on an instrument by instrument basis.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods, instead, these are transferred directly to retained earnings. Equity securities at FVOCI are not subject to impairment assessment.

As of December 31, 2020, the Bank does not have equity securities at FVOCI.

#### Financial Assets at FVPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

This category includes debt instruments whose cash flows, based on the assessment at initial recognition of the assets, are not "solely for payment of principal and interest", and which are not held within a business model whose objective is either to collect contractual cash flows or to both collect contractual cash flows and sell. The Bank may, at initial recognition, designate a debt instrument meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets.

This category also includes equity instruments which the Bank had not irrevocably elected to classify at FVOCI at initial recognition.

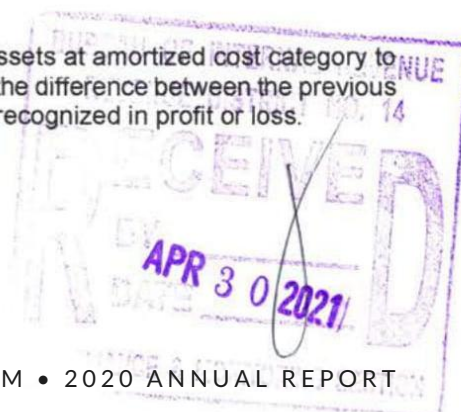
After initial recognition, financial assets at FVPL are subsequently measured at fair value. Gains or losses arising from the fair valuation of financial assets at FVPL are recognized in profit or loss.

As of December 31, 2020, the Bank does not have equity securities at FVPL.

#### **Reclassification**

The Bank reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.



For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss as a reclassification adjustment at the re-classification date.

#### **Impairment**

At the end of the reporting period, the Bank assess its expected credit losses (ECL). The Bank recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. The Bank being categorized as having simple and non-complex operations adopted the basic guidelines in setting up of allowance for credit losses provided for in Appendix 15 of the Manual of Regulations for Banks in recognizing expected credit losses (ECL) for its loans and other receivables. The Bank look beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses.

The Bank considers a financial asset in default when contractual payments, i.e. last amortization paid are more than 30 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Bank's ECL measurement, as determined by the Management, is disclosed in Note 6.01.05

#### **Derecognition**

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

#### 4.01.02 Financial Liabilities

##### **Initial Recognition and Measurement**

Financial liabilities are recognized initially at fair value, which is the fair value of the consideration received. In case of financial liabilities at amortized costs, the initial measurement is net of any directly attributable transaction costs.

##### **Classification**

The Bank classifies its financial liabilities at initial recognition as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at December 31, 2020 and 2019, the Bank does not have liabilities at FVPL.

##### Financial Liabilities at Amortized Cost

Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.

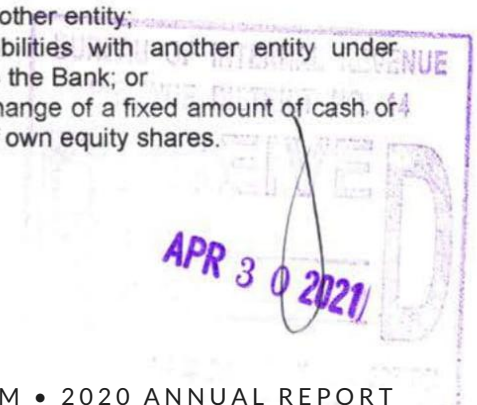
As at December 31, 2020 and 2019, the Bank's deposit liabilities, trade and other payables (except statutory payables), and bills payable are classified under this category as disclosed in Notes 14, 15 and 17.

##### **Derecognition**

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

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.



If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

#### 4.01.03 Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

#### **4.02 Bank Premises, Furniture, Fixtures and Equipment**

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

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

Land is not depreciated. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets as follows:

Furniture, fixtures and equipment	–	2 to 5 years
Transportation equipment	–	5 years
Building	–	10 years
Right-of-use asset	–	6 to 20 years

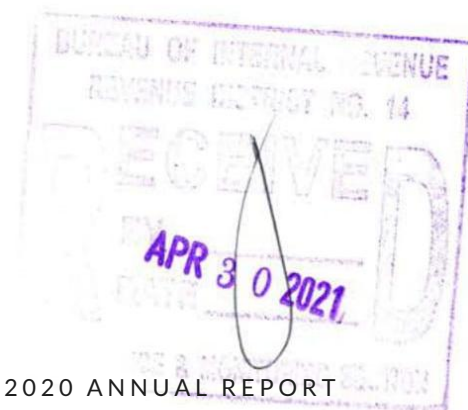
Leasehold improvements are depreciated over the shorter between the improvements' useful life of 20 years or the lease term.

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

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

#### **4.03 Investment Properties**

Properties that are held either to earn rental income or for capital appreciation or both, and are not significantly occupied by the Bank, are classified as investment properties.





Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed using straight-line method based on the estimated useful lives of the assets of 10 years. Land is not depreciated. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher between the property's fair value less cost to sell and value in use.

Investment properties are derecognized by the Bank upon disposal or when the investment property is permanently withdrawn from use and no future benefit is expected to arise from the continued use of the asset. Any gain or loss on derecognition of an investment property, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income in the period in which the property is derecognized.

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

Transfers to and from investment properties do not result in gain or loss.

#### **4.04 Other Assets**

Other assets not classified as financial assets, bank premises, furniture, fixture and equipment, and investment property, includes prepaid assets, accounts receivable and the likes. These other assets qualifying into the definition of assets under PAS 1 Presentation of Financial Statements are resources controlled by the Bank as a result of past events and from which future economic benefits are expected to flow to the entity. Other assets are recognized on an accrual basis of accounting.

#### **4.05 Impairment of Non-financial Assets**

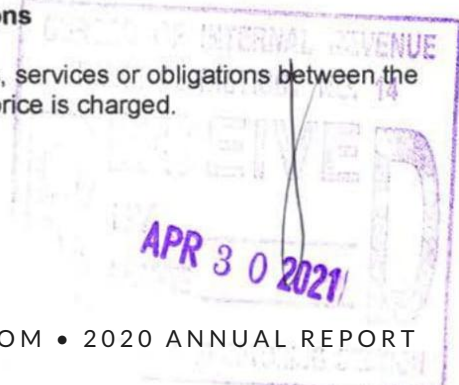
At the end of each reporting date, the Bank assesses whether there is any indication that any non-financial assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of these assets is estimated in order to determine the extent of the impairment loss, if any.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

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

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

#### **4.06 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 relationships, attention is directed to the substance of the relationship and not merely on the legal form.

#### **4.07 Revenue and Expense Recognition**

##### 4.07.01 Revenue Recognition for Revenues within the scope of PFRS 15

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

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

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

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

##### Income from Assets Sold or Exchange

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

##### Service Fees, Commissions, and Other Income

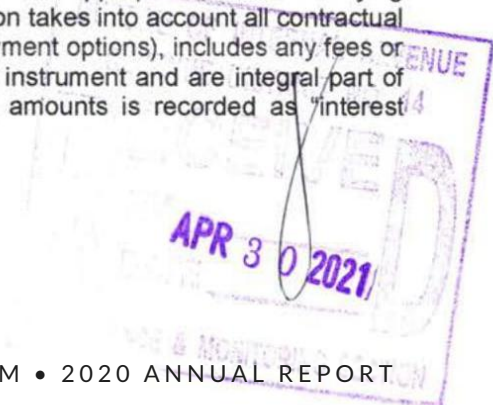
Fees, commissions and other income are generally recognized on an accrual basis when the service has been provided. Penalties are recognized only upon collection or where there is a reasonable degree of certainty as to their collectibility.

##### 4.07.02 Revenue Recognition for Revenues outside the scope of PFRS 15

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

##### Interest Income

Interest income are recognized in the statements of comprehensive income for all interest-bearing financial instruments using the effective interest rate method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are integral part of the effective interest rate. The change in carrying amounts is recorded as "interest income".



In the case of past due accounts, interest income is recognized only upon the actual collection, as provided under existing BSP regulations.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Unearned discount is recognized as income over the terms of the receivables using the effective interest rate method and shown as deduction from loans.

#### Other Income

Other income arises from gain on sale of financial and non-financial assets, bank fees and charges, bank commissions and miscellaneous income. Other income is recognized upon completion of the earning process and the collectibility is reasonably assured.

#### 4.07.03 Expense Recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or
- immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Interest expense are expenses incurred that are associated with the Bank's deposit liabilities and bills payable. Non-interest expenses are costs attributable to administrative, marketing, collection and other business activities of the Bank.

### **4.08 Leases**

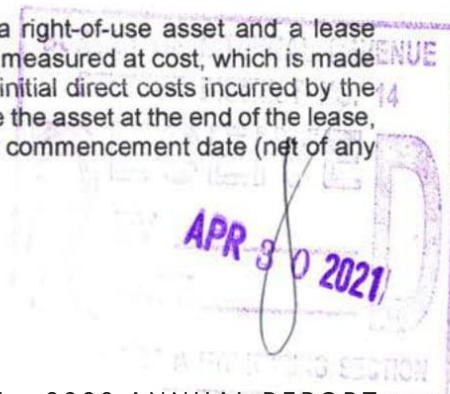
#### 4.08.01 The Bank as Lessee

For any new contracts entered into on or after January 1, 2020, 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 (3) 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
- 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.

#### **Recognition and Initial Measurement**

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).



At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that 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 included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

The Bank has elected to account for short-term leases and leases of low-value assets 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.

#### **Subsequent Measurement**

The Bank depreciates the right-of-use assets 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.

Useful life considered in depreciating the right-of-use assets is the life of the asset or remaining term of the lease, whichever is shorter.

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.

#### **4.08.02 The Bank as Lessor**

Property leased out under operating lease is included in investment property in the statement of financial position. Rental income under operating lease is recognized in profit or loss on a straight-line basis over the period of the lease.

### **4.09 Employee Benefits**

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

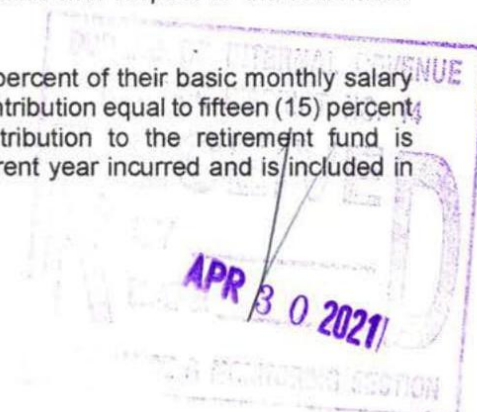
#### **4.09.01 Short-term Employee Benefits**

The Bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages, bonus and incentives, directors' fees, SSS, PHIC, HDMF contributions, accumulating and vesting credit leaves and gratuity pay.

#### **4.09.02 Post-employment Benefits**

The Bank maintains a defined contribution retirement benefit plans for all qualifying employees. The assets of the plans are held separately from those of the Bank in funds under the control of trustees. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the Bank are reduced by the amount of forfeited contributions. The only obligation of the Bank with respect to the retirement benefit plan is to make the specified contributions.

Members of the plan contribute to the fund five (5) percent of their basic monthly salary while the Bank shall pay to the fund as its monthly contribution equal to fifteen (15) percent of each member's basic salary. The Bank's contribution to the retirement fund is recognized in the comprehensive income in the current year incurred and is included in compensation and fringe benefits.



#### 4.10 Income Tax

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

##### 4.10.01 Current Income Tax

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

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

##### 4.10.02 Deferred Income Tax

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

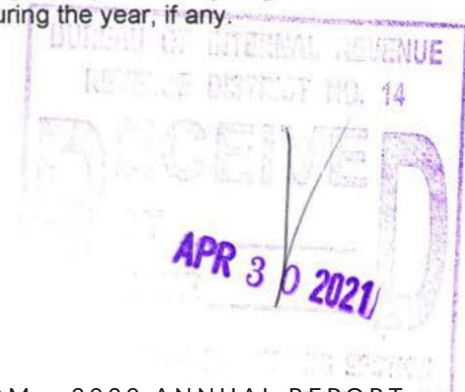
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

#### 4.11 Earnings Per Share

Earnings per share is computed by dividing net income for the year by the weighted average number of common shares outstanding during each year after giving retroactive effect to share dividends and share splits declared during the year, if any.



#### **4.12 Provisions, Contingent Liabilities and Contingent Assets**

##### 4.12.01 Provisions

Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

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

##### 4.12.02 Contingencies

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

#### **4.13 Borrowing Costs**

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### **4.14 Events After the End of the Reporting Period**

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

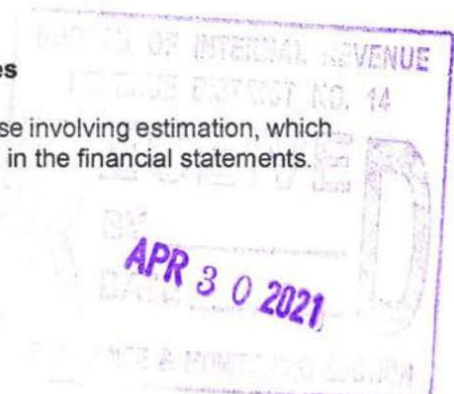
### **5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the financial statements in compliance with PFRSs requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

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.

#### **5.01 Critical Judgments in Applying Accounting Policies**

The Bank has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.



5.01.01 Classification of financial assets (Note 4)

The Bank follows the guidance of PFRS 9 starting January 1, 2018 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss.

The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

Management assessed that there is no change in the objective of holding the investments. The carrying amounts of investment securities at amortized cost are ₱24,000,000 as of December 31, 2020 and 2019, as disclosed in Note 9.

5.01.02 Determining whether or not a contract contains a lease

At inception of a contract, the Bank assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Identified asset

An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

Substantive substitution rights

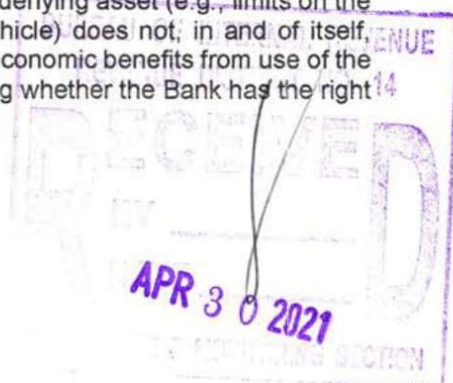
Even if the asset is specified, the Bank does not have the right to use an identified asset, if, at inception of the contract, a supplier has the substantive right to substitute the asset throughout the period of use (i.e., the total period of time that an asset is used to fulfill a contract with the Bank, including the sum of any non-consecutive periods of time). A supplier's right to substitute an asset is substantive when both of the following conditions are met:

- The supplier has the practical ability to substitute alternative assets throughout the period of use (e.g., the Bank cannot prevent the supplier from substituting an asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and
- The supplier would benefit economically from the exercise of its right to substitute the asset (i.e., the economic benefits associated with substituting the asset is expected to exceed the costs associated with substituting the asset).

The Bank's evaluation of whether a supplier's substitution right is substantive is based on facts and circumstances at inception of the contract. At inception of the contract, the Bank does not consider future events that are not likely to occur.

Right to obtain substantially all of the economic benefits from use of the identified asset. To control the use of an identified asset, the Bank is required to have the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use (e.g., by having exclusive use of the asset throughout that period).

When assessing whether the Bank has the right to obtain substantially all of the economic benefits from the use of an asset, the Bank considers the economic benefits that result from use of the asset within the defined scope of the customer's right to use the asset. A right that solely protects the supplier's interest in the underlying asset (e.g., limits on the number of miles a customer can drive a supplier's vehicle) does not, in and of itself, prevent the Bank from obtaining substantially all of the economic benefits from use of the asset and, therefore, are not considered when assessing whether the Bank has the right to obtain substantially all of the economic benefits.



If a contract requires the Bank to pay the supplier or another party a portion of the cash flows derived from the use of an asset as consideration (e.g., a percentage of sales from the use of retail space), those cash flows are considered to be economic benefits that the Bank derives from the use of the asset.

Right to direct the use of the identified asset

The Bank has the right to direct the use of an identified asset throughout the period of use when either the Bank has the right to direct how and for what purpose the asset is used throughout the period of use. The Bank has the right to direct the use of an identified asset whenever it has the right to direct how and for what purpose the asset is used throughout the period of use (i.e., it can change how and for what purpose the asset is used throughout the period of use). When evaluating whether the Bank has the right to change how and for what purpose the asset is used throughout the period of use, its focus is on whether the Bank has the decision-making rights that will most affect the economic benefits that will be derived from the use of the asset. The decision-making rights that are most relevant are likely to depend on the nature of the asset and the terms and conditions of the contract.

5.01.03 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs.

5.01.04 Non-application of Accounting for Employee Benefits under PIC Q&A No. 2013-03

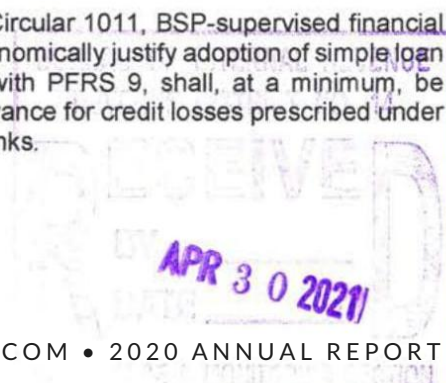
PIC Q&A No. 2013-03, PAS 19 – Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) No. 7641, The Philippine Retirement Pay Law, requires the recognition of Defined Contribution (DC) liability to be measured at the fair value of the DC assets upon which the benefits depend, with an adjustment for margin on asset returns, if any where this is reflected in the benefits, less any forfeitures during the period and any excess of the projected Defined Benefit (DB) obligation over the projected DC obligation, apply the projected unit credit method on such excess to determine the additional liability. Valuation should be carried out with sufficient regularity such that the amounts recognized in the financial statements do not differ materially from those that would be determined at the statement of the condition date.

In applying the above guidelines, the Bank considered to fully adopt the requirements. The Bank has manually computed the retirement benefits of employees under R.A. No. 7641 and it was determined that the provident fund, known as the Retirement Plan set up by the Bank is greater than the required retirement benefit obligation. Thus, the Management decided to depart from the requirements of the above standard.

In both years, Management believes that there was no material impact on the financial statements as a result of the departure since the plan asset is sufficient to cover the required retirement benefit obligation. Retirement benefit expense in 2020 and 2019 amounted to ₱1,412,615 and ₱1,359,114, respectively, as disclosed in Note 18. Fair value of the plan asset as of December 31, 2020 and 2019 amounted to ₱44,935,764 and ₱44,648,289, respectively.

5.01.05 Determining method of computing ECL

As stated in Bangko Sentral ng Pilipinas (BSP) Circular 1011, BSP-supervised financial institutions with credit operations that may not economically justify adoption of simple loan loss estimation methodology that is compliant with PFRS 9, shall, at a minimum, be subject to regulatory guidelines in setting up allowance for credit losses prescribed under Appendix 15 of the Manual of Regulations for Banks.





In 2020, following the guidance of Circular 1011 and Appendix 100 of the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas in adopting PFRS 9 impairment requirements, the Bank assessed the ECL in accordance with the said standard and based on management judgement it was determined that the amount recognized as allowance based on Appendix 15 is reasonable.

In 2020, management believes that there is no material impact on the financial statements as a result of the departure.

5.01.06 Determination of Credit Losses on Financial Assets

In determining the appropriate level of allowance for credit losses, the Bank consider the higher amount computed based on ECL model consistent with PFRS 9 and the regulatory requirements set by the BSP.

**5.02 Key Sources of Estimation Uncertainties**

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

5.02.01 Estimating Allowances for Credit Losses

The Bank estimates the allowance for credit losses related to its loans and receivables based on assessment of specific accounts where the Bank has information that certain customers are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors. The Bank used judgment to record specific reserves for customers against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated, notwithstanding the provisioning requirements under Manual of Regulations for Banks (MORB).

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for credit losses would increase the recognized operating expenses and decrease current assets.

In both years, the Bank assessed its loans and receivables and determined that certain borrowers are unable to meet their financial obligations. Consequently, the Bank recognized provision for credit losses amounting to ₱5,018,897 and ₱11,514,134 in 2020 and 2019, respectively, as disclosed in Note 24. Allowance for credit losses – loans amounted to ₱25,833,182 and ₱27,100,573 as of December 31, 2020 and 2019, respectively, as disclosed in Note 10. Allowance for credit losses – SCR amounted to ₱2,467,743 and ₱1,300,689 as of December 31, 2020 and 2019, respectively, as disclosed in Note 10 while allowance for credit losses – accounts receivables amounted to ₱443,398 and ₱384,644 as of December 31, 2020 and 2019, respectively, as disclosed in Note 24.



5.02.02 Reviewing Residual Values, Useful Lives and Depreciation Method of Bank's Premises, Furniture, Fixtures and Equipment and Investment Properties

The residual values, useful lives and depreciation method of the Bank's premises, furniture, fixtures and equipment and investment properties are reviewed at least annually, and adjusted prospectively if appropriate, if there is an indication of a significant change in, how an asset is used; significant unexpected wear and tear; technological advancement; and changes in market prices since the most recent annual reporting date. The useful lives of the Bank's assets are estimated based on the period over which the assets are expected to be available for use. In determining the useful life of an asset, the Bank considers the expected usage, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output and legal or other limits on the use of the Bank's assets. In addition, the estimation of the useful lives is based on Bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of bank's premises, furniture, fixtures and equipment and investment properties would increase the recognized operating expenses and decrease non-current assets.

The Bank uses a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If there is an indication that there has been a significant change in the pattern used by which the Bank expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern.

In both years, Management assessed that there are no indications that there has been a significant change in pattern used by the Bank to consume its asset's future economic benefit. As of December 31, 2020 and 2019, the carrying amounts of bank premises, furniture, fixtures and equipment as disclosed in Note 11 amounted to ₱44,865,273 and ₱46,166,790, respectively. The carrying amounts of investment properties amounted to ₱15,854,611 and ₱13,459,412, as of December 31, 2020 and 2019, respectively, as disclosed in Note 12.

5.02.03 Determining Impairment of Non-Financial Asset

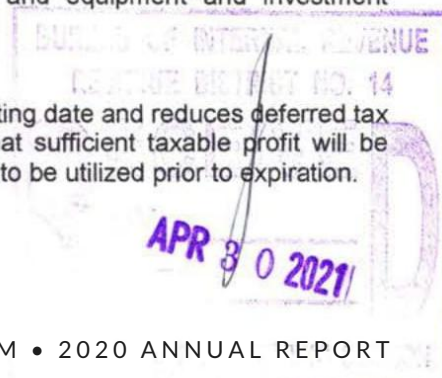
The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of investment properties, and bank premises, furniture, fixtures and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that investment properties and bank premises, furniture, fixtures and equipment are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Bank believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

In both years, Management determined that there was no indication of impairment that occurred on its bank premises, furniture, fixtures and equipment and investment properties.

5.02.04 Recoverability of Deferred Tax Assets

The Bank reviews the carrying amounts at each reporting date and reduces deferred tax assets 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 assets to be utilized prior to expiration.



The Bank recognized deferred tax assets amounting to ₱8,908,106 and ₱9,032,124 as of December 31, 2020 and 2019, respectively, which Management believes to be fully recoverable prior to expiration, as disclosed in Note 26.

**5.02.05 Contingent Assets**

The Bank is currently involved in various legal proceedings. Estimates of probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Bank currently does not believe these proceedings will have a material adverse effect on the financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the Bank's strategies relating to these proceedings.

In the normal course of the Bank's operations, there are various outstanding commitments to extend credit. The Bank filed several legal actions on loan borrowers who defaulted in payment on their outstanding loan balance. Management believes that those actions will yield positively in favor of the Bank and does not anticipate material losses.

As of December 31, 2020 and 2019, estimated amount expected to be recovered from the proceedings amounted to ₱9,796,184 and ₱4,542,810, respectively, as disclosed in Note 29. However, said amounts were not recognized in the financial statements because the realization of the related income is not yet virtually certain as it is dependent on the outcome of future events.

**6. RISK MANAGEMENT OBJECTIVES AND POLICIES**

**6.01 General Risk Management Principles**

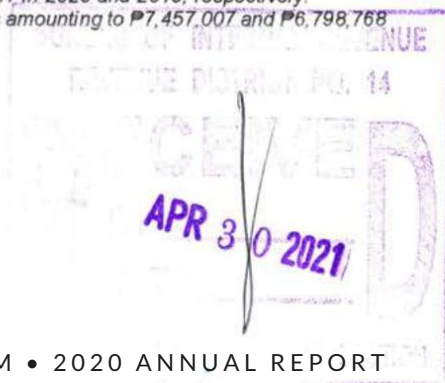
The Bank's financial assets comprise cash and other cash items, due from other banks, held-to-maturity investment, loans and receivable, and other assets while financial liabilities comprise savings deposits, bills payable, accrued expenses and other liabilities to finance the Bank's operations.

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

	Notes	2020	2019
<b>Financial assets at amortized cost</b>			
Cash and other cash items	8	₱ 2,748,772	₱ 1,367,365
Due from BSP	8	6,096,184	11,226,175
Due from other banks	8	130,663,159	96,579,447
Investment securities at amortized cost	9	24,000,000	24,000,000
Loans and other receivables – net	10	510,070,977	447,315,189
Other assets*	13	620,803	628,641
		<b>₱ 674,199,895</b>	<b>₱ 581,116,817</b>
<b>Financial liabilities at amortized cost</b>			
Deposit liabilities	14	₱ 424,305,934	₱ 356,116,047
Accrued and other liabilities**	17	44,722,032	45,395,034
		<b>₱ 469,027,966</b>	<b>₱ 401,511,081</b>

\*excluding non-financial assets amounting to ₱448,457 and ₱469,747 in 2020 and 2019, respectively.

\*\*excluding government-related payables and non-financial liabilities amounting to ₱7,457,007 and ₱6,798,768 in 2020 and 2019, respectively.



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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

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

The CPM defined, among others, the following:

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

The Bank likewise manages risk by setting limits such as:

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

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

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

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

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

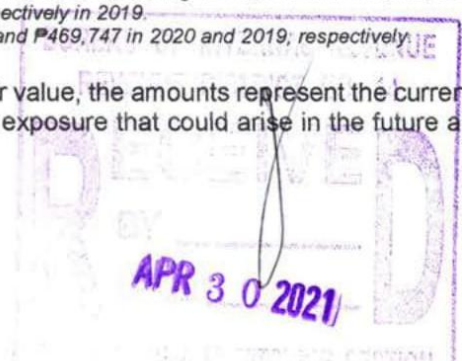
	Notes	2020	2019
Cash and other cash items*	8	₱ 769,133	₱ 232,766
Due from BSP	8	6,096,184	11,226,175
Due from other banks	8	130,663,159	96,579,447
Investment securities at amortized cost	9	24,000,000	24,000,000
Loans and other receivables**	10	538,374,871	475,743,709
Other assets***	13	620,803	628,641
		<b>₱ 700,524,150</b>	<b>₱ 608,410,738</b>

\*except for cash on hand amounting to ₱1,979,639 and ₱1,134,599 in 2020 and 2019, respectively.

\*\*gross of unamortized discount and allowance for credit losses amounting to ₱2,969 and ₱28,300,925, respectively in 2020 and ₱27,258 and ₱28,401,262, respectively in 2019.

\*\*\*excluding non-financial assets amounting to ₱443,457 and ₱469,747 in 2020 and 2019, respectively.

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



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

**6.01.03 Credit Quality of Financial Assets**

The table below shows the credit quality by class of financial assets as of December 31, 2020 and 2019.

2020	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
Cash and other cash items*	769,133	-	-	769,133
Due from BSP	6,096,184	-	-	6,096,184
Due from other banks	130,663,159	-	-	130,663,159
Investment securities at amortized cost	24,000,000	-	-	24,000,000
Loans and other receivables	442,663,499	20,164,661	75,546,711	538,374,871
Other assets**	620,803	-	-	620,803
	<b>604,812,778</b>	<b>20,164,661</b>	<b>75,546,711</b>	<b>700,524,150</b>

2019	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
Cash and other cash items*	232,766	-	-	232,766
Due from BSP	11,226,175	-	-	11,226,175
Due from other banks	96,579,447	-	-	96,579,447
Investment securities at amortized cost	24,000,000	-	-	24,000,000
Loans and other receivables	414,471,885	56,729,014	4,542,810	475,743,709
Other assets**	628,641	-	-	628,641
	<b>547,138,914</b>	<b>56,729,014</b>	<b>4,542,810</b>	<b>608,410,738</b>

\*except for cash on hand amounting to ₱1,979,639 and ₱1,134,599 in 2020 and 2019, respectively.

\*\*excluding non-financial assets amounting to ₱448,457 and ₱469,747 in 2020 and 2019, respectively.

The Bank holds collateral against loans receivables in the form of real estate and chattel mortgages, and deposit hold outs over assets.

**6.01.04 Aging Analysis**

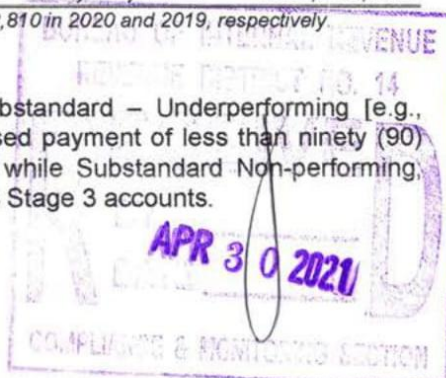
An aging analysis of the Bank's loans and other receivable (gross of unamortized discount and allowance for credit losses) as of December 31, 2020 and 2019 are as follows:

	2020	2019
Outstanding receivables:		
Current accounts	₱ 442,663,499	₱ 414,471,885
Past due accounts:		
1 – 30 days past due	4,991,350	19,526,040
31 – 60 days past due	2,727,842	8,459,149
61 – 90 days past due	3,728,980	2,080,541
over 90 days past due*	84,263,200	31,206,094
	<b>₱ 538,374,871</b>	<b>₱ 475,743,709</b>

\*includes items in litigation amounting to ₱9,796,164 and ₱4,542,810 in 2020 and 2019, respectively.

**6.01.05 Measurement of ACL**

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days] shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.



**Individually Assessed Loans and Other Credit Exposures**

1. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments, as follows:

For unsecured loans and other credit exposures:

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

For secured loans and other credit exposures:

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

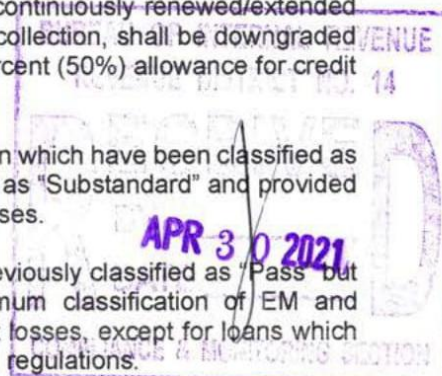
*\*When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%.*

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

2. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Sec. 143 (Credit Classification and Provisioning) shall be provided with ACL, as follows:

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

3. Unsecured loans and other credit accommodations classified as "Substandard" in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of collection, shall be downgraded to "Doubtful" classification and provided with a fifty percent (50%) allowance for credit losses.
4. Loans and other credit accommodations under litigation which have been classified as "Pass" prior to the litigation process shall be classified as "Substandard" and provided with twenty-five percent (25%) allowance for credit losses.
5. Loans and other credit accommodations that were previously classified as "Pass" but were subsequently restructured shall have a minimum classification of EM and provided with a five percent (5%) allowance for credit losses, except for loans which are considered non-risk under existing laws, rules and regulations.



6. Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

#### Collectively Assessed Loans and Other Credit Exposure

- Current "Pass" loans and other credit accommodations should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions.
- Loans and other credit exposures with unpaid principal and/ or interest shall be classified and provided with ACL based on the number of days of missed payments, as follows:

For unsecured loans and other credit exposures:

No. of days unpaid/with missed payments*	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 – 60 days/1 <sup>st</sup> restructuring	Substandard	25%	2 or 3
61 – 90 days	Doubtful	50%	3
91 days and over/2 <sup>nd</sup> restructuring	Loss	100%	3

\*PAR for microfinance loans

For secured loans and other credit exposures:

No. of days unpaid/with missed payments*	Classification	ACL (%)		Stage
		Other types of collateral	Security by real estate	
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

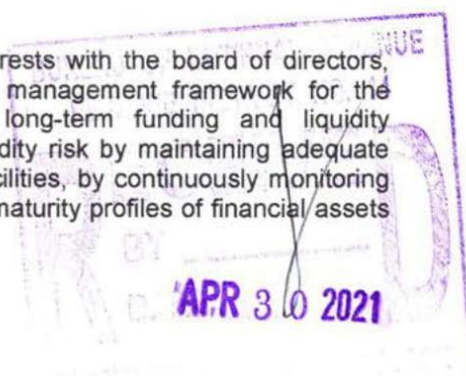
Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances is determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

#### Collateral and Other Credit Enhancements

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

#### Liquidity Risk

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



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

As of December 31, 2020 and 2019, the minimum liquidity ratio of the Bank is 41.22% and 27.60%, respectively.





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

2020	On Demand	Due Within 1 Year	Due Beyond 1 Year But Not More Than 5 Years	Due Beyond 5 Years But Not More Than 15 Years	Total
<b>Financial Assets:</b>					
Cash and other cash items	P 2,748,772	-	-	-	2,748,772
Due from BSP	6,096,184	-	-	-	6,096,184
Due from other banks	118,320,517	12,342,642	-	-	130,663,159
Investment securities at amortized cost	-	-	19,000,000	5,000,000	24,000,000
Loans and other receivables*	88,923,876	132,869,708	191,928,000	124,650,318	538,371,902
Other assets**	620,803	-	-	-	620,803
	<b>P 216,710,152</b>	<b>P 145,212,350</b>	<b>P 210,928,000</b>	<b>P 129,650,318</b>	<b>P 702,500,820</b>
<b>Financial Liabilities:</b>					
Deposit liabilities	P 321,094,014	P 94,642,472	P 2,564,448	P 6,005,000	P 424,305,934
Accrued and other liabilities***	43,170,688	25,034	151,908	1,374,402	44,722,032
	<b>P 364,264,702</b>	<b>P 94,667,506</b>	<b>P 2,716,356</b>	<b>P 7,379,402</b>	<b>P 469,027,966</b>



RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.  
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2019	On Demand	Due Within 1 Year	Due Beyond 1 Year But Not More Than 5 Years	Due Beyond 5 Years But Not More Than 15 Years	Total
<b>Financial Assets:</b>					
Cash and other cash items	₱ 1,367,365	—	—	—	1,367,365
Due from BSP	11,226,175	—	—	—	11,226,175
Due from other banks	85,042,600	11,536,847	—	—	96,579,447
Investment securities at amortized cost	—	—	19,000,000	5,000,000	24,000,000
Loans and other receivables*	92,171,361	119,817,004	182,836,503	80,891,583	475,716,451
Other assets**	628,641	—	—	—	628,641
	₱ 190,436,142	₱ 131,353,851	₱ 201,836,503	₱ 85,891,583	₱ 609,518,079
<b>Financial Liabilities:</b>					
Deposit liabilities	₱ 247,218,512	₱ 108,778,033	₱ 119,502	—	₱ 356,116,047
Accrued and other liabilities***	43,843,690	25,034	151,908	1,374,402	45,395,034
	₱ 291,062,202	₱ 108,803,067	₱ 271,410	₱ 1,374,402	₱ 401,511,061

\*net of unamortized loan discount amounting to ₱2,969 and ₱27,258 in 2020 and 2019 respectively.

\*\*excluding non-financial assets amounting to ₱448,457 and ₱469,747 in 2020 and 2019, respectively.

\*\*\*excluding government-related payables and non-financial liabilities amounting to ₱7,457,007 and ₱6,798,768 in 2020 and 2019, respectively.



### Interest Rate Risk

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

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The Bank is not exposed to interest rate risk since its financial assets and financial liabilities have fixed rates.

### Operational Risks

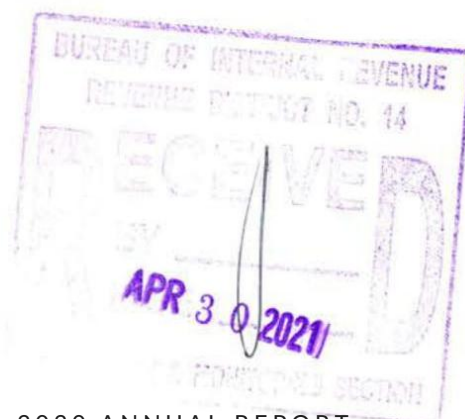
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from legal and regulatory requirements and generally accepted standards of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

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

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

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

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



## 7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table presents a comparison by category of carrying amounts and estimated fair value of the Bank's financial instruments as of December 31, 2020 and 2019:

	Carrying Value	Fair Value			Total
		Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>2020</b>					
<b>ASSETS</b>					
Loans and other receivables – net	510,070,977	–	510,070,977	–	510,070,977
Investment securities at amortized cost	24,000,000	–	24,000,000	–	24,000,000
	<b>534,070,977</b>		<b>534,070,977</b>		<b>534,070,977</b>
<b>LIABILITIES</b>					
Deposit liabilities	<b>424,305,934</b>	–	<b>424,305,934</b>	–	<b>424,305,934</b>
<b>2019</b>					
<b>ASSETS</b>					
Loans and other receivables – net	447,315,189	–	447,315,189	–	447,315,189
Investment securities at amortized cost	24,000,000	–	24,000,000	–	24,000,000
	<b>471,315,189</b>	–	<b>471,315,189</b>	–	<b>471,315,189</b>
<b>LIABILITIES</b>					
Deposit liabilities	<b>356,116,047</b>	–	<b>356,116,047</b>	–	<b>356,116,047</b>

Cash and other cash item, Due from BSP, Due from other banks, Other assets, Accrued and other liabilities

The carrying values of these financial assets and liabilities approximate their fair values due to the relatively short-term maturities of these financial assets and liabilities.

Loans and other receivables

Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of loans and receivables.

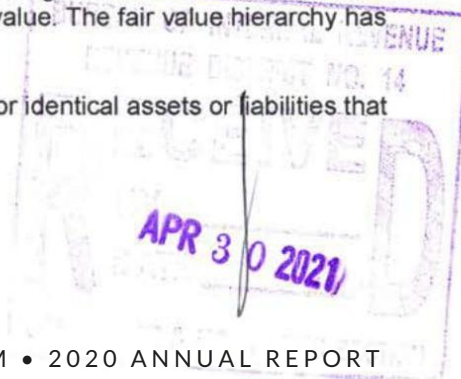
Deposit liabilities and Bills payable

Fair values are estimated using the discounted cash flow methodology using the incremental borrowing rates for similar borrowings with maturities consistent with those remaining liability being valued.

Fair Value Hierarchy

In accordance with PFRS 13, 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 financial assets with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

There were neither transfers between Levels 1 and 2 instruments in both years.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and rely 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.

Fair Value Measurement for Non-financial Assets

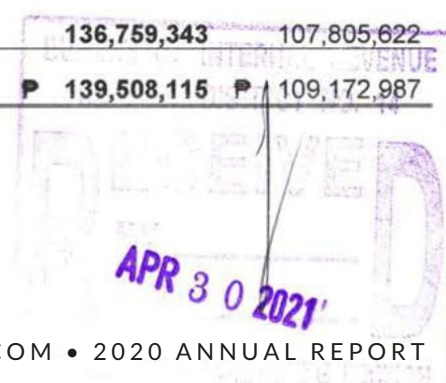
The fair value of the Bank's land classified under Investment Properties account, as disclosed in Note 12, is determined on the basis of the appraisals performed by an appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To 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.

The fair value of investment property as of December 31, 2020 and 2019 amounting to ₱72,242,824 and ₱69,571,819 respectively, is currently categorized within Level 2. 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. There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets.

**8. CASH AND CASH EQUIVALENTS**

The account consists of the following:

	2020	2019
Cash and other cash items:		
Cash on hand	₱ 1,979,639	₱ 1,134,599
Checks and other cash items	769,133	232,766
	<b>2,748,772</b>	1,367,365
Due from BSP	6,096,184	11,226,175
Due from other banks	130,663,159	96,579,447
	<b>136,759,343</b>	107,805,622
	<b>₱ 139,508,115</b>	<b>₱ 109,172,987</b>



**Cash and Other Cash Items**

Cash and other cash items refers to cash on hand representing the total amount of cash in the Bank's vault in the form of notes and coins under the custody of the cashier, including notes and coins in the possession of tellers while checks and other cash items account refers to the total amount of checks and other cash items received after the clearing cut-off time until the close of the regular banking hours.

**Due from Bangko Sentral ng Pilipinas (BSP)**

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. Due from BSP bears annual interest rate of zero in 2020 and 2019.

Under Section 252 of the Manual of Regulation for Banks (MORB), the required reserves shall be kept in the form of deposits placed in the banks' demand deposit accounts with BSP. Section 252 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposit shall be limited to settlement of obligations with the BSP and withdrawals to meet cash requirements

**Due from Other Banks**

Due from other banks comprise of savings deposits with interest rates ranging from 0.125% to 1% and time deposits with interest rates ranging from 4.5% to 5%.

Interest earned on deposits on local banks amounted to ₱505,070 and ₱659,995 in 2020 and 2019, respectively.

**9. INVESTMENT SECURITIES AT AMORTIZED COST**

This account consists of:

Issuer	Particulars	Yield Rate	Date		Face Value	Book Value
			Issued	Maturity		
Long-term						
Metrobank	TSA	3.625%	03/21/13	03/21/33	₱ 2,000,000	₱ 2,000,000
Allied Bank	RTB	3.250%	08/15/13	08/15/23	2,000,000	2,000,000
East West	RTB	3.250%	08/15/13	08/15/23	2,000,000	2,000,000
BPI	RTB	5.880%	03/01/12	03/01/32	3,000,000	3,000,000
Landbank	RTB	4.625%	11/29/17	12/04/22	15,000,000	15,000,000
					<b>₱ 24,000,000</b>	<b>₱ 24,000,000</b>

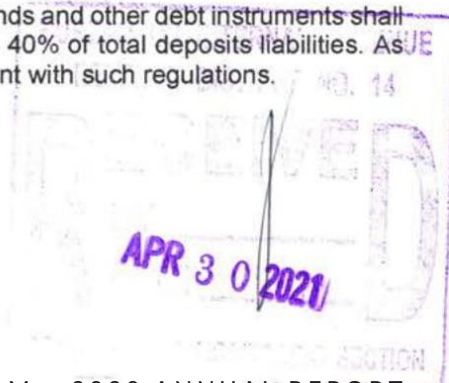
Movements in the account are disclosed below:

	2020	2019
Balance at January 1	₱ 24,000,000	₱ 25,476,320
Maturities during the year	-	(1,476,320)
<b>Balance, December 31</b>	<b>₱ 24,000,000</b>	<b>₱ 24,000,000</b>

Total interest earned on these financial assets amounted to ₱859,211 and ₱863,630 for 2020 and 2019, respectively.

No impairment was recognized as of and for the years ended December 31, 2020 and 2019.

Under current banking regulations, investments in bonds and other debt instruments shall not exceed 50% of adjusted statutory net worth plus 40% of total deposits liabilities. As of December 31, 2020 and 2019 the Bank is compliant with such regulations.



**10. LOANS AND OTHER RECEIVABLES – net**

The account consists of the following:

	2020	2019
Current loans	P 421,116,033	P 388,894,819
Past due loans	77,209,796	52,118,725
Under litigation	9,796,184	4,542,810
<b>Total loans receivable</b>	<b>508,122,013</b>	<b>445,556,354</b>
Sales contract receivable	17,991,797	16,888,060
Accrued interest receivable	12,261,061	13,299,295
	<b>538,374,871</b>	<b>475,743,709</b>
Unamortized discount	(2,969)	(27,258)
	<b>538,371,902</b>	<b>475,716,451</b>
Allowance for credit losses		
Loans receivable (Note 24)	(25,833,182)	(27,100,573)
Sales contract receivable (Note 24)	(2,467,743)	(1,300,689)
	<b>(28,300,925)</b>	<b>(28,401,262)</b>
<b>Total loans and other receivables – net</b>	<b>P 510,070,977</b>	<b>P 447,315,189</b>

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

As of December 31, 2020 and 2019, there were no loans receivable used as collateral for bills payable as disclosed in Note 15.

Sales contract receivable refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dacion in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

The breakdown of sales contract receivables are as follows:

	2020	2019
Performing	P 8,477,244	P 12,277,771
Non-performing	9,514,553	4,610,289
<b>Total</b>	<b>17,991,797</b>	<b>16,888,060</b>
Allowance for credit losses	(2,467,743)	(1,300,689)
	<b>P 15,524,054</b>	<b>P 15,587,371</b>

The movement of the allowance for credit losses on loans receivable at December 31 as disclosed in Note 24 are summarized as follows:

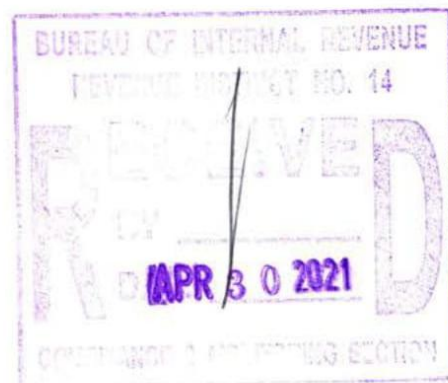
	2020	2019
At January 1	P 27,100,573	P 17,938,820
Provision for credit losses	3,992,288	11,514,134
Write-off of loans receivable*	(2,998,918)	(2,302,381)
Reversal	(2,061,562)	(50,000)
Transfer from loans to sales contract receivables	(199,199)	
	<b>P 25,833,182</b>	<b>P 27,100,573</b>

\*including write-off of allowance of loans receivable transferred to ROPA amounting to P1,991,562 and P302,887 in 2020 and 2019, respectively.



Allowance for credit losses is comprised of the following:

	2020	2019
Specific loan loss	P 22,515,619	P 23,760,785
General loan loss	3,317,563	3,339,788
	<b>P 25,833,182</b>	<b>P 27,100,573</b>







RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.  
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2019	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
<b>Salary loans</b>							
Balance at January 1, 2019	P	P					P
New assets originated or purchased		1,311					
Assets derecognized or repaid		1,977					
Amounts written off							
Stage 1							
Stage 2							
Stage 3							
Others							
<b>Other type of loans</b>							
Balance at January 1, 2019	289,864	3,769,414	23,301	10,670,894	956,075	2,126,800	17,836,348
New assets originated or purchased	89,650	64,726	380,033	8,337,876	2,331,414	298,900	11,502,599
Assets derecognized or repaid						(50,000)	(50,000)
Amounts written off				(1,918,937)		(383,444)	(2,302,381)
Stage 1							
Stage 2							
Stage 3							
Others							
<b>Other credit accommodation</b>							
Balance at January 1, 2019			1,300,689				1,300,689
New assets originated or purchased							
Assets derecognized or repaid							
Amounts written off							
Stage 1							
Stage 2							
Stage 3							
Others							
<b>Total</b>	<b>P</b>	<b>3,837,428 P</b>	<b>1,704,023 P</b>	<b>17,200,552 P</b>	<b>3,287,489 P</b>	<b>1,992,256 P</b>	<b>28,401,262 P</b>



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

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

In compliance with the regulations of the BSP, the Bank strictly adheres to the setting up the valuation allowance for risk assets. The Bank reviews the quality of its loan portfolio and prepares a quantitative classification of its risks assets including loans. Accordingly, a specific valuation allowance for credit losses were provided on regular loans based on the following schedule.

Classification of Risk Assets	Required Valuation Allowance
Loans especially mentioned	5%
Substandard – secured	10%
Substandard – unsecured	25%
Doubtful	50%
Loss	100%

For micro-finance portfolio, the specific allowances are computed based on portfolio at risk. Portfolio at risk (PAR) refers to loan outstanding with one day amortization missed payment. Specific allowance based on PAR follows:

Number of Days PAR	Required Allowance
1 – 30 days	2%
31 – 60 days	25%
61– 90 days	50%
91 days and over	100%

For unclassified loans whether regular or microfinance, a general loan loss provision equivalent to 1% of the total loan portfolio is provided.

The Bank’s loan loss methodology is consistent with Appendix 15 of MORB.

Interest income earned by the Bank from its loans and other receivables are disclosed below:

	2020	2019
Loans receivable	₱ 67,168,161	₱ 72,519,479
Sales contract receivable	395,699	1,101,215
	₱ 67,563,860	₱ 73,620,694

#### 10.01 Past Due Loans

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

BSP Manual of Regulations for Banks, Sec. 304, as amended by BSP Circular 941, defined the classification of past due loans as follows:

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



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

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

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

### 10.02 Non-Performing Loans

Breakdown of non-performing loans (based on BSP Circular 941) based on days outstanding are as follows:

	2020	2019
Past due accounts:		
Less than 30 days	P 3,046,033	P 1,398,638
30 – 60 days	1,956,943	1,005,480
61 – 90 days	2,683,252	1,605,167
91 – 180 days	10,985,343	13,134,934
Over 180 days	61,546,911	22,004,570
	<b>P 80,218,482</b>	<b>P 39,148,789</b>

As of December 31, 2020 and 2019, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows:

	2020	2019
Total Non-performing loans	P 80,218,482	P 39,148,789
Less: Non-performing loans covered by allowance for credit losses	22,176,244	22,885,147
	<b>P 58,042,238</b>	<b>P 16,263,642</b>

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

	2020	2019
Gross Non-performing loans	P 80,218,482	P 39,148,789
Ratio of gross NPLs to gross TLP (%)	15.79%	8.79%
Net non-performing loans	P 58,042,238	P 16,263,642
Ratio of net NPLs to gross TLP (%)	11.42%	3.65%
Ratio of total allowance for credit losses to gross NPLs (%)	32.20%	69.22%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	28.07%	60.69%



BSP Circular 941 defined non-performing loans (NPLs) as follows:

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

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

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



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

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

	Land	Building	Leasehold rights and improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Right-of-Use Asset	Building Under Construction	Total
<b>2020</b>								
<b>Cost:</b>								
Balance, January 1	P 13,490,000	P 23,767,567	P 3,078,753	P 13,268,762	P 11,616,680	P 1,575,701	P 6,932,040	P 73,729,503
Additions	4,253	1,667,103	13,909	2,042,274	—	—	—	3,727,539
Reclassification	—	6,932,040	—	—	—	—	(6,932,040)	—
<b>Balance, December 31</b>	<b>13,494,253</b>	<b>32,366,710</b>	<b>3,092,662</b>	<b>15,311,036</b>	<b>11,616,680</b>	<b>1,575,701</b>	<b>—</b>	<b>77,457,042</b>
<b>Accumulated depreciation:</b>								
Balance, January 1	—	8,573,898	398,236	9,995,059	8,517,621	77,899	—	27,562,713
Depreciation (Note 25)	—	1,792,411	162,410	1,630,760	1,354,054	89,421	—	5,029,056
<b>Balance, December 31</b>	<b>—</b>	<b>10,366,309</b>	<b>560,646</b>	<b>11,625,819</b>	<b>9,871,675</b>	<b>167,320</b>	<b>—</b>	<b>32,591,769</b>
<b>Carrying amount</b>	<b>P 13,494,253</b>	<b>P 22,000,401</b>	<b>P 2,532,016</b>	<b>P 3,685,217</b>	<b>P 1,745,005</b>	<b>P 1,408,381</b>	<b>P —</b>	<b>P 44,865,273</b>
<b>2019</b>								
<b>Cost:</b>								
Balance, January 1	P 13,490,000	P 22,053,192	P 3,059,923	P 11,274,225	P 10,570,980	P 769,143	P —	P 61,217,463
Additions	—	1,714,375	18,830	2,040,775	1,045,700	806,558	6,932,040	12,558,278
Disposal	—	—	—	(46,238)	—	—	—	(46,238)
<b>Balance, December 31</b>	<b>13,490,000</b>	<b>23,767,567</b>	<b>3,078,753</b>	<b>13,268,762</b>	<b>11,616,680</b>	<b>1,575,701</b>	<b>6,932,040</b>	<b>73,729,503</b>
<b>Accumulated depreciation:</b>								
Balance, January 1	—	7,560,551	241,514	8,718,000	7,071,334	—	—	23,591,399
Depreciation (Note 25)	—	1,013,347	156,722	1,323,267	1,446,287	77,899	—	4,017,522
Disposal	—	—	—	(46,208)	—	—	—	(46,208)
<b>Balance, December 31</b>	<b>—</b>	<b>8,573,898</b>	<b>398,236</b>	<b>9,995,059</b>	<b>8,517,621</b>	<b>77,899</b>	<b>—</b>	<b>27,562,713</b>
<b>Carrying amount</b>	<b>P 13,490,000</b>	<b>P 15,193,669</b>	<b>P 2,680,517</b>	<b>P 3,273,703</b>	<b>P 3,099,059</b>	<b>P 1,497,802</b>	<b>P 6,932,040</b>	<b>P 46,166,790</b>



Management believes that there are no indications of impairment in the value of its bank premises, furniture, fixtures and equipment as of December 31, 2020 and 2019.

Depreciation expenses amounting to ₱5,029,056 and ₱4,017,522 are presented as separate components of operating expenses under non-interest expenses in the statement of comprehensive income in 2020 and 2019, respectively, as disclosed in Note 25.

No disposals were made during the year.

In 2019, the Bank through its Board Resolution 19-88 disposed several properties with a carrying amount of ₱30 for a total selling price of ₱4,516, realizing a gain of ₱4,486 which is included as part of other income as disclosed in Note 22.

Additions worth ₱3,723,286 and ₱11,751,720 were paid in cash during 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the Bank has no commitment to purchase bank premises, furniture, fixtures and equipment.

Section 109 of the MORB states that the total investment of a bank in real estate and improvements thereon, including bank equipment, shall not exceed fifty percent (50%) of the bank's net worth. As of December 31, 2020 and 2019, the Bank is compliant with such regulation.

In 2019, the Bank adopted PFRS 16 in accounting for its leases. The composition of right-of-use asset are the following:

On October 28, 2016, the Bank leased a parcel of land located in Bambang, Nueva Vizcaya from L. Bernabe Realty and Development Corporation for 20 years term commencing on October 1, 2016. Monthly payments of ₱5,000 is due subject to increase of 10% every three (3) years.

In 2019, the Bank entered into another lease agreement from L. Bernabe Realty and Development Corporation for 17.5 years starting on April 1, 2019 for a monthly rental payment of ₱5,000 subject to increase of 10% every three (3) years.

The lease contracts are renewable upon such terms and conditions mutually agreed upon by the both parties prior to expiration. The leased assets are being depreciated based on useful life of the leased asset or remaining term of the lease, whichever is shorter.

## 12. INVESTMENT PROPERTIES – net

This account pertains to real properties, such as land and building held by the Bank for capital appreciation or to earn rental income. The account also includes real properties foreclosed from delinquent borrowers which are held for capital appreciation.



Details of the Bank's investment properties are as follows:

2020	Land	Building	Others	Total
<b>Cost:</b>				
Balance, January 1	₱ 10,763,605	₱ 4,347,592	₱ 208,000	₱ 15,319,197
Additions	3,605,386	573,012	–	4,178,398
Disposals	(1,093,322)	(891,867)	–	(1,985,189)
<b>Balance, December 31</b>	<b>13,275,669</b>	<b>4,028,737</b>	<b>208,000</b>	<b>17,512,406</b>
<b>Accumulated Depreciation:</b>				
Balance, January 1	–	1,651,785	208,000	1,859,785
Depreciation expense (Note 25)	–	324,796	–	324,796
Disposal	–	(526,786)	–	(526,786)
<b>Balance, December 31</b>	<b>–</b>	<b>1,449,795</b>	<b>208,000</b>	<b>1,657,795</b>
<b>Carrying amount</b>	<b>₱ 13,275,669</b>	<b>₱ 2,578,942</b>	<b>₱ –</b>	<b>₱ 15,854,611</b>
<b>2019</b>				
<b>Cost:</b>				
Balance, January 1	₱ 16,111,013	₱ 5,759,619	₱ 208,000	₱ 22,078,632
Additions	1,432,248	369,558	–	1,801,806
Disposals	(6,779,656)	(1,781,585)	–	(8,561,241)
<b>Balance, December 31</b>	<b>10,763,605</b>	<b>4,347,592</b>	<b>208,000</b>	<b>15,319,197</b>
<b>Accumulated Depreciation:</b>				
Balance, January 1	–	2,208,397	208,000	2,416,397
Depreciation expense (Note 25)	–	333,253	–	333,253
Adjustments	–	83,984	–	83,984
Disposal	–	(973,849)	–	(973,849)
<b>Balance, December 31</b>	<b>–</b>	<b>1,651,785</b>	<b>208,000</b>	<b>1,859,785</b>
<b>Carrying amount</b>	<b>₱ 10,763,605</b>	<b>₱ 2,695,807</b>	<b>₱ –</b>	<b>₱ 13,459,412</b>

In 2020, the Bank disposed certain investment properties with carrying amount of ₱296,660 for cash proceeds of ₱1,889,472, realizing a gain on sale of ₱1,592,812 as disclosed in Note 22. Also, certain investment properties with carrying amount of ₱1,161,743 were sold through sales contract receivable at selling price of ₱6,503,213 realizing a gain on sale of ₱5,341,470, as disclosed in Note 22. Out of the total selling price, ₱5,778,139 were collected in 2020.

In 2019, the Bank disposed certain investment properties with carrying amount of ₱3,071,628 for cash proceeds of ₱8,157,623, realizing a gain on sale of ₱5,085,995 as disclosed in Note 22. Also, certain investment properties with carrying amount of ₱4,515,764 were sold through sales contract receivable at selling price of ₱11,310,000 realizing a gain on sale of ₱6,794,236, as disclosed in Note 22. Out of the total selling price, ₱2,902,972 were collected in 2019.

The Bank carried out a review of the recoverable amounts of its investment properties. The Bank has determined that there is no indication that an impairment loss has occurred on its investment properties.

The property rental income earned by the Bank from its investment properties amounted to ₱516,650 and ₱916,771 for the years ended December 31, 2020 and 2019, respectively, as disclosed in Note 22.

All additions are through foreclosure of properties.





No amount of investment property of the Bank has been pledged to secure general banking facilities granted to the Bank.

The fair value of investment property as of December 31, 2020 and 2019 amounting to ₱72,242,824 and ₱69,571,819 respectively, is currently categorized within Level 2. 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. There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets.

Expenses incurred related to rental operations and maintenance of investment properties amounting to ₱177,828 and ₱73,971 in 2020 and 2019, respectively, are presented as part of operating expenses in the statement of comprehensive income.

### 13. OTHER ASSETS

The account consists of the following:

	2020	2019
Accounts receivable – net*	₱ 606,803	₱ 262,741
Prepaid expense	300,206	259,516
Stationery and supplies on hand	101,045	171,461
Petty cash fund	14,000	14,000
Returned checks and other cash items	–	351,900
Miscellaneous assets	47,206	38,770
	<b>₱ 1,069,260</b>	<b>₱ 1,098,388</b>

\*net of allowance for credit losses amounting to ₱443,398 and ₱384,644 in 2020 and 2019, respectively as disclosed in Note 24.

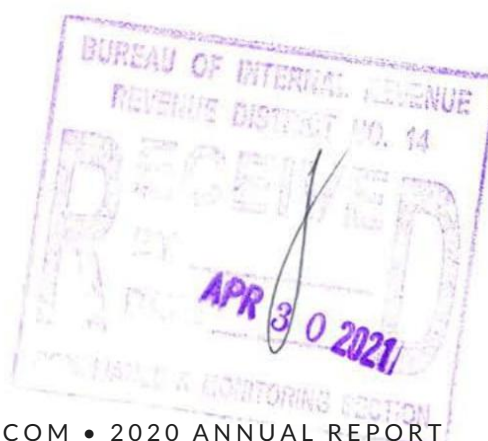
### 14. DEPOSIT LIABILITIES

This account consists of the following:

	2020	2019
Savings deposits	₱ 286,206,769	₱ 237,422,736
Demand deposits	14,338,132	9,795,775
Time certificate of deposits	123,761,033	108,897,536
	<b>₱ 424,305,934</b>	<b>₱ 356,116,047</b>

Savings earn annual interest rate of 0.75%. Time deposits earn annual interest rate of 2% to 5% in 2020 and 2019, respectively.

Total interest expense on deposit liabilities amounted to ₱5,686,026 and ₱4,291,991 for 2020 and 2019, respectively.



**15. BILLS PAYABLE**

Movements of the account are as follows:

	2020	2019
At January 1	P -	P 12,811,000
Proceeds	-	14,300,000
Payments	-	(27,111,000)
At December 31	P -	P -

In 2019, the Bank availed rediscounting facilities of Land Bank of the Philippines at 7% per annum.

As of December 31, 2020 and 2019, there were no loans receivable used as collateral to bills payable as disclosed in Note 10.

Interest expense on bills payable for the years ended December 31, 2020 and 2019 amounted to nil and P223,292, respectively.

**16. DEPOSIT FOR FUTURE STOCKS SUBSCRIPTIONS**

In 2016, the Bank received cash from stockholders which the Bank recognized as deposit for future stocks subscription under liabilities in the statement of financial position since, the requirements under paragraph 11 of PAS 32 and SEC Financial Reporting Bulletin No. 6 – 2012, as amended, were not met for it to be recognized as equity.

In 2019, the deposit was converted into common stock resulting to an increase of 250,006 common stock amounting to P25,000,600, as disclosed in Note 19.

**17. ACCRUED AND OTHER LIABILITIES**

Details of this account are disclosed below:

	Note	2020	2019
Accounts payable		P 41,056,577	P 40,623,404
Accrued interest expense		1,672,152	1,341,007
Lease liabilities		1,526,310	1,551,344
Accrued accumulating and vesting credit leaves		831,434	1,267,631
Withholding tax payable		329,578	269,153
Government payables		206,371	203,914
Documentary stamp payable		180,323	104,558
Dividends payable	21	63	2,413
Miscellaneous payable		6,376,231	6,830,378
		P 52,179,039	P 52,193,802

Accumulating and vesting credit leaves pertains to employees' unused leave credits convertible to cash.

Accounts payable includes funds received by the Bank from Agricultural Credit Policy Council (ACPC) which will be used for loan releases on the Bank's agricultural loans subject to the approval of the ACPC.



**17.01 Movement in accrued accumulating and vesting credit leaves**

	2020		2019	
At January 1	P	1,267,631	P	1,516,986
Payment		(436,197)		(249,355)
At December 31	P	831,434	P	1,267,631

In 2014, the Board of Directors (BOD) decided to discontinue the booking of monthly provision for retirement benefits by virtue of Board Resolution No. 2014-39. According to the Management, gratuity pay is not a mandatory retirement benefit but is subject to the discretion of BOD and is granted to employees with exemplary performance.

Miscellaneous payables pertain to overpayment of loans, compromise, tax refund for separated employees, purchase of gift of time certificate which accounts are not yet opened by the benefactors and security deposit.

**17.02 Lease Liabilities**

The details of the Bank's lease liabilities and their carrying amounts are as follows:

	2020		2019	
Beginning balance	P	1,551,344	P	769,143
Additions		-		806,558
Interest		100,966		82,143
Payments		(126,000)		(106,500)
Total	P	1,526,310	P	1,551,344

The breakdown of lease liabilities as to current and non-current is as follows:

	2020		2019	
Current	P	26,701	P	25,034
Non-current		1,499,609		1,526,310
Total	P	1,526,310	P	1,551,344

The maturity analysis of lease liabilities as at December 31, 2020 and 2019 is as follows:

2020	Lease Payments	Finance Charges	Net Present Values
Within 1 year	P 126,000	P 99,299	P 26,701
1 – 2 years	132,150	97,421	34,729
2 – 3 years	138,600	94,831	43,769
3 – 4 years	138,600	91,891	46,709
4 – 5 years	145,365	88,643	56,722
More than 5 years	1,875,228	557,548	1,317,680
Total	P 2,555,943	P 1,029,633	P 1,526,310



2019	Lease Payments	Finance Charges	Net Present Values
Within 1 year	₱ 126,000	₱ 100,966	₱ 25,034
1 – 2 years	126,000	99,299	26,701
2 – 3 years	132,150	97,421	34,729
3 – 4 years	138,600	94,831	43,769
4 – 5 years	138,600	91,891	46,709
More than 5 years	2,020,593	646,191	1,374,402
<b>Total</b>	<b>₱ 2,681,943</b>	<b>₱ 1,130,599</b>	<b>₱ 1,551,344</b>

## 18. EMPLOYEE BENEFITS

Aggregate employee benefits expense comprised of:

	2020	2019
Short-term benefits	₱ 20,942,233	₱ 23,164,142
Post-employment benefits	1,412,615	1,359,114
<b>Total</b>	<b>₱ 22,354,848</b>	<b>₱ 24,523,256</b>

### 18.01 Short-term Benefits

Short-term benefits comprise of the following:

	2020	2019
Salaries and wages	₱ 11,029,420	₱ 11,797,556
Bonus and incentives	6,573,625	8,222,028
Directors' fees	1,786,780	1,561,600
SSS, PHIC, HDMF contributions	1,552,408	1,582,958
<b>Total</b>	<b>₱ 20,942,233</b>	<b>₱ 23,164,142</b>

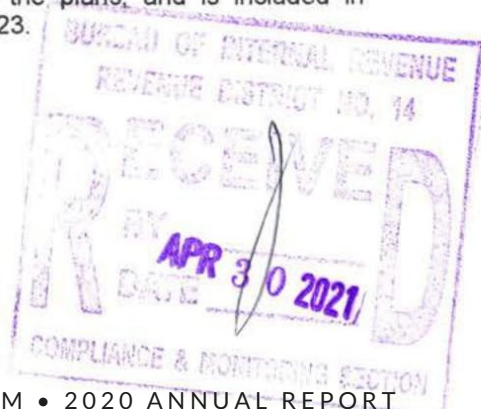
### 18.02 Post-employment Benefits

#### 18.02.01 Defined Contribution Plan

The Bank operates defined contribution retirement benefit plans for all qualified employees. The plan assets are held separately from the Bank, under the control of trustees. Where employees leave the Bank prior to full vesting of the contributions, the contributions payable by the Bank are reduced by the amount of forfeited contributions. The only obligation of the Bank with respect to the retirement benefit plan is to make the specified contributions.

Members of the plan contribute to the fund 5% of their basic monthly salary while the Bank shall pay to the fund as its monthly contribution equal to 15% of each member's basic salary.

The total expense recognized in the profit or loss amounting to ₱1,412,615 and ₱1,359,114 in 2020 and 2019, respectively, represents contributions payable to these plans by the Bank at rates specified in the rules of the plans, and is included in "compensation and fringe benefits" as disclosed in Note 23.



## 19. CAPITAL STOCK

### 19.01 Preferred Stock

Shown below are the details on preferred stock:

	2020		2019	
	Stocks	Amount	Stocks	Amount
Authorized capital at ₱100 par value	3,018	₱ 301,800	3,018	₱ 301,800

No preferred stock was issued as of December 31, 2020 and 2019. Preferred share shall be issued only against government investment in the capital stock of the Bank.

Preferred stock shall be issued only against government investment in the capital stock of the Bank. Preferred stock issued shall have preference over common stock assets of the Bank in the event of liquidation.

Preferred stock shall share in divided distributions at two percent (2%) thereof without preference. The amount of any dividends payable to any holder of share may be applied to the repayments of the stockholders indebtedness to the Bank.

### 19.02 Common Stock

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

	2020		2019	
	Shares	Amount	Shares	Amount
Authorized capital at ₱100 par value	4,996,982	₱ 499,698,200	4,996,982	₱ 499,698,200
Issued and fully paid at ₱100 par value				
Balance, January 1	1,371,660	₱ 137,166,000	996,982	₱ 99,698,200
Issuance of new shares	—	—	250,006	25,000,600
Distribution of stock dividends	137,145	13,714,500	124,672	12,467,200
<b>Balance, December 31</b>	<b>1,508,805</b>	<b>₱ 150,880,500</b>	<b>1,371,660</b>	<b>₱ 137,166,000</b>

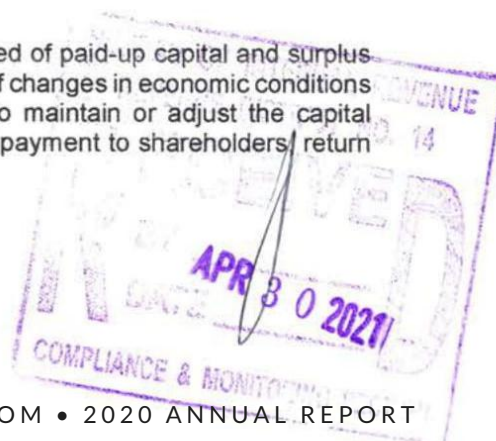
Common stocks carry one (1) vote per share and a right to dividends.

On March 15, 2019, the Securities and Exchange Commission approved the amendment of the articles of incorporation of the Bank. The amendment has increased the capital stock of the Bank into ₱500,000,000, divided into 4,996,982 common stock with voting rights and 3,018 preferred stocks. Both at par value of ₱100 each.

### 19.03 Capital Management

The primary objectives of the Bank's capital management are to ensure the ability of the Bank to have sufficient capital to underpin the Bank's risk taking activities, to continue as a going concern, to maintain a strong credit rating and quality capital adequacy ratios, to ensure compliance with BSP regulations and to provide reasonable returns and benefits to shareholders.

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



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

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

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

As of December 31, 2020 and 2019, the Bank is in compliance with the current banking regulation.

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

Tier 1 Capital and Tier 2 are defined as follows:

- a. Tier 1 Capital is the sum of core Tier 1 capital and allowable amount of hybrid Tier 1 capital.

Core Tier 1 consist of:

- i. paid up common stock
- ii. surplus,
- iii. surplus reserves, and
- iv. undivided profits (for domestic banks only)

Subject to deductions for:

- i. deferred income tax

Hybrid Tier 1 capital in the form of perpetual preferred stock and perpetual unsecured subordinated debt may be issued subject to prior Bangko Sentral approval.

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

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



Information regarding the Bank's "unimpaired capital" as of December 31, 2020 and 2019 is shown below.

	2020	2019
Gross Core Tier 1 Capital	P 263,676,897 P	235,882,864
Regulatory adjustments to Core Tier 1 – Deferred tax asset	(8,908,106)	(9,032,124)
Net Core Tier 1 Capital	254,768,791	226,850,740
Add: Hybrid Tier Capital	–	–
Tier 1 Capital	254,768,791	226,850,740
Tier 2 Capital	3,317,563	3,339,788
Total qualifying capital	258,086,354	230,190,528
Total risk-weighted assets	P 726,307,313 P	590,531,416
Tier 1 capital ratio	35.08%	38.41%
Total capital adequacy ratio	35.53%	38.98%

In addition, Section 127 and Appendix 62 of the MORB discusses the guidelines implementing the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks. The said framework was amended by BSP Circular No. 1079 dated March 9, 2020 and BSP Circular No. 1084 dated April 28, 2020 to strengthen the quality of capital of the covered entities by the introduction of other capital requirements such as the Common Equity Tier (CET) 1 ratio in addition to the existing minimum CAR of 10%. The CET1 ratio is calculated by dividing CET1 capital by total risk-weighted assets.

The implementation of the enhanced capital standards, which include the CET1 ratio, to the aforementioned banks will take effect on January 1, 2023.

The Bank's leverage ratio, computed as total capital over total assets, is 35.43% and 36.28%, as of December 31, 2020 and 2019, respectively.

## 20. SURPLUS

### 20.01 Surplus – Free

The table below shows the retained earnings free for the year:

	2020	2019
Retained earnings – free, beginning	P 98,558,997 P	90,078,425
Cash dividends declared (Note 21)	–	(12,469,880)
Stock dividends declared (Note 21)	(13,716,600)	(12,469,880)
Profit	27,796,133	33,420,332
Balance, December 31	P 112,638,530 P	98,558,997

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



## 20.02 Surplus – Reserves

The surplus reserves pertain to reserve set aside by Bank for contingencies. For the years ended December 31, 2020 and 2019, there was no movement in surplus reserves. Total reserves amounted to ₱157,867 for both years.

## 21. DIVIDENDS DECLARED

Under Section 124 of the MORB, the liability for dividends declared shall be taken up in the Bank's books upon its declaration. However, for dividend declarations that are subject to prior Bangko Sentral verification, the liability for dividends declared shall be taken up in the Bank's books upon receipt of Bangko Sentral advice thereof. A memorandum entry may be made to record the dividend declaration on the date of approval by the Board of Directors.

On August 20, 2020, the Bank through Board Resolution No. 20-135 declared stock dividend amounting to ₱13,716,600. Later on, the Bank decided to convert stock dividends amounting to ₱2,100 into cash dividends.

On December 20, 2019, the Bank through Board Resolution No. 19-199 declared stock dividends amounting to ₱12,469,880. Later on, the Bank decided to convert stock dividends amounting to ₱2,680 into cash dividends. On December 27, 2019, all stock dividends were issued resulting to an increase in capital stock.

On April 22, 2019, the Bank through Board Resolution No. 19-69 declared cash dividend amounting to ₱12,469,880. The payment was made on May 28 and 29, 2019.

Movements of dividends payable are as follows:

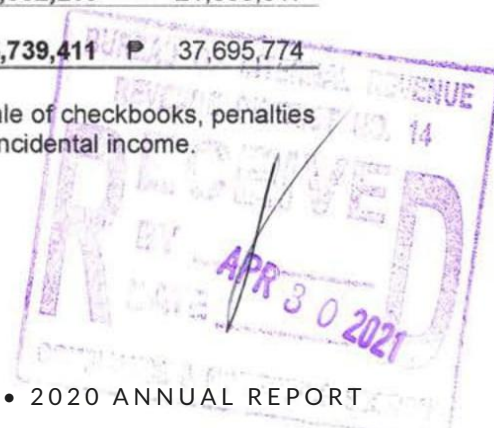
	2020	2019
Balance at January 1	₱ 2,413	₱ 363,299
Cash dividends declared	-	12,469,880
Conversion of stock dividend into cash dividends	2,100	2,680
Cash dividends paid	(4,450)	(12,833,446)
Dividends payable, December 31	₱ 63	₱ 2,413

## 22. OTHER INCOME

This account consists of the following:

	Notes	2020	2019
Gain on sale of investment properties	12	₱ 6,934,282	₱ 11,880,231
Service charges and fees		2,621,961	2,352,411
Rental income	12	516,650	916,771
Recovery from charge off assets		314,299	736,358
Gain on sale of bank premises, furnitures and fixtures and equipments	11	-	4,486
Miscellaneous income		15,352,219	21,805,517
		₱ 25,739,411	₱ 37,695,774

Miscellaneous income pertains to filing fees, income from sale of checkbooks, penalties for late payment of amortization, passed on GRT and other incidental income.





**23. OTHER EXPENSES**

Details of other expenses are shown below:

	Notes	2020	2019
Compensation and fringe benefits	18	<b>₱ 22,354,848</b>	₱ 24,523,256
Taxes and licenses		<b>5,704,289</b>	7,714,924
Depreciation	25	<b>5,353,852</b>	4,350,775
Security, clerical, messengerial and janitorial expense		<b>1,710,254</b>	1,403,304
Fuel and lubricants		<b>1,303,671</b>	1,575,130
Documentary stamp used		<b>962,807</b>	1,029,652
Power, light and water		<b>856,001</b>	888,703
Repairs and maintenance expense		<b>802,820</b>	707,016
Stationery and supplies used		<b>800,468</b>	959,579
Insurance – PDIC		<b>736,526</b>	656,976
Postage, telephone, cable and telegrams		<b>446,260</b>	369,047
Litigation expense		<b>411,808</b>	498,927
Management and other professional fees		<b>400,922</b>	757,943
Information technology expense		<b>382,339</b>	43,949
Insurance – others		<b>359,667</b>	668,686
Representation and entertainment		<b>168,030</b>	168,030
Supervision fees		<b>129,991</b>	113,230
Rentals		<b>105,259</b>	170,600
Interest expense on lease liabilities	17	<b>100,966</b>	82,143
Fees and commission		<b>47,346</b>	21,578
Traveling expense		<b>40,741</b>	115,090
Advertising and publicity		<b>40,663</b>	76,243
Donation and charitable contributions		<b>32,430</b>	90,008
Membership fees and dues		<b>17,060</b>	41,240
Loss on reversal of sale of investment properties		-	173,000
Miscellaneous expense		<b>1,402,498</b>	2,201,828
		<b>₱ 44,671,516</b>	₱ 49,400,857

Miscellaneous expense pertain to expenses incurred in staff trainings, meetings and conferences, auxiliary collection fees, team building and other expenses.



## 24. ALLOWANCE FOR CREDIT LOSSES

Allowance for credit losses is comprised of the following:

	Notes	2020	2019
<b>Balance at January 1</b>			
Loans receivables	10	₱ 27,100,573	₱ 17,938,820
Sales contract receivables	10	1,300,689	1,300,689
Accounts receivable	13	384,644	384,644
		<b>28,785,906</b>	19,624,153
<b>Provision</b>			
Loans receivables	10	3,992,288	11,514,134
Sales contract receivables		967,855	–
Accounts receivable		58,754	–
		<b>5,018,897</b>	11,514,134
<b>Write off</b>			
Loans receivable	10	(2,998,918)	(2,302,381)
<b>Reversal</b>			
Loans receivables	10	(2,061,562)	(50,000)
<b>Transfer from loans to sales contract receivables</b>			
Loans receivables	10	(199,199)	–
Sales contract receivables	10	199,199	–
		–	–
<b>Balance at December 31</b>			
Loans receivables	10	25,833,182	27,100,573
Sales contract receivables	10	2,467,743	1,300,689
Accounts receivable	13	443,398	384,644
		<b>₱ 28,744,323</b>	₱ 28,785,906

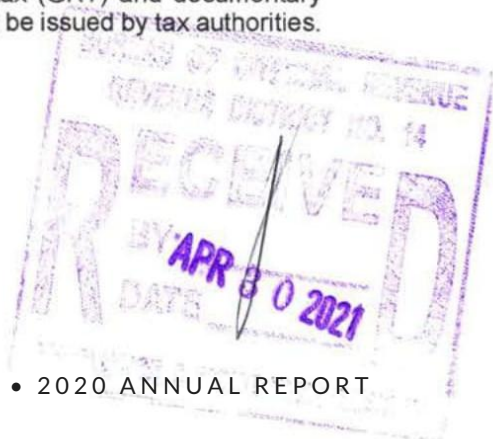
## 25. DEPRECIATION

Depreciation is composed of:

	Notes	2020	2019
<b>Depreciation expense</b>			
Bank premises, furniture, fixtures and equipment	11	₱ 5,029,056	₱ 4,017,522
Investment properties	12	324,796	333,253
		<b>₱ 5,353,852</b>	₱ 4,350,775

## 26. INCOME TAX

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



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

Under Section 34(D) of the National Internal Revenue Code of 1997, the net operating loss of the business or enterprise for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income shall be carried over as a deduction from gross income for the next three consecutive taxable years immediately following the year of such loss.

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

In 2020, to address the impact of COVID-19, the Senate and the House of Representatives enacted Republic Act (RA) No. 11494 or the Bayanihan to Recover as One Act (Bayanihan II) effective September 15, 2020 with an original expiry date of December 19, which has since been extended to mid-2021. Bayanihan II provides for COVID-19 response and recovery interventions and mechanisms to accelerate the recovery and to bolster the resiliency of the economy.

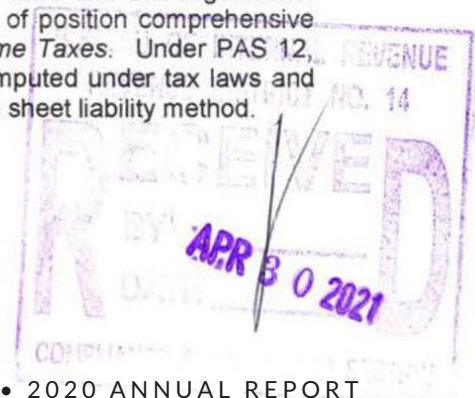
Among the response and recovery interventions provided under Bayanihan II are the carry-over of net operating losses incurred by the business or enterprise for taxable years 2020 and 2021 as deductions from gross income (for purposes of computing net taxable income subject to regular corporate income tax) over the next five consecutive taxable years immediately following the year of such loss Section 4.

Under Bayanihan II, NOLCO would remain in effect even after the expiration of the Act, provided that the deductions are claimed within the next five consecutive taxable years.

On December 22, 2020, the Bureau of Internal Revenue (BIR) clarified, through Revenue Memorandum Circular (RMC) No. 138-2020, that the net operating loss carry-over (NOLCO) may be availed of under RR No. 25-2020 for taxpayers operating on fiscal-year reporting. The RMC enumerated fiscal years ending between July 31 and November 30, 2020 and January 31 to June 30, 2021 as falling within the taxable year 2020. Meanwhile, fiscal years ending between July 31 to November 30, 2021 and January 31 to June 30, 2022 fall within the taxable year 2021. Thus, net losses incurred by businesses or taxpayers during these fiscal years can be carried over as deductions from gross income for the next five consecutive taxable years.

It should be noted that generally, under existing rules (Section 34 of the Tax Code and RR No. 14-01), the accumulated net operating loss of a business by individuals engaged in trade or business or practice of profession and domestic and resident foreign corporations can be carried over as a deduction from gross income only for the next three consecutive taxable years.

The Bank's liability for income tax is based on existing tax laws and BIR regulations. However, income tax expense as shown on the statement of position comprehensive income is determined under the provision of PAS 12 *Income Taxes*. Under PAS 12, income tax expense is the sum of current tax expense computed under tax laws and deferred tax expense determined through the use of balance sheet liability method.



Deferred tax expense is the sum of changes in deferred tax asset and deferred tax liability. The balance sheet liability method focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

### 26.01 Income Tax Recognized in Profit

Components of income tax expense are as follows:

	2020	2019
Income tax expense – current	P 11,370,962	P 16,679,269
Income tax expense (benefit) – deferred	124,018	(2,689,782)
	<b>P 11,494,980</b>	<b>P 13,989,487</b>

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the tax rate in 2020 and 2019 is as follows:

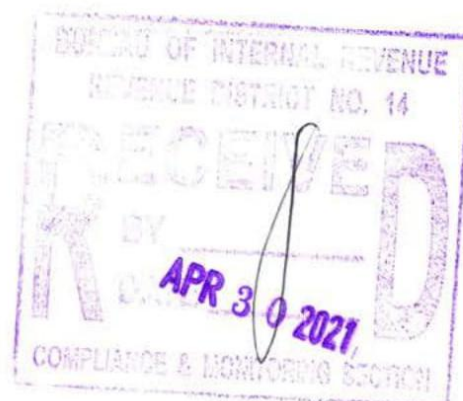
	2020	2019
Accounting profit	P 39,291,113	P 47,409,819
Tax expense	11,787,334	14,222,946
Tax effect of income that is subject to lower rate:		
Interest income subject to final tax	(409,284)	(457,088)
Disallowed interest expense	168,830	188,549
Non-taxable income	(51,900)	–
Non-deductible expenses	–	35,080
	<b>P 11,494,980</b>	<b>P 13,989,487</b>

### 26.02 Deferred Tax Assets

The Bank's deferred tax assets (DTA) as of December 31, 2020 and 2019 are as follows:

	Allowance for Credit Losses	Accrued Credit Leaves	Excess of Lease Liability over ROU	Total
Balance, January 1, 2019	P 5,887,246	P 455,096	P –	P 6,342,342
Origination	3,454,240	–	16,063	3,470,303
Reversal	(705,714)	(74,807)	–	(780,521)
Balance, December 31, 2019	8,635,772	380,289	16,063	9,032,124
Origination	1,505,669	–	19,316	1,524,985
Reversal	(1,518,144)	(130,859)	–	(1,649,003)
<b>Balance, December 31, 2020</b>	<b>P 8,623,297</b>	<b>P 249,430</b>	<b>P 35,379</b>	<b>P 8,908,106</b>

The Management believes that it is highly probable they will generate taxable profit to allow all deferred tax assets to be utilized.



### **26.03 Revenue Regulations (RR) No. 34-2020 – Related Party Transaction (RPT) Form and Transfer Pricing Documentation**

The Bureau of Internal Revenue, in its Revenue Regulation No. 34-2020, requires taxpayers to submit BIR Form No. 1709 (RPT Form) to allow the BIR to verify that taxpayers are reporting their related party transactions at arm's length prices. It is also intended to improve and strengthen the Bureau's transfer pricing risk assessment and audit functions. Most importantly, the information that will be gathered from the RPT Form and its attachments will be used by the BIR during the transfer pricing risk assessment to determine whether or not to conduct a thorough review/audit of a particular entity or transaction.

Under the said RR, the following are required to file and submit the RPT Form, together with the Annual Income Tax Return (AITR):

1. Large taxpayers
2. Taxpayers enjoying tax incentives, i.e. Board of Investments (BOI)-registered and economic zone enterprises, those enjoying Income Tax Holiday (ITH) or subject to preferential income tax rate;
3. Taxpayers reporting net operating losses for the current taxable year and the immediately preceding two (2) consecutive taxable years; and
4. A related party, as defined under Section 3 of RR No. 19-2020, which has transactions with (1), (2) or (3) above. For this purpose, key management personnel (KMP), as defined under Section 3(7) of RR No. 19-2020, shall no longer be required to file and submit the RPT Form, nor shall there be any requirement to report any transaction between KMP and the reporting entity/parent company of the latter in the RPT Form.

In addition, the preparation and submission of Transfer Pricing Documentation (TPD) under RR No. 02-2013, otherwise known as "Transfer Pricing Guidelines" and all other relevant issuances, shall be mandatory for taxpayers enumerated above who meet the following materiality thresholds:

- a. Annual gross sales/revenue for the subject taxable period exceeds ₱150 million and the total amount of related party transactions with foreign and domestic related parties exceeds ₱90 million; OR
- b. Related party transactions meeting the following materiality threshold:
  - i. If it involves sale of tangible goods in the aggregate amount exceeding ₱60 million within the taxable year;
  - ii. If it involves service transaction, payment of interest, utilization of intangible goods or other related party transaction in the aggregate amount exceeding ₱15 million within the taxable year
  - iii. If TPD was required to be prepared during the immediately preceding taxable period for exceeding either (a) or (b) above.

As it does not belong to taxpayers who are required to file and submit the RPT Form under Section 2 of RR 34-2020, the Bank is not covered by the requirements and procedures for related party transactions under the said RR.

### **26.04 Republic Act No. 11534, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE)" Act**

On February 03, 2021, the final provisions of Senate Bill No. 1357 and House Bill No. 4157 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill, which seeks to reform corporate income taxes and incentives in the country, had been ratified by the Senate and the House of Representatives of the Philippines.



Under the proposed law, effective July 1, 2020, the corporate income tax will be reduced from the current 30% to 20% for domestic corporations with total assets not exceeding P100 million, excluding land, and total net taxable income of not more than P5 million. The corporate income tax of all other corporations (domestic and resident foreign), meanwhile, will be lowered to 25%. The bill would also lower the minimum corporate income tax (MCIT) from 2% to 1% effective July 2020 until June 30, 2023.

Other key provisions of the CREATE bill include:

- Effective January 1, 2021, income tax rate for nonresident foreign corporation is reduced from 30% to 25%.
- Preferential income tax rate for proprietary educational institutions and hospitals which are nonprofit is reduced from 10% to 1% effective July 1, 2020 to June 30, 2023.
- Effective January 1, 2022, regional operating headquarters (ROHQ) currently enjoying 10% preferential income tax rate shall be subject to RCIT.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.
- Foreign-sourced dividends received by domestic corporations are exempt from income tax subject to the following conditions:
  - The funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received;
  - Shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure project; and
  - The domestic corporation holds directly at least 20% of the outstanding shares of the foreign corporation and has held the shareholdings for a minimum of 2 years at the time of the dividend distribution.
- Qualified export enterprises shall be entitled to 4 to 7 years income tax holiday (ITH) to be followed by 10 years 5% special corporate income tax (SCIT) or enhanced deductions (ED).
- Qualified domestic market enterprises shall be entitled to 4 to 7 years ITH to be followed by 5 years ED.
- For investments prior to effectivity of CREATE:
  - Registered business enterprises (RBEs) granted only an ITH – can continue with the availment of the ITH for the remaining period of the ITH.
  - RBEs granted an ITH followed 5% GIT or are currently enjoying 5% GIT – allowed to avail of the 5% GIT for 10 years.

The said bill was signed into law on March 26, 2021, except for certain provisions that were vetoed, by the President of the Philippines.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Bank would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.



This will result in lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020, amounting to ₱10,392,899 and ₱3,136,409, respectively, or a reduction of ₱978,063. The reduced amounts which will be reflected in the Bank's 2020 annual income tax return but will only be recognized for financial reporting purposes in its 2021 financial statements.

Also, this will result in lower deferred tax assets as of December 31, 2020 and higher provision for deferred tax for the year then ended by ₱7,423,422 and ₱1,360,666, respectively. These changes will be recognized in the 2021 financial statements.

The following is the expected impact of CREATE Act in the Bank's financial statements:

	Old tax rate	New tax rate	Change
<b>Total assets</b>	<b>₱ 744,276,342</b>	<b>₱ 742,791,658</b>	<b>₱ (1,484,684)</b>
Deferred tax assets:	8,908,106	7,423,422	(1,484,684)
DTA – Allowance for credit losses	8,623,297	7,186,081	(1,437,216)
DTA – Accrued credit leaves	249,430	207,858	(41,572)
DTA – Excess of lease liability over ROU	35,379	29,483	(5,896)
<b>Total liabilities</b>	<b>480,599,445</b>	<b>479,621,382</b>	<b>(978,063)</b>
Income tax payable	4,114,472	3,136,409	(978,063)
<b>Total equity</b>	<b>263,676,897</b>	<b>263,170,276</b>	<b>(506,621)</b>
Retained earnings	112,638,530	112,131,909	(506,621)
<b>Net profit</b>	<b>27,796,133</b>	<b>27,289,512</b>	<b>(506,621)</b>
Income tax expense – current	(11,370,962)	(10,392,899)	(978,063)
Income tax benefit (expense) – deferred	124,018	(1,360,666)	1,484,684

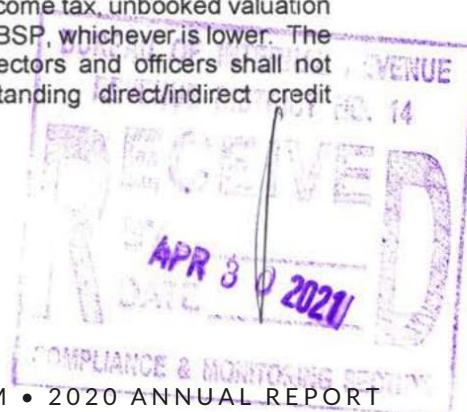
## 27. RELATED PARTY TRANSACTIONS

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

### 27.01 DOSRI Loans

In the ordinary course of business, the Bank has loans and other transactions with certain directors, officers, stakeholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the terms as with other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans to each DOSRI as follows:

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



The summary of Bank significant transactions with loans to its related parties as of and for the years ended December 31, 2020 and 2019.

2020					
Related Party Category	Amount of Transactions	Outstanding Balances	Terms	Conditions	
DOSRI Loans	₱ 687,320	₱ 840,266	Payable in installment and lumpsum; interest bearing	Secured	

2020	DOSRI	Related Party Loans*
Total outstanding DOSRI/ related party loans	₱ 840,266	₱ 840,266
Percent of DOSRI/related party accounts to total loans	0.17%	0.17%
Percent of unsecured DOSRI/related party accounts to total DOSRI accounts	0.00%	0.00%
Percent of past due DOSRI/related party accounts to total DOSRI/related party accounts	0.00%	0.00%
Percent of nonperforming DOSRI/related party accounts to total DOSRI/related party accounts	0.00%	0.00%

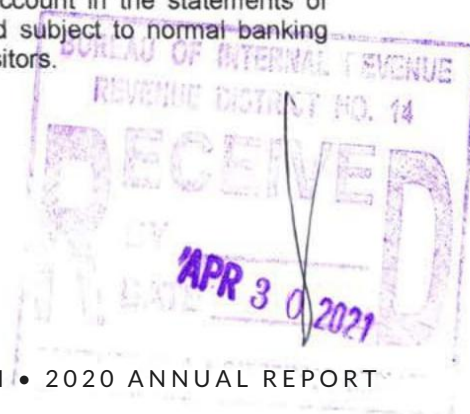
2019					
Related Party Category	Amount of Transactions	Outstanding Balances	Terms	Conditions	
DOSRI Loans	₱ 152,946	₱ 152,946	Payable in installment and lumpsum; interest bearing	Secured	

2019	DOSRI	Related Party Loans*
Total outstanding DOSRI/ related party loans	₱ 152,946	₱ 152,946
Percent of DOSRI/related party accounts to total loans	0.03%	0.03%
Percent of unsecured DOSRI/related party accounts to total DOSRI accounts	0.00%	0.00%
Percent of past due DOSRI/related party accounts to total DOSRI/related party accounts	0.00%	0.00%
Percent of nonperforming DOSRI/related party accounts to total DOSRI/related party accounts	0.00%	0.00%

The Bank assessed that DOSRI Loans are impaired as of December 31, 2020 and 2019. Total allowance for credit losses recognized as of December 31, 2020 and 2019 amounted to ₱8,403 and ₱1,529, respectively.

#### 27.02 DOSRI Deposits

Certain key management personnel maintain deposit accounts and placements with the Bank, which are included as part of Deposit Liabilities account in the statements of financial position. Such accounts are interest-bearing and subject to normal banking terms and conditions applied by the Bank to ordinary depositors.



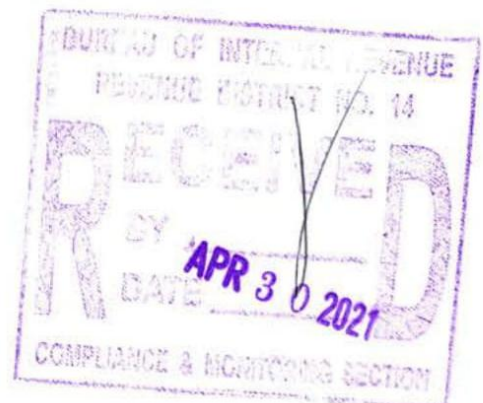


**27.03 Remuneration of Key Management Personnel**

The remuneration of key management consists of:

	2020	2019
Short-term employee benefits	P 3,195,094	P 3,104,401
Post-employment benefits	-	60,421
	P 3,195,094	P 3,164,822

The key management compensation is shown as part of compensation and fringe benefits under other operating expenses account in the statements of comprehensive income.



**28. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES**

The following shows the movement of financial liabilities.

2020	January 1	Cash flows	Interest expense	Foreign exchange	Fair value changes	Non-cash changes			December 31
						Others	Leases	December 31	
Lease liability*	1,551,344	(126,000)	100,966	-	-	-	-	-	1,526,310
Dividends payable	2,413	(4,450)	-	-	2,100	-	-	-	63
	<b>1,553,757</b>	<b>(130,450)</b>	<b>100,966</b>	-	-	<b>2,100</b>	-	-	<b>1,526,373</b>

2019	January 1	Cash flows	Interest expense	Foreign exchange	Fair value changes	Non-cash changes			December 31
						Others	Leases	December 31	
Bills payable	12,811,000	(12,811,000)	-	-	-	-	-	-	-
Lease liability**	769,143	(106,500)	82,143	-	-	-	806,558	-	1,551,344
Dividends payable	363,299	(12,833,446)	-	-	12,472,560	-	-	-	2,413
	<b>13,943,442</b>	<b>(25,750,946)</b>	<b>82,143</b>	-	-	<b>12,472,560</b>	<b>806,558</b>	-	<b>1,553,757</b>

\*In 2020, cash flows from the lease liability includes payment of the principal and interest portion of the lease amounting to P25,034 and P100,966, respectively.

\*\*In 2019, cash flows from the lease liability includes payment of the principal and interest portion of the lease amounting to P24,357 and P82,143, respectively.



**29. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

In the normal course of the Bank's operations, there are various outstanding commitments to extend credit, which are not reflected in the Banking financial statements. Management does not anticipate material losses from these commitments.

The Bank filed several legal actions against loan borrowers who defaulted in payment on their outstanding loan balance. Management believes that those actions will yield positive result in favor of the Bank and does not anticipate material losses. Estimated value to be collected amounts to ₱9,796,184 and ₱4,542,810 as of December 31, 2020 and 2019, respectively.

**30. EVENTS AFTER THE REPORTING DATE**

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

**31. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements for the year ended December 31, 2020 was approved and authorized for issue by the Board of Directors (BOD) on March 19, 2021.

**32. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 15 – 2010**

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

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

**32.01 Gross Receipts Tax**

	2020	2019
Gross receipts tax paid	₱ 3,321,799	₱ 4,471,621
Gross receipts tax payable	1,556,415	1,617,096
	₱ 4,878,214	₱ 6,088,717



### 32.02 All Other National and Local Taxes

All other local and national taxes paid by the Bank and presented as part of operating expenses for the periods ended December 31, 2020 and 2019 consist of:

	2020	2019
National tax:		
Percentage tax	P 4,878,214	P 6,088,717
Local taxes:		
Business permit and other fees	794,278	1,584,598
BIR permit	31,797	41,609
	<b>P 5,704,289</b>	<b>P 7,714,924</b>

### 32.03 Withholding Taxes

Withholding taxes paid or accrued for the years ended December 31, 2020 and 2019 consist of:

2020	Paid	Accrued	Total
Final withholding tax	P 764,223	P 197,192	P 961,415
Withholding tax on compensation	237,786	102,155	339,941
Expanded withholding tax	378,920	30,231	409,151
	<b>P 1,380,929</b>	<b>P 329,578</b>	<b>P 1,710,507</b>
2019	Paid	Accrued	Total
Final withholding tax	P 1,804,772	P 113,560	P 1,918,332
Expanded withholding tax	295,296	102,290	397,586
Withholding tax on compensation	245,610	53,303	298,913
	<b>P 2,345,678</b>	<b>P 269,153</b>	<b>P 2,614,831</b>

### 32.04 Tax Assessments

The Bank has no outstanding tax assessments as of December 31, 2020 and 2019.

### 32.05 Tax Cases

The Bank has no outstanding tax cases in any other court or bodies outside of the BIR as of December 31, 2020 and 2019.

## 33. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 19 – 2011

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



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

### 33.01 Interest Income

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

	Financial Statement	Income Tax Return
Loans receivable	P 67,563,860	P 67,563,860
Investment securities at amortized cost	859,211	-
Deposits with other banks	505,070	-
	<b>P 68,928,141</b>	<b>P 67,563,860</b>

### 33.02 Cost of Service

The breakdown of the Bank's cost of service consists of:

	Financial Statement	Income Tax Return
Interest expense	P 5,686,026	P 5,123,260

### 33.03 Other Operating Income

Details of other operating income of Bank for 2020 are as follows:

	Financial Statement	Income Tax Return
Income from asset acquired	P 6,934,282	P 6,934,282
Service charges and fees	2,621,961	2,621,961
Rental income	516,650	516,650
Recovery from charge off assets	314,299	314,299
Miscellaneous income	15,352,219	15,179,219
	<b>P 25,739,411</b>	<b>P 25,566,411</b>



### 33.04 Operating Expenses

Details of operating expenses for 2020 are as follows:

	Financial Statement	Income Tax Return
Compensation and fringe benefits	P 22,354,848	P 22,354,848
Taxes and licenses	5,704,289	5,704,289
Depreciation	5,353,852	5,264,431
Security, clerical, messengerial and janitorial expense	1,710,254	1,710,254
Fuel and lubricants	1,303,671	1,303,671
Documentary stamp used	962,807	962,807
Power light and water	856,001	856,001
Repairs and maintenance expense	802,820	802,820
Stationery and supplies used	800,468	800,468
Insurance – PDIC	736,526	736,526
Postage, telephone, cable and telegrams	446,260	446,260
Litigation expense	411,808	411,808
Management and other professional fees	400,922	400,922
Information technology expense	382,339	382,339
Insurance – others	359,667	359,667
Representation and entertainment	168,030	168,030
Supervision fees	129,991	129,991
Rentals	105,259	105,259
Interest expense on lease liabilities	100,966	–
Fees and commission	47,346	47,346
Traveling expense	40,741	40,741
Advertising and publicity	40,663	40,663
Donation and charitable contributions	32,430	32,430
Membership fees and dues	17,060	17,060
Miscellaneous expense	1,402,498	1,402,498
	44,671,516	44,481,129
Provision for credit losses	5,018,897	–
Reversal of allowance for credit losses	–	2,061,562
Write-off of credit losses	–	2,998,918
Lease payments during the year	–	126,000
Payment of accumulating vesting leave	–	436,197
	<b>P 49,690,413</b>	<b>P 50,103,806</b>



### 34. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR 1074

On January 8, 2020, the Monetary Board of the Bangko Sentral ng Pilipinas issued BSP circular 1074, *Amendments to the Regulation on the Financial Audits of Banks*, which requires Banks to include the following additional information:

#### 34.01 Basic Quantitative Indicators of Financial Performance

The key financial performance indicators of the Bank are shown below:

	2020	2019
Return on average equity	11.13%	15.70%
Return on average assets	3.99%	5.47%
Net interest margin	10.26%	11.56%
Debt to equity ratio	1.82:1	1.76:1
Tier 1 capital/Total exposure measure	34.08%	34.71%

\*Total exposure measure amounted to ₱747,593,905 and ₱653,584,678 as of December 31, 2020 and 2019, respectively.

#### 34.02 Capital Instrument Issued

The description of the capital instrument issued by the Bank is disclosed in Note 19.

#### 34.03 Significant Credit Exposures

The Bank concentration of credit as to the industry/economic sector (net of unamortized discount) are as follows:

	2020		2019	
	Peso Amount	%	Peso Amount	%
Agriculture, forestry and fishing	196,041,198	38.58%	157,021,965	35.24%
Real estate activities	140,543,757	27.66%	130,156,678	29.21%
Wholesale and retail trade; repair of motor vehicles and motorcycles	43,916,350	8.64%	44,632,728	10.02%
Construction	20,598,807	4.05%	19,359,524	4.35%
Accommodation and food service activities	10,922,610	2.15%	21,656,764	4.86%
Manufacturing	8,694,083	1.71%	66,907	0.02%
Transportation and storage	1,851,870	0.36%	1,311,809	0.29%
Education	1,099,965	0.22%	1,769,794	0.40%
Human health and social work activities	691,682	0.14%	231,075	0.05%
Electricity, gas, steam and air-conditioning supply	350,000	0.07%	–	0.00%
Professional, scientific and technical activities	–	0.00%	69,686	0.02%
Other services activities	83,408,722	16.42%	69,252,166	15.54%
<b>Total</b>	<b>508,119,044</b>	<b>100.00%</b>	<b>445,529,096</b>	<b>100.00%</b>

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

In 2020, the Bank is exposed to credit risk concentration on agriculture, forestry and fishing being 38.58% of the total loan portfolio. The Bank is also exposed to real estate activities, other services activities and wholesale and retail trade; repair of motor vehicles and motorcycles amounting to more than 10% of Tier 1 Capital.

APR 30 2021

In 2019, the Bank is exposed to credit risk concentration on agriculture, forestry and fishing being 35.24% of the total loan portfolio. The Bank is also exposed to real estate activities, other services activities and wholesale and retail trade; repair of motor vehicles and motorcycles amounting to more than 10% of Tier 1 Capital.

### 34.04 Breakdown of Total Loans

#### 34.04.01 As to security

Breakdown of loans as to secured and unsecured, and secured loans as to type of security (net of unamortized discount) are as follows:

	2020	2019
Secured by real estate mortgage	P 292,979,957	P 280,678,112
Secured by chattel mortgage	4,479,668	3,824,834
Secured by other collateral	57,651,019	-
Secured	355,110,644	284,502,946
Unsecured	153,008,400	161,026,150
	P 508,119,044	P 445,529,096

#### 34.04.02 As to status

Breakdown of loans as to performing and non-performing status per product is as follows:

2020	Performing	Non-performing	Total
Loans to individuals for other purposes	P 110,014,977	P 6,426,811	P 116,441,788
Pangka sa baryo – other agricultural	44,822,393	31,142,443	75,964,836
Loans to individuals for housing purposes	66,179,805	879,329	67,059,134
Small scale enterprise loan	55,688,899	7,234,507	62,923,406
Agrarian reform loans	34,114,982	815,640	34,930,622
Loan to individuals – commercial (others)	26,717,768	3,364,315	30,082,083
Pangka sa baryo – agrarian reform	8,869,946	20,057,892	28,927,838
Other agricultural loans	25,142,344	115,333	25,257,677
Medium scale enterprise loan	24,712,623	-	24,712,623
Auto loans	14,104,922	906,164	15,011,086
Yaman sa kaban – other agricultural	9,029,544	3,641,738	12,671,282
Yaman sa kaban – agrarian reform	6,343,261	4,554,582	10,897,843
Micro enterprise loan	1,195,239	777,403	1,972,642
Salary loans	852,078	186,219	1,038,297
Micro housing	114,750	37,644	152,394
Micro -TODA	-	7,680	7,680
Other microfinance loans	-	70,782	70,782
	P 427,903,531	P 80,218,482	P 508,122,013





2019	Performing	Non-performing	Total
Loans to individuals for other purposes	₱ 99,215,598	₱ 3,584,284	₱ 102,799,882
Pangka sa baryo – other agricultural	52,165,338	10,688,385	62,853,723
Loans to individuals for housing purposes	64,892,602	4,349,390	69,241,992
Small scale enterprise loan	50,010,680	5,631,452	55,642,132
Agrarian reform loans	2,701,270	787,516	3,488,786
Loan to individuals – commercial (others)	15,843,422	2,222,894	18,066,316
Pangka sa baryo – agrarian reform	37,420,393	6,780,148	44,200,541
Other agricultural loans	19,507,749	864,177	20,371,926
Medium scale enterprise loan	32,440,655	–	32,440,655
Auto loans	9,343,421	480,508	9,823,929
Yaman sa kaban – agrarian reform	9,772,729	1,917,533	11,690,262
Yaman sa kaban – other agricultural	10,216,464	1,186,854	11,403,318
Micro enterprise loan	1,844,951	512,334	2,357,285
Salary loans	889,453	123,978	1,013,431
Micro housing	114,583	19,309	133,892
Micro -TODA	28,257	–	28,257
Other microfinance loans	–	27	27
	₱ 406,407,565	₱ 39,148,789	₱ 445,556,354

#### 34.05 Information on Related Party Loans

Information on related party loans is disclosed in Note 27.

#### 34.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2020 and 2019 the Bank has no liabilities and assets pledged as security.

#### 34.07 Contingencies and Commitments Arising from Off-balance Sheet Items

The following is a summary of the Bank's contingent accounts as of December 31, 2020 and 2019:

	2020	2019
Items held as collateral	₱ 1,595	₱ 1,590
Items held for safekeeping	97	97
	₱ 1,692	₱ 1,687

