ANNUAL Report 2019

LifeBank
A Rural Bank

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“Breaking the Chains of Poverty”
By: Phillip Somozo

A painting of LifeBank’s vision and mission statement illustrating a maestro leading a rhythm of change and progress in breaking the chains and cycle of poverty.

CORPORATE POLICY

Each of the elements is symbolic of the values of LifeBank. The Mother and Child epitomizes nurture, family, support, and service.

LifeBank - A Rural Bank (LBRB) has been in existence for the past 49 years and now holds a Head Office in Santa Barbara, Iloilo. Its three main branches are situated in Maasin, Iloilo City and Roxas City in Capiz.

In addition, it has 31 Branch-lite Units (BLUs) in the Provinces of Iloilo, Guimaras, Capiz, Aklan, and Antique. While the Bank caters to regular banking clients through its various loan products, it lends mostly to micro entrepreneurs. With 25 years of experience in this sector, microfinancing is considered to be the Bank's core business.

OUR LOGO

As LBRB is moving forward, we created a brand identity that exemplifies how we approach our work in providing microfinance services to the enterprising poor.

We created a logo that encapsulates the elements of our reason for being and to demonstrate what we aim to do and how we do it. The logo highlights the initials L and B for LifeBank and it incorporated the Mother and Child, Earth, Sun and Water among its major elements forming a trademark.

ELEMENTS

Each of the elements is symbolic of the values of LifeBank. The Mother and Child epitomizes nurture, family, support, and service. The Earth embodies nature and shelter. The Sun as the provider of life, light, and warmth. The sun is further emphasized by seven rays that depict the seven pillars of sustainable development: ecological, cultural, economic, political, societal, human, and spiritual. The water describes life, growth, nurturing, and development. Water marked within the water symbol is the map of the Philippines which portrays the role of LifeBank in nation-building.

COLOR SELECTION

The colors of blue, orange, and yellow were carefully selected to reinforce the message among elements used and the emphasize the meaning of LifeBank to its workers, partners, clients, and the public.

Blue

Blue is a color associated with the sea and the sky. For LifeBank, it relates to confidence, wisdom, depth, and stability and is linked to consciousness and intellect. It embodies the symbol of heaven, faith and piety and the virtues of trust, loyalty, and truth.

Blue is considered beneficial to the mind and body. It is a color that stands for tranquility, calmness, and healing for it is known to slow down human metabolism.

Orange

Orange combines the energy of red and the happiness of yellow. It is a color that exemplifies the tropics, sunshine, and joy and is the emblem of endurance and strength.

For LifeBank, it is a color that stimulates enthusiasm, fascination, determination, and creativity and it encourages attraction, happiness, and success.

It is a color that typifies fall and harvest. It offers sensation of heat to the senses and stimulates mental activity by increasing oxygen supply to the brain and delivering an invigorating effect.

Yellow

Yellow is the color of sunshine and depicts joy and happiness. For LifeBank, it is a color that represents intellect, loyalty, and honor. It is a warm color that enthuses cheerfulness and positive energy.

Vision and Mission

VISION

A leading provider of a range of financial services to bank clients, especially microfinance for the enterprising poor, and an important partner to support individuals, families and their communities in realizing their inherent potentials through a culture of caring, sharing, and respect for nature.

MISSION

The four pillars of our mission focus on our clients, our partners, the communities we are serving and our fellow Lifebankers.

TO OUR CLIENTS

We will provide a range of financial and social services and partner with like-minded institutions to respond to the needs of our clients.

TO OUR PARTNERS

We will work together for the benefit of the poor, nature and society.

TO THE COMMUNITIES WE SERVE

We will be a catalyst for poverty reduction and a model of societal responsibility.

TO THE LIFE BANKERS

We will have a culture of excellence, providing opportunities for the personal, professional and spiritual growth and development of all.

CORE VALUES

We Excel

- Competence & Professionalism
- Integrity
- Honesty

We Care

- Customer Satisfaction & Service
- Obedience
- Security & Safety
- Loyalty

We Share

- Social Responsiveness
- Sustainable Development

HISTORY

LBRB, formerly Rural Bank of Maasin (Iloilo), Inc. was established on March 21, 1970 by the Perlas Family and other prominent members of the community of the Municipality of Maasin, Iloilo. The objective of the bank was to extend financial services in areas where access to credit was limited.

In 1993, the Board of Directors held its first planning and visioning session where the bank's vision and mission was defined. This was when the Sustainable Development Investment Unit (SDIU) was set up. This was a unit to be developed that would institutionalize lending for sustainable development projects, the objective of which is the development of the human potential.

In June 1995, a branch was established in the Municipality of Santa Barbara, Iloilo. The branch experienced phenomenal growth as its deposits, loan portfolio and resources increased beyond expectations while recognizing and affirming trust within the community. It was also in 1995 that the Ikabuhi Microfinance Program (IMP) was established. The program aims to activate savings and provide credit to enterprising poor women.

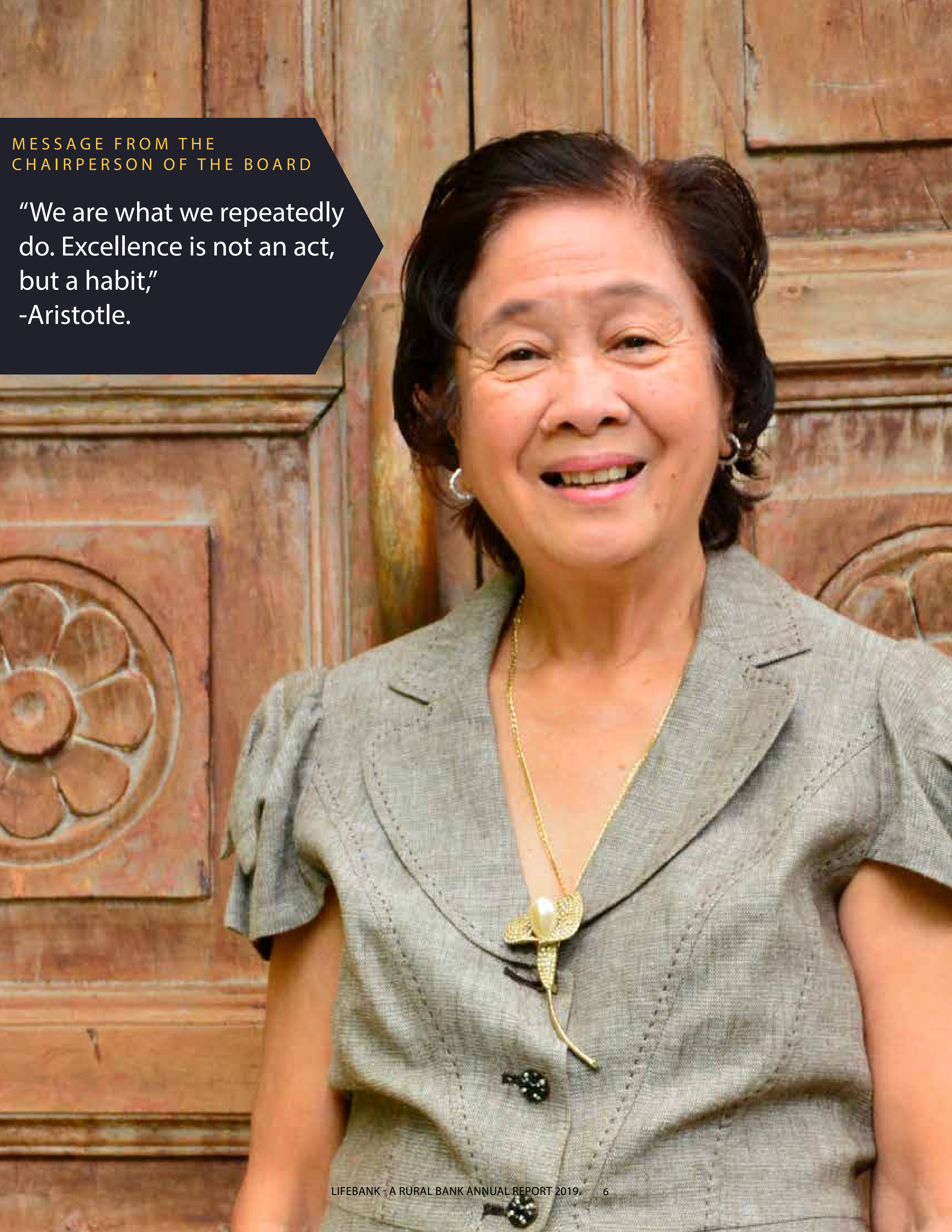
In 1998, the bank adopted the Grameen methodology for its micro-finance program, which initially produced positive results. Later on, weaknesses in the management information system and program policies were observed prompting management to look for a better alternative. It was in November 2000 where the bank became a program partner of the Microfinance Support Program (MSP) of the UNDP where the bank was introduced to the Association for Social Advancement (ASA) pronounced as ASHA- a Bangla word meaning HOPE. Since then, the bank has been implementing the Association for Social Advancement (ASA) methodology with incredible results as proven by its almost 100% repayment rate, early sustainability and rapid expansion.

After covering most of Iloilo, the Board created the LifeBank Foundation, Inc. (LBF) in January 2003 to carry the expansion of the program outside the province. At the time, the Bank did not have the required capital to operate outside Iloilo province. While LBRB continued to grow in assets and capital, LBF's microfinance operation grew to cover Panay and other parts of the country (Luzon, Visayas and Mindanao). In 2008, LBRB, having reached the required capitalization to operate in other parts of the country, started purchasing microfinance portfolio from LBF in the provinces of Iloilo, Guimaras, Antique, Aklan and Capiz.

Currently, LBRB has a Head Office in Santa Barbara, Iloilo, three (3) branches and fifteen (31) BLUs. The branches are located in Maasin, Iloilo (since March 1970; formerly the Head Office), Iloilo City (since May 2011) and Roxas City, Capiz (since May 2013). In addition, fifteen (31) BLUs were established. These are operating in the Provinces of Iloilo (Municipalities of Barotac Nuevo, Miagao, Sara, Balasan, Oton, Pototan and Passi City), Guimaras (Municipality of Jordan), Capiz (Municipality of Mambusao), Aklan (Municipalities of Kalibo, Altavas and Caticlan, Malay) and Antique (Municipalities of San Jose, Bugasong and Culasi).

MESSAGE FROM THE CHAIRPERSON OF THE BOARD

“We are what we repeatedly do. Excellence is not an act, but a habit,”
-Aristotle.



In LifeBank: A Rural Bank (LBRB), we prioritize excellent customer service for both our stakeholders and stockholders by meticulous and comprehensive strategic planning. But most importantly, we could not attain such a feat without the active cooperation, participation, and contribution of every LifeBanker.

Therefore, on behalf of the Board of Directors (BOD), I sincerely congratulate everyone for yet another prosperous fiscal year as indicated in this 2019 Annual Report. It is indeed fulfilling and gratifying to witness the continual growth of our company.

I also want to celebrate with my fellow LifeBankers our One-Billion-Asset achievement last September as we commemorate our 50th Foundation Day. This milestone itself is the by-product of the personnel, management, and Board's synergy in staying committed to its vision, mission and core values.

On the other hand, LBRB's commendable resiliency to the tragic impact of Typhoon Ursula last December is noteworthy as it highlighted the company's flexibility and adaptability to environmental uncertainty and adversity.

Given all these, the Board is in high spirits to cultivate another productive policy environment for this new period. Again, we are our unrelenting efforts. Now, we are beyond enthusiastic to frame our clearest vision for 2020 for sustainable and strategic organizational excellence. We are certainly bound to start a journey of advancement and improvement anew.

Padayon, LifeBank!

Ruth T. Jarantilla
Board Chair
LBRB

Message from the President/CEO

"Beyond our beautiful vision is a hopeful future to devote our valuable time to increase resiliency of our organization and our clients! We look forward to a more fruitful year ahead fulfilling the 3-year 10 Strategic Directions we set for ourselves, our partners and our clients, further enriching our success story."

Hitting 1Billion Asset is more than just an impressive financial numbers. Fact is, these numbers have a lot of stories to tell. As your President/CEO, it is my pleasure to be the story-teller this time. Allow my traditional annual message become a story-telling of what these and other numbers are conveying to us LifeBankers, as well as to all our stakeholders and clients. There are many other stories that either polarize or divide us, or scare us. But let our story tell of the needed springtime for our organization to sustain our faith, and radiate this hope-filled anticipation of the times ahead – no matter how difficult or challenging they seem to be.

Let me begin my story-telling on a very positive note. The past year has been fulfilling and successful for LifeBank -A Rural Bank (LBRB) as we also have sustained our momentum for the year 2019. The strategic plans were smoothly executed as we prepare to celebrate the 50th Founding Anniversary on March 21, 2020. This is yet again another number full of stories – 50 – fifty, those long years whose many stories are laced with a good mix of failures and triumphs, of hard-earned learnings, of trials and challenges hurdled, of uncertainties and renewed sense of purpose – all these stories lead us to where we are right now. Our 50th, and it is by no means small. In the local rural banking landscape, only few banks reach 50 years without becoming part of a merger and consolidation.

Any story is only as good as the characters who comprise the story – our senior managers, all managers and supervisors and our frontliners and support staff who played key roles in maximizing productivity and hitting our expansion targets. To them, I credit how we successfully crafted our success story culminating with the 50th Founding Anniversary.

There are so many other stories I am very eager to share with you all.

We recall that early second quarter of the year 2019, we inked partnership with a cloud-based financial inclusion company. We hope to go live with our new core banking software on the 4th quarter of 2020. We envision a core banking system that will help propel our digitalization journey: that will deliver banking anywhere service, our customers enjoying the convenience of access to our future electronic channels.

September 2019 will always be a special chapter in our story. It marked the milestone of reaching the 1.0 billion asset earlier than expected. Reading backward, it is that part of our story that capture eloquently everything we worked for since the founding of our organization. Reading forward, it is that part of our story that tells us who we are, what we are, and what we are capable of achieving together. We sustained our winning streak through the following breakthroughs: our goal of increasing deposits and loans were achieved; we inaugurated the newly renovated Head Office building before the year ended providing ample space for more than 150 of our support staff and we opened 16 Branch-lite Units. We capped the year 2019 by maintaining our CAMELS rating.

Our story that covered year 2019 was dominantly shaped by a positive script that was disrupted with an environmental challenge that confronted Panay Island. With the last days of the year ushering in the usual Christmas and new year euphoria, Typhoon Ursula devastated northern part of Panay during the Christmas day affecting most areas ravaged by Super-Typhoon Yolanda 6 years earlier. Almost 40 % of our microfinance clients from Capiz, Aklan, Antique were affected. As a result of the disaster, 4% of the bank's loan portfolio were at risk. This grim part of the story remind us that we are working in fragile areas. With this awareness, we need to put more focus on how we can contribute to more environmentally sustainable programs and how to become highly resilient as an organization.

Reviewing our story, our effort for climate change and disaster preparedness and any unforeseen eventualities could have been prioritized, strengthened and nurtured. What is happening to our climate and to our environment is putting a test to our business continuity plan and allowed us to think of creative ways to protect our respective institutions.

But it's never too late. I am deeply optimistic that with our sustained efforts and strong policies, we can redirect more endeavor on products geared towards supporting the environment.

Beyond our beautiful vision is a hopeful future to devote our valuable time to increase resiliency of our organization and our clients! We look forward to a more fruitful year ahead fulfilling the 3-year 10 Strategic Directions we set for ourselves, our partners and our clients, further enriching our success story.

Please proceed by reading the 2019 President's Report for the full-blown story-telling.

Rosario Perlas, M.D.
LBRB President/CEO

President's Report 2019

In this highly competitive and dynamic business environment, it's critical for any organization to evolve constantly, to be more productive and relevant by adjusting its processes to improve operational efficiency. The past three (3) years, LBRB focused more on improving its financial performance thru expansion and improving its operational processes thereby achieving growth and sustainability.

Major Highlights for 2019

LifeBank – A Rural Bank (LBRB) has a solid niche in the small and micro scale enterprises with core businesses in its Microfinance Loans, with a total of 3 branches and 31 branch-lite units as of December 31, 2019. The Bank has scored a milestone in reaching its assets to a billion-peso mark. LBRB is the 38th largest in total assets among rural banks in the country, with total assets of Php 1.03 billion and 48th largest in deposit liabilities, reaching Php 606.16 million end of December 2019. LBRB earned a net income of Php 50.5 million, slightly higher than the earnings of Php 46.10 million in 2018 due to sustained efforts and improved earnings from microfinance loans. Loans receivable registered double digit growth to Php 509.8million, higher by 15.39% from 2018. Net interest income reached Php 302.6 million, 15.01% higher compared to the previous year. LBRB's total liquid assets stood at Php 449.55million, up by 9.86% from year-ago level. While deposit liabilities reached Php 606.16 million, up by 14.03% versus 2018 year-end level. The Bank's core deposit stood at Php 309.9 million.

Meanwhile, service fees and commissions as well as gains from sale of acquired assets grew by Php 3.9 million or 76.47% mainly due to sale of ROPA. The Bank's financial performance remains strong with Return on Equity (ROE) at 17.20% and Return on Assets (ROA) at 5.21%. Total Equity increased double digit growth to Php 315million, higher by 15.81% from 2018. LBRB's risk-based Capital Adequacy Ratio (CAR) stood at 28.01%, exceeding the minimum regulatory requirement of 10%.

Human Development Department Reforms

We capped the year by introducing many reforms in our Human Development Department (HDD). More than 60% of HDD 's policies were focused on succession program, improving staff competencies, training and development and improving employee benefits thereby motivating our staff to perform their best.

We closed the year with 564 staff, 7% of which are probationary and being prepared for expansion.

As we aspire for excellence and try to strengthen our core values under we excel, we care and we share tagline, we are rooting to strengthen our staff's skills and competencies through training, coaching and mentoring. Staff training conducted for this year were: Innovative thinking, Coaching and Mentoring, values formation and customer service. We commit to continue to sustain the gains we have accomplished to become more efficient and effective on our duty as LifeBankers.

Leadership

To hone the bank's leadership skills of our senior managers, we introduced a continuing learning program on leadership called Leadership Learning Development Program. This goes to show that we believe that our people are our primary asset. In line with our belief that people is our major asset, we also reviewed and enhanced our performance management policies.

Support to Clients

With the support of Lifebank Microfinance Foundation Inc., financial literacy program was also introduced to our selected microfinance clients last October 2019. Our aim is to introduce financial awareness to our clients who are in sari-sari store, buy- and sell business and other businesses where financial management is necessary.

We envision to refine the program as we continue to deliver and cascade the training program to our clients and see improvement in their businesses and cash flow management.

Due to occurrence of typhoon Ursula last December 25, 2019 which greatly affected our microfinance operations in Northern part of Iloilo, Province of Capiz and Aklan, there was an increase past due loans .

Ø As end of December 2019, the actual declared Past Due – Under moratorium is from 1,630 borrowers with the declared amount of PhP20.6M

Ø PAR of SDID rose to 7.95% end of December 2019.

Ø The inactive accounts as of December 2019 is 13,096 representing 22.8% of our SDID clients. Currently, this is posing a challenge to our operations on how to convert these accounts into active borrowers. We hope the services that we will offer like the financial literacy and other social services program can minimize transfer to inactive accounts.

DEPOSITS

Our deposits grew by 14% , higher by P75M as compared to the 2018 figure. We in LifeBank take pride when we have served our clients satisfactorily and the increase in deposits directly reflects increasing trust from the public.

LOAN PORTFOLIO

The total Loan Portfolio as of December 2019 was PhP 509.8M. This increased by PhP67.9 M or 11.48% higher compared to PhP441.8M of the year 2018 because of opening of 16 Branch-lite Units. Sustainable Development Investment Department (SDID) Microfinance Loan – comprise 88% of the bank's loan portfolio while 12% comprised the regular loans under the Credit Relationship Department (CRD).

SUSTAINABLE DEVELOPMENT INVESTMENT DEPARTMENT (SDID), The Microfinance Loans

- SDID loan portfolio increased by 14% from 393.80M end of 2018 to 448.86M3 end of 2019.
- For the year 2019, the total microfinance loans released were 1.56 B , an increase by 180M compared to previous year.
- Number of Borrowers increased by 2,098 or 6.12% resulting from

the opening of sixteen Branch-lite units and implementation of policy by increasing the allowable loan amount up to 20K for the 1st cycle

- While the Active Members slightly decreased by 512 or 1%.

Status of SDID's five (5) loan products:

1. Ikabuhi Microfinance Program (IMP) - as end of 2019 the IMP loan outstanding was 408.47M which increased by 39.51 million compared to previous year.

2. Ikabuhi Entrepreneurial Program (IEP) – total loan outstanding end of 2019 was 26.44 M which increased by 1.94M compared to previous year.

3. Ikabuhi Agricultural Program (IAP) is an Inactive product as we encountered challenging issues on repayment with the farmers.

4. Ikabuhi Educational Loan (IEL)- outstanding loan was 9.47M. SDID launched this product last June 2019.

5. Micro Scale (Unsecured) from clients of CRD- This LifeSmile product was transferred to SDID beginning of 1st - quarter of 2019. Outstanding loan was 4.4M with 21 accounts.

CREDIT RELATIONSHIP DEPARTMENT – (CRD) , The Regular Loans

The CRD total loan portfolio is 64.9M end of 2019 which increased by 12.93M compared to previous year. Among the six (6) products, LifeHome comprised more than 50% of CRD products.

- The total annual CRD loan release as of December 2019 was 33.84M
- Sta. Barbara Branch has the highest loan portfolio amounting to 27.40M followed by Iloilo City Branch amounting to 19.08M, Maasin Branch and Roxas City branch with the 7.25M and 7.22M respectively
- The major achievement of CRD was the disposal of all ROPA properties that were available for sale
- Adoption of the new Risk Rating Tool – Internal Credit Risk Rating System Tool (ICRRS)
- As of December 2019 PAR was at 12.38% as against the industry standard of – 14.17% * BSP issuance (September 2019)

Another major highlight is an increase in income from Automated Teller Machine (ATM) and transaction count in our Maasin Branch.

Average 2019 gross annual income enjoyed by Encash was 2.2 M. The bank's current share was 11%. This clearly indicates that more and more people are using electronic banking especially in rural areas.

CHALLENGES FACED

With the unexpected disturbance caused by typhoon Ursula and the unpredictability of the climate, we intend to put more focus to improve the Business Continuity Plan and to develop a system that will minimize the impact of climate change to our clients through improved communication, response and adaptation program.

Additional challenges that we face are the loans for farmers and fisherfolks. These are basically the livelihood programs that are directly affected by climate change.

STRATEGIC DIRECTIONS

Our ten (10) Strategic Directions for 2019-2021 enumerated below still remain to be viable and relevant with three(3) identified priority plans.

1. Sustain Economic Growth
2. Compliance with Regulatory Prescriptions
3. Improve Portfolio Quality
4. Address Competition
5. Improve Retention of Clients Through a more Intense Client Focus
6. Becoming a technology-oriented bank through digital transformation
7. Enhance staff competency and dedication as investment for succession
8. Deliver Lifebank-A Rural Bank projects that are geared towards directly helping the poor through partnerships.
9. Develop a system that will minimize the impact of climate change among clients through improved response and adaptation program
10. Cultivate deeper appreciation of LifeBank's vision, mission and goals

The three (3) year priority plan will focus on three (3) initiatives for the years to come while we remain compliant with regulatory prescriptions namely:

Digital transformation, succession planning and sustain economic growth by: expansion, improving portfolio quality, developing appropriate products that will help us remain to be competitive and relevant while still addressing more initiatives under our strategic plans.

LBRB's thrust in digital banking are to: focus on establishing stable core banking system and website, improve customer experience, reduce cost, minimize human error, coming up with accurate, timely and secured reports and establish a robust and integrated system- ready to connect to API solution to prepare ourselves for online banking services in the future.

Undeniably, more has to be done in the rural banking side as far as digitalization is concerned. With the support of BSP and enough focus, we can do it as we continuously strive to do our best!

Moreover, like most organizations of our size, we need to continuously review, refine and execute properly our succession planning program and strive to become a resilient organization. To increase our reach, we plan to establish a branch in Kalibo and open more Branch -lite Units (BLU's) 2020 onwards.

Our Corporate Social Responsibility Unit also conducted medical mission to over 400 SDID clients last June 2019 at Sta. Barbara covered gym and sponsored 68 college scholars from the children of our SDID clients. The medical mission was attended by clients from neighboring towns, doctors and nurses from various government hospitals. Our SDID clients expressed gratitude for these programs (medical mission and scholarship program) and are looking forward to more of these initiatives in the future.

In the future, we envision to cascade more social services program similar to these activities to more clients with the support of our sister organization, Lifebank Microfinance Foundation Inc.

FINANCIAL HIGHLIGHTS

PROFITABILITY (IN MILLIONS) & RATIOS

	2019	2018
Total Net Interest Income	302.6	263.1
Total Non-Interest Income	9.0	5.1
Total Non-Interest Expense	241.0	204.1
Allowance for Credit Losses	0.4	0.4
Net Income	50.5	46.1
Return on Equity	17.2%	18.43%
Return on Assets	5.21%	5.31%
Capital Adequacy Ratio	28.01%	31.71%
Minimum Liquidity Ratio	76.59%	65.21%

SELECTED BALANCE SHEET

	2019	2018
Liquid Assets	449.55	409.2
Gross Loans	509.8	441.8
Total Assets	1035.8	902.7
Deposits	606.2	531.6
Total Equity	315.0	271.9

OTHER SELECTED ACCOUNTS (IN MILLIONS)

	2019	2018		2019	2018
Assets	1035.8	902.7	Microfinance Loans	444.4	393.8
Liabilities	720.8	630.7	Regular Loans	64.9	48.0
Equity	315.0	271.9	Deposits	606.2	531.5
Income	311.6	268.2			
Expense	261.1	222.1			

RISK MANAGEMENT BEYOND COMPLIANCE

The Risk Management process and practices of LBRB is anchored on its mandate and consistent with its Vision, Mission, strategies and business objectives, structure, policies, and overall risk management strategy.

The Risk Management Process is based on the guidelines and directions set forth by the Bangko Sentral ng Pilipinas.

Risk reporting apprises LifeBank's Top Management of the material risks confronting the Bank and it serves as guide in decision-making, specifically in determining viable solutions that will address the risks.

The Risk Management Process highlights risk management performed at three different levels: Strategic Level; Portfolio Level; and Transactional Level.

1. Risk Management at the Strategic Level generally involves risk oversight and risk policy formulation and approval. Along the risk and control "line of defence", this level is ultimately responsible for the effectiveness of risk management activities across the organization.

The highest level of risk management involves: the LBRB President/CEO, other Board-level committees, and Management Committee.

The Board performs the risk management oversight at LBRB. They are responsible for reviewing and approving the Risk Management program. The Board is responsible for setting the risk appetite, approving policies and strategies.

The President/CEO, Board-level committees and Management Committee are responsible for creating a risk culture that promotes a deep sense of risk awareness among the Bank's officers and staff.

2. Risk management at the Portfolio Level is the second "line of defence" and is generally responsible for risk analysis, control and management reporting.

Portfolio level risk management involves the Department/Division Managers and the Risk Management Department of the Bank (RMD).

The Department/Division Managers with the RMD are responsible for analyzing and controlling risks reported by the business units/ authorized risk takers under them. They monitor the occurrence of policy breaches and procedural infractions and deviations and ensure that risk measures are properly applied by the business and support units.

Should controls fail in addressing risks, the Department/Division Managers should review attendant policies and propose workable adjustments when necessary.

The RMD/Department/Division Managers collate and consolidate all risk reports from its various risk-taking units and prepare the necessary analysis. The consolidated risk reports are then submitted by the RMD to the Board.

Portfolio-level risk reports generated by the Department/Division Managers and RMD are escalated to the Board and Senior Management. These management reports should provide snapshots of overall risk positions of the Bank and should enable the Board to evaluate performance from a risk-adjusted perspective and to initiate the necessary adjustments in the overall business strategy.

3. Risk Management at the Transactional Level is the first "line of defence" and is comprised of the business and support units that are directly responsible for the processes and the risks.

The transactional level involves specifics of day-to-day risk-taking activities as performed by the risk owners or the Authorized Risk Takers (ARTs). All transactions of ARTs should conform to LBRB's policies and procedures and should be within specified limits and approving authorities.

Identification and recognition of risks and the occurrence of risk events are documented by the ART and reported to the Department/ Division Head.

Risks are measured and quantified in terms of its impact on the unit's operations and on the targeted revenues.

Risk mitigation strategies are applied, whenever possible, to address or resolve the risk event(s). Situations requiring actions by next higher officer should be escalated by the ARTs in a proper and timely manner.

Reports on risk events, policy breaches and procedural infractions and corresponding risk mitigation strategies taken should be elevated to the Unit Managers. On a regular basis, risk reports should be prepared and submitted by the risk-taking units to the Unit Managers.

RISK APPETITE & TOLERANCE

LBRB aims to be risk aware, but not overly risk averse, and to actively manage risks to protect and contribute to the growth of the Bank. To achieve its objectives, LBRB recognizes that it will take on certain risks.

The Bank aims to take risks in an informed and proactive manner, such that the level of risk is consistent with the potential rewards and that LBRB understands and is able to manage or absorb the impact of the risk in the event that it materializes.

Management established such risk responses as are required to achieve the objectives in accordance with the acceptability of the risk. Quantified risk tolerances has been formulated and regularly updated by Management at each business-unit level. The Bank aims to actively avoid risks that could:

- Negatively affect the Bank's stakeholders (clients, employees or other stakeholders);
- Negatively affect LBRB reputation;
- Lead to laws or regulations being breached; or
- Endanger the future existence of the organization.

RISK GOVERNANCE STRUCTURE AND RISK MANAGEMENT PROCESS

Reports on risk events, policy breaches and procedural infractions, and its corresponding risk mitigation strategies should be elevated to the Unit Managers. Risk reports should be prepared on a regular basis and must be submitted by the risk-taking units to the Unit Managers.

RISK MANAGEMENT APPROACHES

Risk management may be undertaken by using two approaches: The Silo and the Integrated Approach. The Silo Approach is used to tackle risks on an individual or compartmentalized basis. It is usually transactional and reactive and it concentrates on how individual business units operates and perform and with each department being responsible for managing its respective risks.

The Integrated Approach, on the other hand, is used by considering the risks at all levels of the organization, from strategic up to the day-to-day job of customer facing employees. It is a bank-wide and proactive in nature and it considers interdependencies of units as well as the inter-relationship of risks.

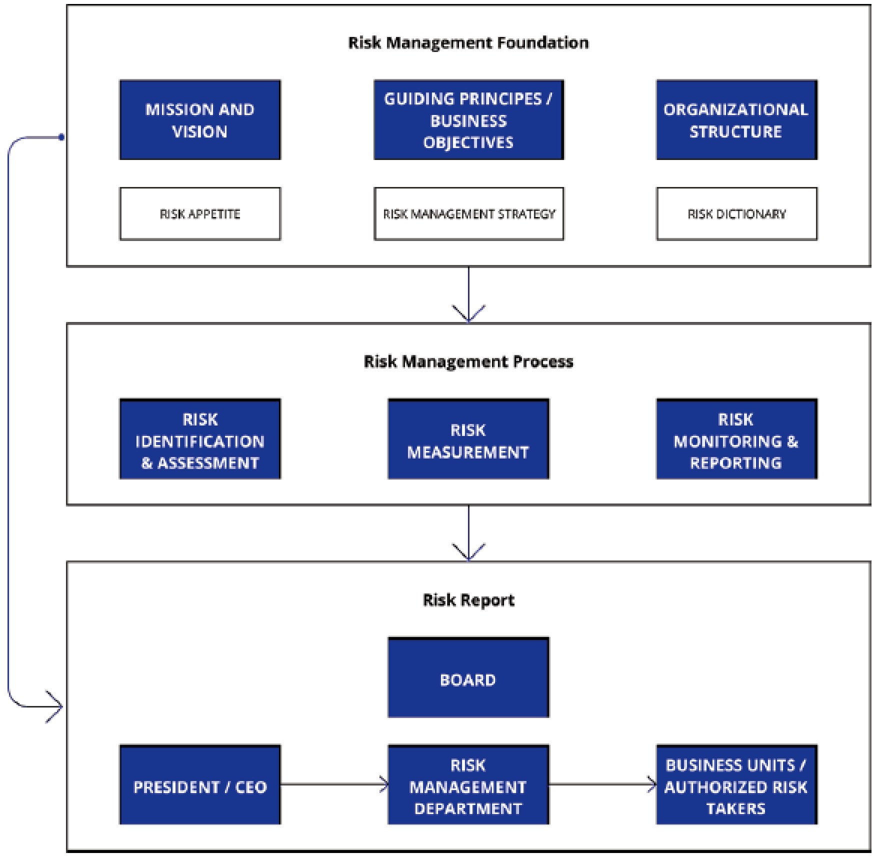
COMPLIANCE RISK MANAGEMENT SYSTEM

The Bank has established a dynamic and responsive compliance risk management system designed to identify and mitigate business risks that may erode the franchise value of the bank such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation, a bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities and from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financing activities. It considers compliance risk management as an integral part of its culture and risk governance framework. The Bank sees compliance risk management as the responsibility and shared accountability of all personnel, officers, and the board of directors.

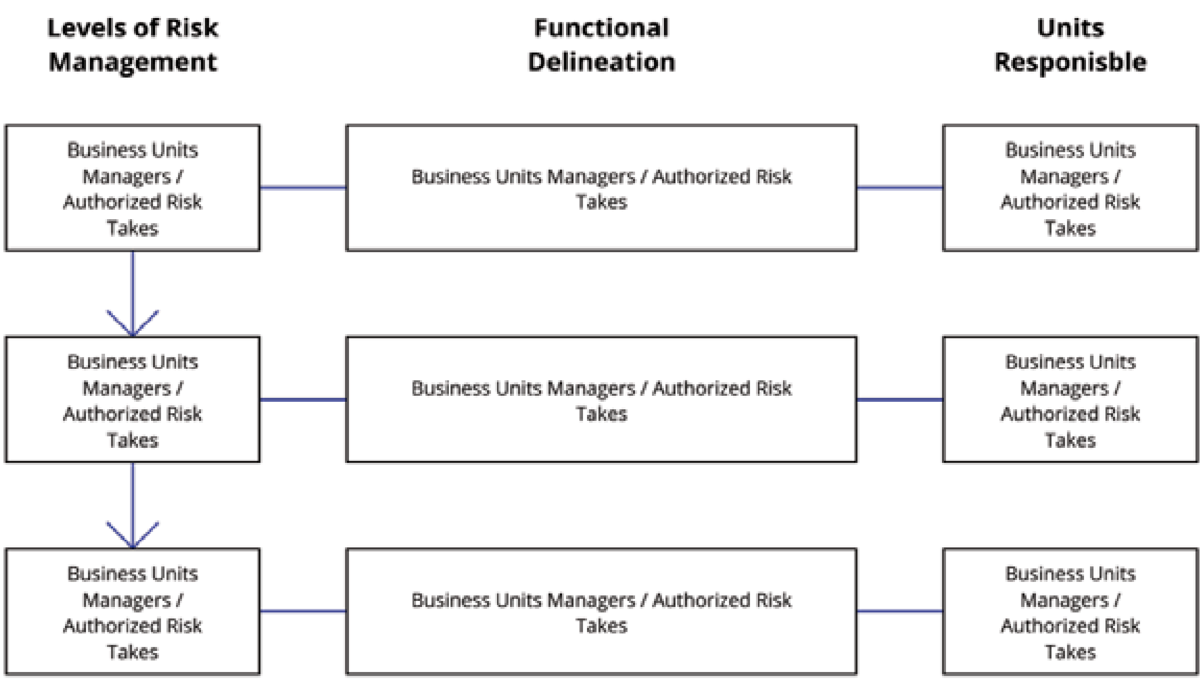
ANTI-MONEY LAUNDERING

The Bank adopts a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) geared toward the promotion of high ethical and professional standards and prevention of the Bank being used, intentionally or unintentionally, for money laundering and terrorism financing activities. It is designed according to the Bank's corporate structure and risk profile and include written internal policies, controls and procedures to implement the relevant laws, rules, regulations and best practices to enable the Bank to manage and mitigate the risks that have been identified in its risk assessment, including taking enhanced measures for those classified as posing higher risks. The policies contained herein apply to all Bank personnel and its Business Units involved with all the transactions of the Bank, whether financial or non-financial. Heads of BUs ensures that all the business conducts and processes of their respective offices are in accordance with this policy. This MLPP is consistent with the Anti-Money Laundering Act, as amended, its respective Revised Implementing Rules and Regulations and other Anti-Money Laundering Council and Bangko Sentral ng Pilipinas issuances thus, are regularly updated at least once every two (2) years to incorporate changes.

RISK MANAGEMENT FRAMEWORK



RISK MANAGEMENT PROCESS



Risk Appetite Statement

1. Introduction

This Statement considers the most significant risks to which the LifeBank "Bank" is exposed and provides an outline of the approach to managing these risks. All strategic plans and business plans for functional areas need to be consistent with this Statement.

2. General Statement of Risk Appetite

LifeBank faces a broad range of risks reflecting its responsibilities as a bank. These risks include those resulting from its responsibilities in the areas of monetary, financial stability and payments/ collection system policy, as well as its day-to-day operational activities.

The risks arising from the Bank's policy responsibilities can be significant. These risks are managed through detailed processes that emphasize the importance of integrity, maintaining high quality staff, and public accountability.

In terms of operational issues, the Bank generally has a low appetite for risk. The Bank makes resources available to control operational risks to acceptable levels. The Bank recognizes that it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities. Acceptance of some risk is often necessary to foster innovation and efficiencies within business practices.

3. Coverage

The Bank's attitude and core values towards its key strategic, financial, people and operational risks is described below.

3.1. Strategic Risks

The Bank aspires to be among the leading rural banks, measured by the quality and effectiveness of its operations. This requires ongoing development and innovation in its operations through strategic initiatives which often carry significant risk. The Bank has a low appetite for threats to the effective and efficient delivery of these initiatives. It recognizes that the actual or perceived inability to deliver strategic initiatives could have a significant impact on its ability to achieve its objectives as well as its reputation.

The Bank's Senior Management meets regularly to discuss the major initiatives. A framework is in place to ensure that these initiatives are prioritized appropriately, and that the associated risks are well managed and reported on a consistent basis.

3.2. Liquidity Risks (Financial Risks)

The Bank does not aim to eliminate this risk as this would significantly impair its ability to achieve its policy objectives. Instead, the risks are managed to an acceptable level (low appetite) through a framework of controls. The Bank acknowledges that there will be circumstances where the risks carried on its balance sheet will have a material impact on its financial accounts. The Bank regards it as desirable to hold sufficient reserves to absorb potential losses.

The Bank manages this risk carefully by applying a strict set of criteria to investments, confining its dealings to institutions of high creditworthiness and ensuring that exposures to counterparties are appropriately secured, wherever feasible.

3.3. Operational Risks

The Bank's appetite for specific operational risks is detailed below. Risks are carefully analysed in all of the Bank's operational activities, including to ensure that the benefit of the risk control measures exceeds the costs of these measures.

3.3.a. Fraud and Misappropriation
The Bank has no appetite for any fraud or misappropriation perpetrated by its staff. The Bank takes all allegations of suspected fraud or misappropriation very seriously and responds fully and fairly as set out in the Code of Conduct and Ethics (CCE).

3.3.b. People and Culture Risks

The Bank's significant people and culture-related risks include:

Quality of People – The Bank relies on motivated, diverse and high quality staff to perform its functions. It aims to create an environment where employees are empowered to the full extent of their abilities. The appetite for quality staff which do not meet these standards is very low.

Conduct of People – The Bank expects employees to conduct themselves with a high degree of integrity, to strive for excellence in the work they perform and the outcomes they achieve, and to promote the public interest. The appetite for behaviours which do not meet these standards is very low. The Bank takes very seriously any breaches of its Code of Conduct and Ethics (CCE).

3.3.c. Security and Safety

Personnel Security - The Bank is committed to creating a safe working environment for all of its staff, where people are protected from physical or psychological harm. It has a very low appetite for practices or behaviours that could be expected to lead to staff being harmed while at work.

Physical Security-The Bank provides a highly secure environment for its people and assets by ensuring its physical security measures meet high standards. The Bank has a very low appetite for the failure of physical security measures.

3.3.d. Information Technology

Information Technology (IT) risks cover both daily operations and ongoing enhancements to the Bank's IT systems. These include:

Technology Service Availability – The Bank has a very low appetite for risks to the availability of systems which support its critical business functions, including those which relate to inter-bank settlements, banking operations and financial markets operations. Service availability requirements have been identified and agreed with each business area.

Technology Change Management - The implementation of new technologies creates new opportunities, but also new risks. The Bank has a low appetite for IT system-related incidents which are generated by poor change management practices. Moderate risk appetite for innovation and digitalized bank operations.

Security –The Bank has no appetite for damage to Bank assets from threats arising from malicious attacks. To address this risk, the Bank aims for strong internal processes and the development of robust technology controls.

3.4. Credit Risks

The Bank has a very low appetite for credit risk. For microfinance lending the Bank has moderate risk appetite. The Bank manages this risk carefully by applying a strict set of criteria to loan related activities and dealings to customers with high creditworthiness and ensuring that exposures in loan portfolio are properly monitored, recorded and reported to have sound credit practices.

3.5. Reputational Risk

Information Management - The Bank is committed to ensuring that its information is authentic, appropriately classified, properly conserved and managed in accordance with legislative and business requirements. Bank has no appetite for the deliberate misuse of its information which may result in tarnishing the Bank's image, financial losses and may result to legal suits.

The Employee's turnover rate should not be more than the industry level. The Bank has low appetite for high turnover rates.

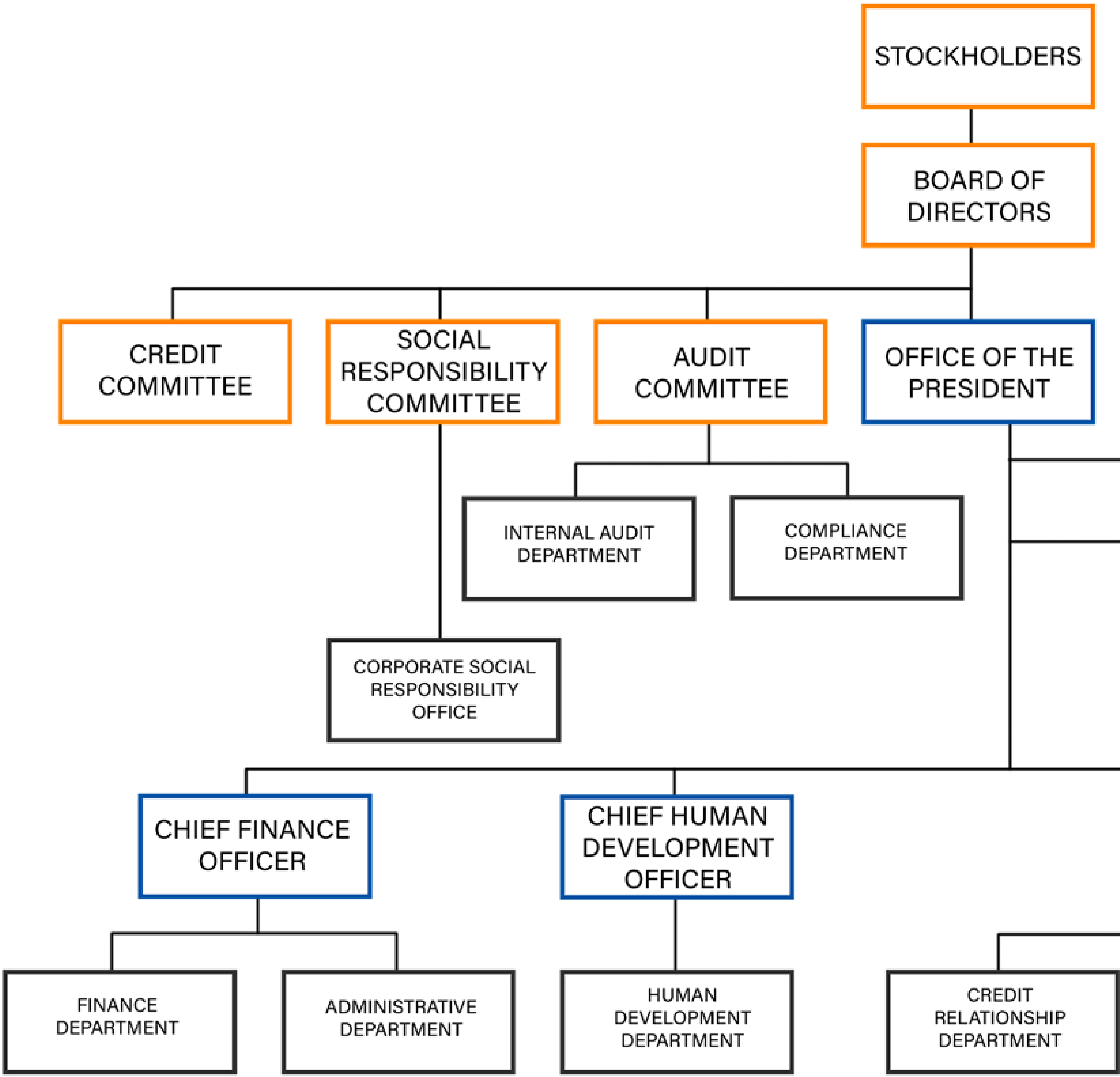
3.6. Interest and Market Risk

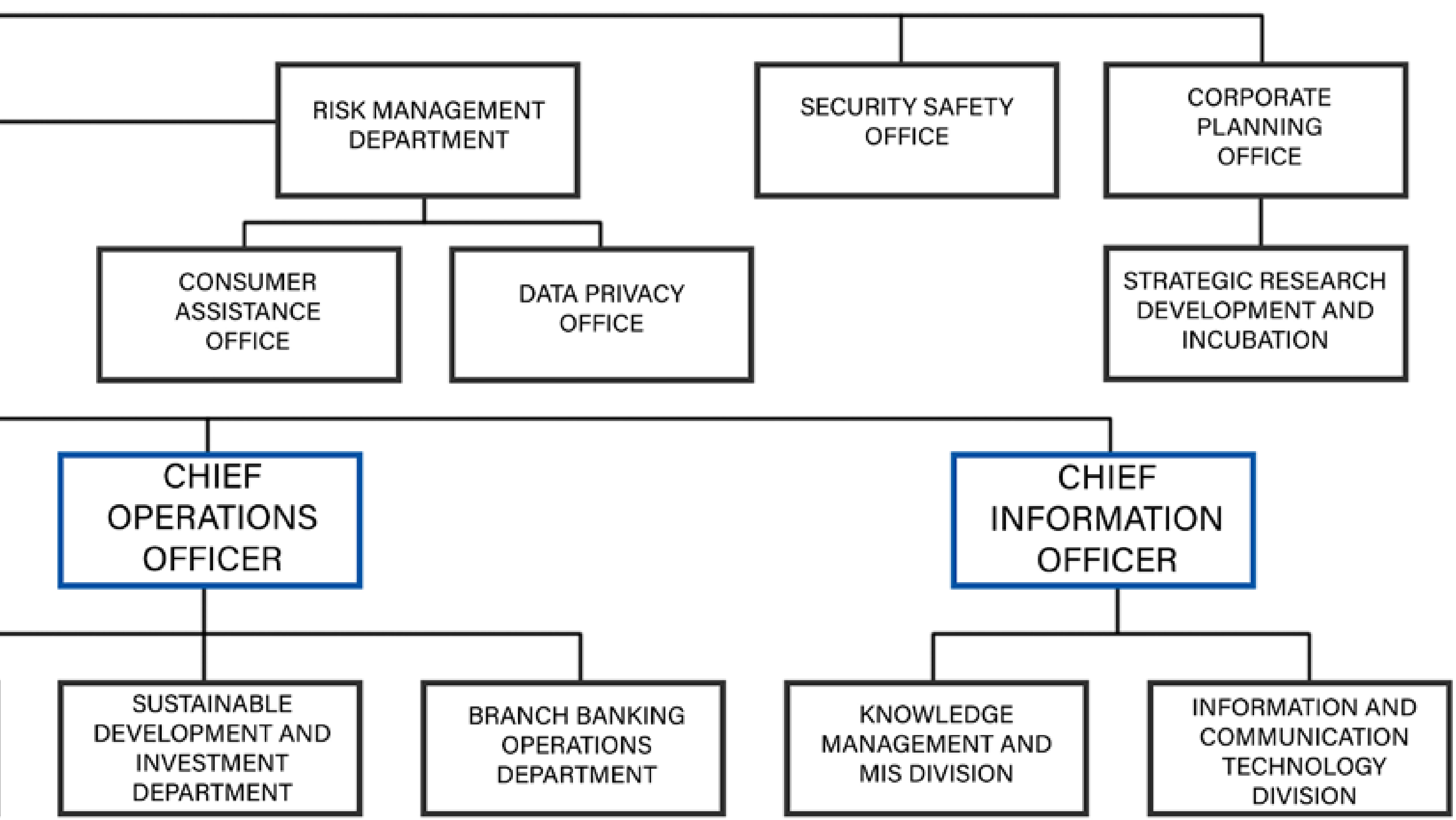
The Bank is committed to a high level of competitive with relevant to interest rate setting. Regular review is conducted to ensure the competitiveness of the interest rate and ensure to have sustainable impact to the Bank to achieve its objectives and goals. The Bank has no appetite for deliberate or purposeful violations of internal policies or regulatory requirements.

3.7. Compliance Risk

The Bank is committed to a high level of compliance with relevant legislation, regulation, industry codes and standards as well as internal policies and sound corporate governance principles. Identified breaches of compliance will be remedied as soon as practicable. The Bank has no appetite for deliberate or purposeful violations of legislative or regulatory requirements.

ORGANIZATIONAL STRUCTURE




RISK MANAGEMENT DEPARTMENT
SECURITY SAFETY OFFICE
CORPORATE PLANNING OFFICE
CONSUMER ASSISTANCE OFFICE
DATA PRIVACY OFFICE
STRATEGIC RESEARCH DEVELOPMENT AND INCUBATION
CHIEF OPERATIONS OFFICER
CHIEF INFORMATION OFFICER
SUSTAINABLE DEVELOPMENT AND INVESTMENT DEPARTMENT
BRANCH BANKING OPERATIONS DEPARTMENT
KNOWLEDGE MANAGEMENT AND MIS DIVISION
INFORMATION AND COMMUNICATION TECHNOLOGY DIVISION

BOARD COMPOSITION

		
ROSARIO B. PERLAS, M.D.	VICENTE P. PERLAS, M.D.	RUDYARD M. MONDEJAR
56 years old, Filipino Doctor of Medicine West Visayas State University	69 years old, Filipino Doctor of Medicine, MBA West Visayas State University University of the Philippines Diliman	63 years old, Filipino BS Architecture Far Eastern University
President/Chief Executive Officer	Director	Treasurer Director
Credit Committee Member Ex Officio Member Social Responsibility Committee Member	Credit Committee Member Social Responsibility Committee Member	Credit Committee Chairperson Social Responsibility Committee Member
Board Qualifications Corporate Governance Risk Management AMLA Credit Risk Management Operational Risk Management	Corporate Governance Risk Management AMLA Credit Risk Management Operational Risk Management	Corporate Governance AMLA
Directorship/Officership LifeBank Foundation, Inc. Blue Fields Enterprises, Inc.	LifeBank Foundation, Inc. Blue Fields Enterprises, Inc.	LifeBank Foundation, Inc.
14 years of Directorship	32 years of Directorship	32 years of Directorship
8,850 shares 6.36% stockholding shares	14,547 shares 10.45% stockholding shares	4,284 shares 3.08% stockholding shares

JESUS NICANOR P. PERLAS III	MIGUEL ANTONIO O. PERLAS	ATTY. JOSE P. PERLAS
69 years old, Filipino BS Agriculture, MS Botany Xavier University	47 years old, Filipino AB Communications Ateneo de Manila University	68 years old, Filipino Bachelor of Laws, CPA University of the Philippines Visayas
Director	Director	Director
Social Responsibility Committee Chairperson	Audit Committee Member	Audit Committee Member
Board Qualifications		
Corporate Governance AMLA	Corporate Governance AMLA	Corporate Governance AMLA
Directorship/Officership		
LifeBank Foundation, Inc.	LifeBank Foundation, Inc.	LifeBank Foundation, Inc.
10 years of Directorship	19 years of Directorship	30 years of Directorship
2,800 shares 2.01% stockholding shares	5,576 shares 4.01% stockholding shares	8,356 shares 6.00% stockholding shares

		
HERMIE R. BARBASA	MIKKA ELLA B. PERLAS	CARLO K. PERLAS
66 years old, Filipino BS Civil Engineering University of Iloilo	30 years old, Filipino BSBA Marketing University of the Philippines Visayas	35 years old, Filipino AB in Humanities University of Asia and the Pacific
Director	Director	Director
Credit Committee Member	Credit Committee Member Social Responsibility Committee	Audit Committee Member
Board Qualifications		
Corporate Governance AMLA	Corporate Governance AMLA	Corporate Governance AMLA
Directorship/Officership		
LifeBank Foundation, Inc. Blue Fields Enterprises, Inc.	Lolo Jose Kitchen Healthy Kitchen Iloilo Live Comfort Food Restaurant	LifeBank Foundation, Inc. 806 Creatives, Inc.
10 years of Directorship	2 years of Directorship	2 years of Directorship
9,067 shares 6.52% stockholding shares	1,287 shares 0.93% stockholding shares	3,633 shares 2.61% stockholding shares

RUTH T. JARANTILLA	VICTORIO V. BORRA	JOSEPH A. PERLAS
82 years old, Filipino BS Pharmacy University of San Agustin	69 years old, Filipino BS Statistics, MBA University of the Philippines Diliman	56 years old, Filipino BS Business Administration University of the Philippines Diliman
Independent Director Chairperson of the Board	Independent Director	Corporate Secretary
Audit Committee Member	Audit Committee Chairperson	
Board Qualifications		
Corporate Governance AMLA	Corporate Governance AMLA	Corporate Governance AMLA BRBC
Directorship/Officership		
Sea Wind Resort	JS Contractor, Inc.	LifeBank Foundation, Inc.
16 years of Directorship	16 years of Directorship	5 years of Directorship
1,141 shares 0.82% stockholding shares	1 share 0.00% stockholding shares	14,863 share 10.68% stockholding shares

TRAININGS ATTENDED

Rosario Barbasa Perlas
President/ CEO

1. Corporate Governance Seminar
2006
2. Updates in Corporate Governance
3. Internal Control & Fraud Prevention
March 14-15, 2011
4. Finance for Non-Finance Managers
May 7-8, 2012
5. CBLI Seminar
December 8, 2012
6. Managing Family Business
7. AMLA Seminar
June 7, 2014
8. One day Orientation on BSP Cir: 855 Guidelines on Sound Credit Risk Management Practices; Amendments on MORB and NBFIs
December 12, 2014
9. Operational Risk Management Training
November 18-19, 2016
10. Corporate Governance Seminar
August 14-15, 2018
11. Competency Mapping
September 6-7, 2018
12. Strategic Human Resource Management Training
April 26-27, 2019
13. Seminar/Briefing on Circular No.1011: Guidelines on the Adoption of the Philippine Financial Reporting Standard (PFRS) 9
May 27, 2019
14. AML-CFT Regulatory Framework (Circ. 706)
June 22, 2019

Vicente Pineda Perlas
Director

1. Corporate Governance Seminar
2003
2. Internal Control & Fraud Prevention
March 14-15, 2011
3. Job Evaluation and Salary Structure Design
October 27-28, 2011
4. Doing Business Without Paying Income Taxes
July 13-14, 2012
5. Taxation of Banks & Other Financial Intermediaries
November 22, 2012
6. CBLI Seminar
December 8,2012
7. Updates in Corporate Governance
8. Managing Family Business
9. Best Practices in Crafting HR Policies and Contracts
10. Best Saving Strategies on Estate, Donor's & Inheritance Taxes,
February 22-23,2013
11. Taxpayer's Complete Guide to Tax-Exempt Transactions & Preferential Tax Treatment
May 9-10, 2013
12. Best Legal Practices in Employee Compensation & Benefits Planning
August 29-30,2013
13. Best Practices in Strategy Execution
December 4, 2013
14. SME Risk-based Lending Training
January 14-24,2014
15. AMLA Seminar
June 7, 2014
16. One day Orientation on BSP Cir: 855 Guidelines on Sound Credit Risk Management Practices; Amendments on MORB and NBFIs
December 12, 2014
17. Re-Orientation on the CBLI New Package
December 9, 2014
18. 5s of Good and Effective Records Management
February 14, 2015
19. Consolidation and other Strengthening Programs for RBs
June 18, 2015
20. Developing Organizational Structures
July 16, 2015
21. Asset & Liability Management for Banks & other Financial Institutions
October 20-21, 2015
22. Asean Integration Facing up with New Challenges and Opportunities in a Borderless Banking Industry
23. Operational Risk Management Training
November 18-19, 2016
24. AML-CFT Regulatory Framework (Circ. 706)
June 22, 2019

Rudyard Mandario Mondejar
Director/Treasurer

1. Corporate Governance Seminar
2002
2. AMLA Seminar
June 7, 2014
3. Corporate Governance Seminar
August 14-15, 2018
4. AML-CFT Regulatory Framework (Circ. 706)
June 22, 2019

Jesus Nicanor Pineda Perlas III
Director

1. Corporate Governance Seminar
2002
2. AMLA Seminar: Briefing on BSP Cir 706 Updated AML Rules and Regulations
November 19, 2016

Victorio Vargas Borra
Independent Director

1. Corporate Governance Seminar 2005
2005
2. AMLA Seminar
August 14, 2014
3. Effective Audit Committee Reporting
April 26-27, 2018
4. AMLA Updates
February 21, 2019

Ruth Tirol Jarantilla
Independent Director/ Chairman of the Board

1. Corporate Governance Seminar 2005
2005
2. AMLA Seminar
June 7, 2014

Hermie del Rosario Barbasa
Director

1. Corporate Governance Seminar
2002
2. AMLA Seminar
June 7, 2014
3. Corporate Governance Seminar
August 14-15, 2018
4. AML-CFT Regulatory Framework (Circ. 706)
June 22, 2019

Miguel Ongpin Perlas
Director

1. Corporate Governance Seminar
2002
2. AMLA Seminar: Briefing On BSP Circ. 706
Updated AML Updates and Regulations
December 2, 2015
4. AML-CFT Regulatory Framework (Circ. 706)
June 22, 2019

Jose Pineda Perlas
Director

1. Corporate Governance Seminar
2002
2. AMLA Seminar
June 7, 2014
3. AML-CFT Regulatory Framework (Circ. 706)
June 22, 2019

Joseph Acevedo Perlas
Corporate Secretary

1. Basic Rural Banking Course
1990
2. Corporate Governance Seminar
2003
3. Orientation-Workshop on Team Dynamics
October 16, 2013
4. Best Practices in Corporate Housekeeping
November 15, 2013
5. AMLA Seminar: Briefing on BSP Circ. 706
Updated AML Updates and Regulations
December 2, 2015
6. Master Class on Writing Minutes of Meetings
April 24, 2018
7. Values Clarification and Alignment Workshop
June 9, 2018
8. Data Privacy Orientation
July 9, 2018
9. Competency Mapping
September 6-7, 2018

Mikka Ella Barbasa Perlas
Director

1. AMLA Seminar
April 13, 2018,
2. Corporate Governance Seminar
August 14-15, 2018
3. Program Management & Managerial Skills
Enhancement
May 2-3, 2019

Carlo Kranick Perlas
Director

1. Corporate Governance Seminar
August 14-15, 2018
2. Basic Risk Management
October 4-5, 2018
3. AMLA Updates
February 21, 2019

MAJOR STOCKHOLDERS OF THE BANK

Name of Stockholder	Nationality	Percent Stockholdings	Voting Status
Blue Fields Enterprises	Filipino	13.92	Voting
Joseph A. Perlas	Filipino	10.68	Voting
Vicente P. Perlas	Filipino	10.45	Voting
Bernardita J. Perlas	Filipino	6.53	Voting
Hermie R. Barbasa	Filipino	6.52	Voting

SENIOR MANAGEMENT

ROSARIO B. PERLAS M.D.
President / CEO

ROSALIE F. LAUBENIA
Department Manager - Sustainable Development Investment Department

Ikabuhi Microfinance Program District Manager 2012 - 2013
Ikabuhi Microfinance Program Division Manager 2013 - 2019

JESSIE C. CASTIGADOR
Credit Relationship Department Manager

District Manager SDID IEP1 2011 - 2015
Ikabuhi Entrepreneurial Program Division Manager 2015 - 2019

REYNABELLE M. MASACOTE
Chief Human Development Officer

Manager Internal Audit Department 2012 - 2018

MA. THERESA L. VISTA
Chief Finance Officer

ROMEO S. BANDAY, JR.
Information Technology Division Manager

Senior Manager 1 (ICT) 2011-2016

OPALYN M. LOPEZ
Knowledge Management &
MIS Division Manager

Section Manager Knowledge
Management 2016 - 2018

COL. ROBERTO J. NUFABLE
Security Officer

JOEMAR A. CAGURIN
Strategic Research, Development &
Incubation Manager

Ikabuhi Microfinance Program Area
Manager 2012 - 2014
Social Responsibility Program
Coordinator 2014 - 2017
Administrative Department
Manager 2015 - 2016

JOHNA MAE A. ORESCO
Administrative Department Manager

Ikabuhi Microfinance Program Area Manager
2013 - 2016

FRANCISCO G. JORDAN
Branch Banking Operations
Department Manager

SENIOR MANAGEMENT

VINCENT RHIYN S. AMALAY
Social Responsibility Program Coordinator

NORBERT A. CAPILEÑO
Chief Compliance Officer
Internal Audit Head

Branch Manager 2 2009
Senior Manager 2 (Branches) 2010 - 2012
Senior Manager 2 (Loans) 2012 - 2014
Risk Officer 2014 - 2018

MARJORIE M. NIEVA
Risk Management Officer/
Data Privacy Officer

Senior Area Manager (SDID) 2010-2011
Senior Manager 1 (Finance - SDID) 2011-2014
KMMIS Division Head 2014-2018

BOARD AND COMMITTEE MEETINGS

Director	BOARD MEETINGS Attended / %	AUDIT COMMITTEE Attended / %	CREDIT COMMITTEE Attended / %	SOCIAL RESPONSIBILITY COMMITTEE Attended / %
Vicente P. Perlas, M.D.	13 / 100%		12 / 100%	4 / 100%
Rudyard M. Mondejar	12 / 92%		7 / 58%	3 / 75%
Rosario B. Perlas, M.D.	13 / 100%		12 / 100%	4 / 100%
Miguel Antonio O. Perlas	13 / 100%	10 / 91%		
Atty. Jose P. Perlas	13 / 100%	11 / 100%		
Hermie R. Barbasa	13 / 100%		12 / 100%	
Jesus Nicanor P. Perlas III	12 / 92%			4 / 100%
Ruth T. Jarantilla	11 / 85%	10 / 91%		
Victorio V. Borra	13 / 100%	11 / 100%		
Carlo K. Perlas	13 / 100%	11 / 100%		
Mikka Ella B. Perlas	13 / 100%		9 / 75%	3 / 75%
Total Number of Meetings	13 / 100%	11 / 100%	12 / 100%	4 / 100%

CORPORATE GOVERNANCE

STRUCTURE AND PRACTICES

LBRB is categorized as a simple bank and is not required to have a Corporate Governance Committee. All matters pertaining to corporate governance are discussed and deliberated by the members of the Board of Directors during meetings.

BOARD MEMBER SELECTION

The existing members of the Board of Directors can invite or nominate a stockholder regardless of the shares being held, particularly if the person's expertise, capacity, or specialized knowledge on a certain area is needed for the growth and development of the Bank. It is essential that a person possess a character of fairness and objectivity; who can think independently; and make decisions aligned with the vision and mission of the bank; and, who express opinions that support the best interests of the Bank.

SELECTION OF SENIOR MANAGEMENT

The Bank provides opportunities for existing employees to be appointed to managerial positions by enforcing a succession planning program that identifies potential managers even before vacancies occur. This facilitates an objective and transparent selection process of employees who will be appointed to management levels. However, if nobody among the existing employees are qualified for promotion to management levels at the time of a vacancy, the management exercises its prerogative to recruit and hire from outside of the Bank to ensure that operations are not hampered due to the absence of a management person who can undertake the functions.

ROLE OF CHAIRPERSON OF THE BOARD

The Chairperson of the Board provides leadership to the Board of Directors. The chairperson ensures an effectively functioning Board of Directors and that relationships among members are maintained based on trust and confidence.

The chairperson ensures the following:

1. That the meeting agenda are focused on strategic matters, including discussion on risk appetites and key governance concerns;

2. A sound decision making process;

3. That critical discussions are properly facilitated;

4. That dissenting views can be expressed and discussed within the decision-making process;

5. That members of the board receive accurate, timely, and relevant information;

6. That the conduct of proper orientation for first time directors and provide training opportunities for all directors; and

7. That performance evaluation are conducted among the Board of Directors at least once a year.

BOARD'S OVERALL RESPONSIBILITY

1. To provide overall direction to the Bank in order to achieve its vision and mission.

2. To approve and monitor the implementation of strategic objectives.

3. To pass, approve and adopt relevant policies governing major areas of banking operations and exercise oversight.

4. To approve and adopt risk management policies and oversee its implementation and ` compliance.

5. To oversee selection and evaluate the performance of senior management.

6. To ensure consistency on the conduct of LBRB's affairs with a high degree of integrity.

7. To define and establish LBRB's governance policies and institutionalize practices by issuing guidelines for its compliance and implementation.

8. To conduct periodic review of policy implementation for purpose of amendment, improvement or enhancement.

9. To form committees that will increase efficiency and allow deeper focus on specific areas of concerns.

10. To utilize effectively the work conducted by the internal audit, risk management and compliance functions and the external auditors.

BOARD-LEVEL COMMITTEES

1. AUDIT COMMITTEE

The Audit Committee assists the Bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

2. CREDIT COMMITTEE

The Credit Committee reviews applications for loans and make decisions on such applications within the authority delegated to the committee. All decisions pertaining to loans application must be based on the loan policies established by the Board of Directors and in compliance with BSP regulations.

3. SOCIAL RESPONSIBILITY COMMITTEE

The Social Responsibility Committee develops and recommend to the Board of Directors appropriate social responsibility policies and strategies and its implementing guidelines. The committee also supervises LifeBank's compliance with these policies, strategies and guidelines.

The Performance Evaluation Process

The evaluation process involves identification of areas for assessment. It started by accomplishing the applicable Performance Evaluation Form (PEF). The Chairperson then conducts interviews with individual directors, analyze the responses in the PEFs and from interviews; and make a report of the findings to the Board of Directors.

The Board of Directors deliberates the report and develops an action plan, and periodically review the progress of implementation. The performance evaluation is undertaken by the Board of Directors every end of the term of each of the board members which is during the election of board members every Annual Stockholder's Meeting.

Each Director should have the opportunity to meet with the Chairperson on an annual basis to discuss the contribution they have made to the board in the previous 12 months, plans for the next year considering the learning and development needs. It can also be a part of the performance evaluation of the board as required by the BSP.

In the conduct of the performance evaluation, the Chairperson of the Board of Directors, evaluates all the members of the Board, including the committee chairpersons, and the President/CEO while the Chairpersons of all the committees will do the initial evaluation of their members before submitting the same to the Board Chairperson for review and final evaluation. The Board Chairperson will perform a self-performance evaluation.

The implementation of the Succession Plan will be undertaken as follows:

1. The appointed Corporate Secretary is tasked to ensure that the rules and regulations prescribed by the BSP with regards to membership in the Board as stated in Section 141 of the Manual of Regulations for Banks (MORB) are complied with.

2. The Human Development – Organizational Development Division (HD-OD) should keep a record of all trainings attended by all members of the Board of Directors and ensure that they are able to attend all other trainings required by the BSP. A copy of their training certificates are filed for the purpose of monitoring and updating.

3. The HD-OD develops the tools for use in the implementation of the succession planning policy for the Board of Directors, and submit regular updates to the Chairperson of the Board, such as the following:

- Monitoring chart which will include the name of board members, their length of service, expiration of their current term, as well as committee and officer positions held to help provide a clear picture of upcoming vacancies which will need to be filled.

- Annual reconfirmation of commitment signed by the board members together with the committees they are interested to join in.

- With the guidance from the President/CEO or the Corporate Secretary, identify the skills of current board members as well as those of departing members who will need to be replaced.

4. Stockholders who are identified to become successors for Board officership (President, Chairperson of the Board, Treasurer, Secretary and Committee Chairs) should meet the following requirements in addition to the BSP requirements:

- They must possess leadership skills and experience in handling business or is actively practicing as an entrepreneur, Certified Public Accountant (CPA), lawyer or a social responsibility advocate and other relevant professions.

- They must be chosen as a representative of an ownership cluster representing a minimum number of shares to be entitled to one board seat and must have.

- They must have undergone the necessary orientation to perform the responsibility of being a Board of Director

- They must have been actively involved with the Board as a member of its committees, at least 12 months from the date of appointment.

- In case of vacancy, appointment to the Board must have the approval of the majority of the existing board members.

5. Potential successors should attend all trainings required by the BSP (i.e. AMLA, Corporate Governance, etc.) to prepare them for the responsibilities and make them readily qualified to sit as members of the Board when a vacancy occurs.

6. The potential successors as well as incumbent members of the Board 's record must be updated with the HD-OD and compliance head overseeing the compliance to trainings and the Corporate Secretary should provide a copy of their certificates of trainings and other achievements to form part of the regular monitoring of potential successors.

Consumer Protection Practices

CONSUMER PROTECTION

The Consumer Protection Risk Management System (CPRMS) is a means by which a Bank identifies, measures, monitors, and controls consumer protection risks inherent in operations. These include both risks to the financial consumer and the Bank.

A carefully devised, implemented, and monitored CPRMS provides the foundation for ensuring the Bank's adherence to consumer protection standards of conduct and compliance with consumer protection laws, rules and regulations, thus ensuring that the Bank's consumer protection practices address and prevent identified risks to the Bank and associated risk of financial harm or loss to consumers.

ROLE OF BOARD OF DIRECTORS (BOARD) AND SENIOR MANAGEMENT IN CONSUMER ASSISTANCE MANAGEMENT SYSTEM

The Board of the Bank shall be responsible for the delivery of effective recourse to its consumers. Pursuant thereto, the Board shall:

- Approve the Consumer Assistance policies and procedures;
- Approve Risk Assessment Strategies relating to Effective Recourse by the Consumer;
- Ensure compliance with Consumer Assistance policies and procedures;
- Provide adequate resources devoted to Consumer Assistance; and
- Review the Consumer Assistance policies at least annually.

The Bank's Senior Management shall be responsible for the implementation of the Consumer Assistance policies and procedures.

CORPORATE STRUCTURE

The Bank has a dedicated Head Consumer Assistance Officer (HCAO) directly reporting under the Office of the President and has the following Consumer Assistance Officers (CAO) deployed in Branches and BLUs:

- Branches – The Branch Operations Officers acts as the CAO
- BLUs – The SDID Area Managers acts as the CAO.

FILING A COMPLAINT

A Customer who has a request or complaint against the Bank's personnel, policies and procedures, system or defective property may file a complaint before the Customer Assistance Officer.

The customer may file a request or complaint by accomplishing a Complaint Form to be provided by the Bank. The Customer/Requester observes the following procedures:

SIMPLE COMPLAINT

STEP	PROCEDURE	RESPONSE TIME	PERSON IN-CHARGE	FORMS
1	Approach the Consumer Assistance Officer (CAO)	1 minute	CAO	
2	Fill-out the Complaint Form	5 minutes	CAO	Complaint Form
3	Submit the Complaint Form to the CAO	1-3 minutes	CAO	Complaint Form
4	Investigate the complaint or request	1-2 days	CAO	
5	Analyse the nature of complaints and prepare the recommended solution(s)	1-3 days	CAO	Memo
6	Approve the recommended solution(s)	1-2 days	HCAO	Memo
7	Provide official reply to the Customer	1-2 days	CAO	Letter

COMPLEX COMPLAINT

STEP	PROCEDURE	RESPONSE TIME	PERSON IN-CHARGE	FORMS
1	Approach the Consumer Assistance Officer (CAO)	1 minute	CAO	
2	Fill-out the Complaint Form	5 minutes	CAO	Complaint Form
3	Submit the Complaint Form to the CAO	1-3 minutes	CAO	Complaint Form
4	lRefer the Complaint Form to the Head Consumer Assistance Officer (HCAO)	1-2 days	CAO	Complaint Form
5	Investigate the complaint or request	1-30 days	CAO	
6	Analyze the nature of complaints and prepare the recommended solution(s)	1-10 days	HCAO	Memo
7	Review and approve the recommended solution(s)	1-3 days	President/CEO/ Board	Memo
8	Provide official reply to the Customer	1-2 days	CAO	Letter

PROGRAMS AND POLICIES

PERFORMANCE MANAGEMENT SYSTEM is a systematic process of aligning employees' performance with the goals of the organization. One of its purposes is to assess and ensure that the employee is carrying out their duties which they are employed to do in an effective and satisfactory manner, and is contributing to the overall business objectives. This drives non-performers to perform well and implements fairness in rating.

In connection with this, a tool has been created to measure the employees' performances, and this has also been modified, simplified and customized to our needs in order to be effective and user friendly.

The Performance Evaluation and Development Form (PEDF) is a tool used to all Board of Directors, Officers, Senior Management, Managers, Supervisors & Rank and File employees of the Bank, in order to measure the performance and to develop competencies and address weaknesses.

TRAINING POLICY

Trainings are necessary to ensure that the Bank is able to address the needed knowledge and skills of Board of Directors, Officers, Senior Management, Managers, Supervisors & Rank and File employees to reduce employee turnover and become better talents that they may develop into more effective and efficient talents, resulting in financial gain.

A. INTERNAL TRAINING

Trainings conducted exclusively within the organization by an internal trainer.

B. EXTERNAL TRAINING

Trainings provided from outside of the organization using consultants, specialists and outsourced speakers. These are also public seminars or trainings attended by the employee.

C. ON-THE-JOB TRAINING

As part of continuously educating its employees in the job sites, periodic shuffling and job rotations are being practiced. This will motivate employees to learn related jobs in their place of work and enable them to become well rounded practitioners of the Bank's varied services.

RELATED PARTY TRANSACTIONS (RPTS)

In accordance with the regulations, policies and guidelines on Corporate Governance issued by Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC) and other regulatory bodies, LBRB recognizes the need to strengthen its policy on related party transactions (RPT) and other similar situations so as to prevent or mitigate abusive transactions with related parties and avoid risks of conflict of interest.

This is also in consonance with LBRB's adherence to the highest principles of good governance as the bank subscribes to the philosophy of integrity, accountability and transparency in doing business.

Similarly, Philippine Accounting Standard (PAS) 24 Related Party Disclosures provides that an entity should disclose information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

The Bank considers the following factors to the extent relevant to the Related Party Transaction.

(a) The identities of the parties involved in the transaction or relationship;

(b) The terms of the transactions are fair and on arm's length basis to the Bank;

(c) The impact on the Director's or Officer's independence;

(d) Whether the RPT would present an improper conflict of interest for any Director, Stockholder or Officer of the Bank; and

(e) Material RPTs will be reported to regulatory agencies as required and shall be ratified and approved by authorized signatories of the Bank.

RETIREMENT AND SUCCESSION PLANNING

To ensure that the Bank is led and run by adequately qualified and well-experienced Board of Directors, officers and managers as well as to support the Bank's policy on promotion from within, a succession plan is being established to systematically and objectively identify highly potential employees who can be developed as successors to key positions in the Bank. This will facilitate continuous leadership and a smooth transition of functions during turnover or vacancy of posts. This will also ensure that processes, systems and procedures are maintained despite the changing of roles among personnel responsible for essential tasks and significant decisions affecting Bank's overall management and vital operations.

The Bank has established a succession plan in order to achieve the following objectives:

1. Determine critical roles within the Bank, identify and assess possible successors, and provide them with the appropriate skills and experiences for present and future, higher opportunities;

2. Assist in facilitating the transfer of corporate skills and knowledge from a superior to a subordinate who has potential to succeed him;

3. Operate within the principles of merit and transparency in the personnel selection and promotion processes;

4. Develop personnel capabilities and competencies to ensure that there is a suitable pool of potential applicants when positions become available or turn vacant;

5. Have on hand the right people with the right skills in the right place at the right time, there by building a security net for the Bank and mitigating risks that could result in having leadership gaps and prolonged vacancies that could affect management decisions in the Bank.

GUIDELINES

1. Employees who are included in the Pool of Promotable (refer to Policy on Promotion) shall initially compose the LBRB Succession Pool (LSP).

2. In addition to meeting the LSP requirements, potential successors shall undergo a series of assessments to determine their capabilities to pursue the trainings and other undertakings that they are required to hurdle.

3. The HDD shall spearhead the implementation of the Succession Plan and create a Management Development Program (MDP) for the purpose.

4. Potential successors should have a grade of "Passed" in all stages of the required activities. Those who do not meet this requirement shall remain in the Promotable Pool and may be considered for lower supervisory/managerial positions that become vacant.

5. A team of trainers may be created from outside sources/experts who will initiate the process, and among the current Division/ Department Managers who are found qualified to train, coach or mentor the potential successors. These trainers will also undergo assessment of their capabilities and be given Board appointment.

6. Evaluation of progress shall be on a quarterly basis. HDD shall monitor their progress and achievements and submit a report to the President on a regular basis.

7. The potential successors, while taking part in the MDP shall be relieved of their usual workloads, but they will enjoy regular pay and training allowances as may be approved by the Board.

8. These potential successors shall be obliged to sign an agreement that will be enforced within the period of their involvement in the MDP. A fixed term of employment may be set before they can be allowed to leave the Bank for whatever personal reasons; otherwise they will be required to pay back the cost incurred on their participation in the MDP as may be prescribed by the Board.

9. There shall be no more than ten (10) candidates for an MDP batch in order to ensure that they are given enough time and attention during the trainings and they are well guided during their actual job exposure or practicum.

10. Those employees who are 55 years old at the start of the succession planning process may no longer be considered in the MDP to ensure that those who pass the MDP will not be nearing the retirement age by the time they finish the MDP.

11. The Board of Directors, Board Committee Chairperson and members will be given trainings based on BSP required trainings as per stated in MORB, committees they handled and the result of the evaluation. As for Senior Management and Supervisors the development programs shall involve the following phases as enumerated below:

a. Attendance in Supervisory and Management Trainings (internal/external) to include topics on:

For Supervisory Development Program (SDP):

- Management Principles
- Communication Strategies
- Leadership and Team Building
- Marketing and Sales Skills Development
- Financial Management
- Business Ethics and Social Responsibility
- Performance Management
- Human Development Management

For Management Development Program (MDP):

- Management and Organization
- Banking and Financial Intermediation
- Risk Management and Control
- Strategic Thinking and Decision Making
- Good Corporate Governance
- Trainer's Training
- Leadership Activation on Demand (LeAD)

b. Coaching and Mentoring – which involves assigning a potential successor to work closely with a Division/Department Manager who will regularly show him/her how work is being done and decisions made in the work unit.

c. Shadowing – which allows the potential successor to help or assist the Division/ Department Manager as an understudy in the quasi-supervision or overseeing of the work unit, or in acting on the latter's behalf as Officer-in-Charge.

d. Inter-department Job Rotation - after having passed the previous phases, HDD will transfer the potential successors to another Division/Department so that the potential successor may learn the work processes and other business aspects of the Bank in various units.

As a way to measure their learning progress, the potential successors may be subjected to comprehensive written and oral examinations before a panel consisting of selected members of the Management Committee and the Board as may be decided upon by the President.

PROGRAMS AND POLICIES

PROCEDURES

1. Identifying the critical management positions and leadership qualities

In identifying potential successors, Management looks beyond basic skills and knowledge required to perform an adequate job and into the deeply rooted capabilities — an individual's social role, self-image, traits, and motives—that can most accurately determine high-potential candidates. The parameters for identifying leadership roles and critical positions include:

a. Cognitive capacity
b. Systems thinking
c. Emotional and social intelligence
d. Creativity
e. Values alignment with the Bank's vision, mission, goals, culture.

Based on the above-cited parameters, the specific skills, capabilities, knowledge and qualifications required for success in all leadership roles and critical positions should be observed in a candidate.

The following positions shall be included in the Succession Plan of the Bank:

1. President
2. Chief Compliance Officer
3. Internal Audit Head
4. Risk Management Officer
5. Chief Operations Officer
6. Chief Finance Officer
7. Chief Human Development Officer
8. Chief Information & Communication Technology Officer
9. All Department Managerial Positions
10. All Division Managerial Positions

2. Developing the Succession Plan

After the leadership roles and critical positions are identified, we now know what our needs are both for the present and future and we can create a more comprehensive competency list based on our staffing needs. The following steps should be observed, namely:

a. Identify the future vacancies in the higher levels of the organization.

b. Create/develop a more detailed job description (JD) for the positions complete with the knowledge, skills, and experience that are required for success for anyone assuming the role. The JDs should include the competencies defined in identifying the leadership rolesand critical positions.

c. Detail the type of learning and development curriculum that will be provided to train team members for these vacancies. Such development programs will be in line with developing the skills set for the defined leadership roles and critical positions which take the form of:

•Training
•Mentoring
•Shadowing Senior Leaders
•Coaching
•Intra-departmental movement in line with vacancy policy
•Inter-departmental rotation programs

3. Populating the Succession Pool

An evaluation of the current employees to identify talent pool candidates will then be undertaken. HDD and their respective Department Heads will identify high performers as well as team members who display great potential. This stage includes:

a. Reviewing performance metrics using the new Performance Management System (PMS), referrals,and past work experience.

b. Having a conversation with employees who are being considered for the succession pool about their career plans.

c. Assessing each individual on their ability to excel and take the Bank to new heights

4. Retirement Age and Tenure

BOARD OF DIRECTORS

a. No age limit, as long as he/she is capable of sound decision making and business judgement;

b. Physically and mentally fit. No major health issues and is able to attend BOD and Committee meetings as prescribed by BSP Circular 969 series of 2017.

QUALIFICATION OF A DIRECTOR

a. He must have integrity/probity, physical/mental fitness; relevant education/financial literacy/training; possession of competencies such as knowledge and experience, skills, diligence and independence of mind, and sufficiency of time fully carry out responsibilities.

b. He must have attended seminar on corporate governance for board of directors.

INDEPENDENT DIRECTORS

May only serve for a maximum cumulative term of nine (9) years as prescribed by BSP Circular 969 series of 2017.

SENIOR MANAGEMENT

Retirement

Employees shall retire upon reaching the age of sixty (60) years or more but not beyond sixty-five (65) years old and having served the establishment for at least (5) years.*

An employee below the age of sixty (60) years is eligible to avail of the early retirement program of the Bank. The early retirement program will be offered by the Bank to the employee as it deems it necessary.

*Chapter 15, Article 302 of Department of Labor and Employment's, Workers' Statutory Monetary Benefits.

LIFE BANK A RURAL BANK REMUNERATION POLICY - BOARD AND SENIOR MANAGEMENT

The remuneration policy of the Bank is one of the key components of the HR strategy, which supports the overall business strategy. It promotes the achievement of the strategic objectives within the Bank's risk appetite. The Bank implemented a new salary structure last October 2017. It shall be reviewed every two (2) years to ensure that it is competitive within the industry, helps build a culture of high performance, and can attract, retain, motivate and reward high performing employees. For Board members, the compensation is by way of Honorarium given during its monthly Board meetings. The monthly honorarium to Board members is reviewed annually by the stockholders during the Annual Stockholders' meeting. Any increase will depend on the financial performance and condition of the Bank during the previous year. The increase in honorarium is not automatic and requires an improvement in the Bank's financial condition. The President/CEO recommends to the stockholders any increase in honorarium of Board members. The President/CEO is appointed by the Board of Directors. The remuneration for this position is determined and decided upon by the Board. Any increase in salary of the President/CEO is anchored primarily on the achievement of strategic initiatives and the financial condition of the Bank. The salary is reviewed together with the general salary review every three (3) years. Any positive adjustment is taken up during a Board meeting and approved by the Board. For other Senior Management positions, the remuneration follows the recommendation of the Human Development Department (HDD) after the general salary review. Any new salary structure which is recommended by HDD needs to be reviewed and approved by the Board of Directors.

LIFEBANK A RURAL BANK DIVIDEND POLICY

Dividends to stockholders are declared from the surplus profits arising from net income earned every fiscal year. The Board of Directors determine how much cash dividends to declare to stockholders based on the percentage increase in net income for the year compared to that of the previous year. Any planned investment or expansion of the business for the year is also considered before the final amount of cash dividends is recommended. Shareholders are either paid in cash or stock dividends on an annual basis. The Board ensures that such dividends declared is in accordance with applicable laws and guidelines set by the BSP.

SELF-ASSESSMENT FUNCTION

THE INTERNAL AUDIT DEPARTMENT

The internal audit function is an independent, objective, assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of an organization, which helps management and the board of directors in protecting the bank and its reputation. The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions. In this respect, the internal audit shall be conducted in frequencies commensurate with the assessed levels of risk in specific banking areas.

THE MANDATE

As per Circular No. 871 series of 2015 as amendments to Section X185 of MORB. Banks shall have in place adequate and effective internal control framework for the conduct of their business taking into account their size, risk profile and complexity of operations. The internal control framework shall embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; monitoring activities and correcting deficiencies.

PURPOSE, AUTHORITY AND RESPONSIBILITY

Internal Audit Department (IAD), through the IAD Head, is authorized to direct a plan and program of internal control testing of LBRB policies, programs, procedures, actions, decisions, records, reports, personnel, properties, and operations as an effective tool and supply of information for internal control and review system and decision making policy.

In accomplishing such function and activities, IAD shall have free and unrestricted access to all LBRB's functions, records, property, and personnel, full cooperation by the management and adequate resources to effectively discharge its function.

THE ROLE AND SCOPE OF INTERNAL AUDIT

Internal audit plays a vital role in governance and accountability. Without a strong, objective and independent assurance function, the effectiveness of the overall governance framework of the Bank is severely weakened. With an effective internal audit function, there is greater confidence that the decisions being taken are informed by appropriate information on risk and control. Internal audit's systematic and disciplined approach adds value and improves the organization's operations.

The role of IAD function is to ensure that, the Bank is provided with an independent assurance regarding the effectiveness of the risk management, control and governance process. The internal audit function fulfills this role by bringing a systematic, disciplined approach to assessing and improving the effectiveness of the Bank's management, control and governance processes.

The scope of work of the internal audit function is to determine whether the Bank's management, control and governance processes is adequate and functioning in a manner to ensure:

1. Risks are appropriately identified and managed

2. Financial, managerial, and operational information is accurate, reliable and timely.

3. Compliance with policies, standards, procedures and applicable laws and regulation is achieved.

4. Resources are acquired economically, used effectively and adequately protected

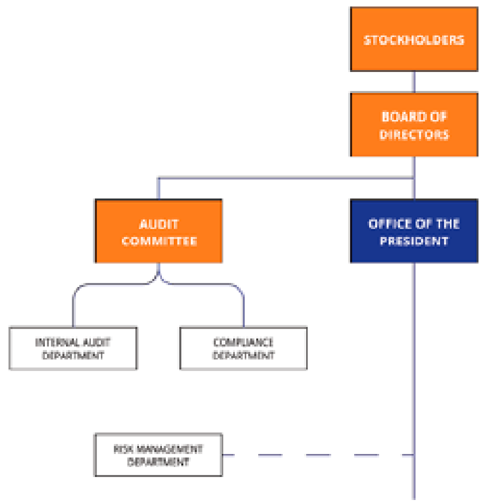
5. Programs, plans and objectives are achieved

6. Quality and continuous improvement are fostered in the Department's control processes and

7. Legislative or regulatory issues affecting the Department are recognized and addressed properly

When opportunities for improving management control, governance, or resource stewardship are identified during audits, they are communicated to the suitable level of management so that appropriate action can be taken.

The internal audit function plays an important role in supporting departmental operations. It provides assurance on all the important aspects of the risk management strategy and practices, management control frameworks and practices and governance. Where control weakness exist and where the achievement of objectives is at risk, internal audit plays a role in providing constructive advice and recommendations. In this way, internal audit contributes to enhanced accountability and performance.



THE INTERNAL AUDIT STRUCTURE

(An excerpt from the approved LBRB Functional Organizational Chart as of October 31, 2018)

REPORTING TO THE MANAGEMENT AND THE COMMITTEE

As per COSO reporting structure for the year 2018 the process will be as follows:

PRODUCTS AND SERVICES

LIFESAVER

A CONVENTIONAL WAY OF SAVINGS AND EASY MONITORING OF YOUR ACCOUNT TRANSACTIONS THROUGH A PASSBOOK.

LIFESAVER PLUS

EQUIVALENT OF TIME DEPOSIT BUT INSTEAD OF A CERTIFICATE, A PASSBOOK IS GIVEN. FIXED TERM AND HIGHER INTEREST THAN A REGULAR SAVINGS. CAN BE WITHDRAWN UPON MATURITY.

LIFEKIDDIE SAVERS

A PASSBOOK-BASED SAVINGS ACCOUNT FOR KIDS AGES 7 TO 12 YEARS OLD WITH LOW INITIAL DEPOSIT AND MAINTAINING BALANCE.

LIFETEEN SAVERS

A PASSBOOK-BASED SAVINGS DEPOSIT FOR TEENAGERS AGES 13 TO 18 YEARS OLD WITH LOW INITIAL DEPOSIT AND MAINTAINING BALANCE.

PRODUCTS AND SERVICES

AGRILIFE

TO PROVIDE FLEXIBLE, SHORT TO MEDIUM TO LONG TERM LOANS AIMED AT HELPING FARMERS AND FISHER FOLKS FINANCE FARM OPERATIONS.

LIFEDRIVE

TO PROVIDE FIXED INCOME EARNERS AND THOSE IN BUSINESS FOR THEIR FINANCING NEEDS TO PURCHASE A VEHICLE OR OFFER THEIR VEHICLE AS A COLLATERAL FOR ANY ACCEPTABLE PURPOSE.

LIFEHOME

TO PROVIDE THE FINANCING NEEDS OF INDIVIDUALS WHO NEEDS ADDITIONAL FUNDING FOR HOUSING RELATED PURPOSES.

LIFESECURE

TO PROVIDE CASH REQUIREMENTS FOR PERSONAL CONSUMPTION TO REGULAR PRIVATE AND PUBLIC EMPLOYEES.

LIFEPAC

A READY CREDIT FACILITY INTENDED FOR BANK DEPOSITORS WITH THEIR DEPOSIT AS COLLATERAL.

PRODUCTS AND SERVICES

LIFESMILE

TO SUPPORT THE GROWTH OF MICRO SCALES, SMALL SCALE AND MEDIUM SCALE ENTERPRISES BY PROVIDING FINANCING PROGRAMS TO MSME PROJECTS.

AGRI-AGRA

LBRB'S AGRILIFE CREDIT AIMS TO HELP ENSURE FOOD SECURITY, ALLEVIATE POVERTY, AND TRANSFORM PROGRAM BENEFECIARIES TO ENHANCE INCOME AND PROFITABILITY FOR THE AGRICULTURAL SECTOR BY PROVIDING AGRARIAN REFORM CREDIT.

IKABUHI MICROFINANCE PROGRAM

IMP OFFERS LOANS FOR ENTREPRENEURS FOR START-UP OR ADDITIONAL CAPITAL WITH NO COLLATERAL. FAST AND EASY LOAN PROCESSING WITH AFFORDABLE INTEREST RATE.

IKABUHI ENTREPRENEURIAL PROGRAM

THE IKABUHI ENTREPRENEURIAL PROGRAM (IEP) MICROFINANCE IS GRANTED TO ALL QUALIFIED ENTREPRENEURS FOR ADDITIONAL CAPITAL WITH NO COLLATERAL.

BRANCHES AND BRANCH-LITE UNITS

HEAD OFFICE

LIFEBANK BUILDING
Brgy. Duyan-duyan, Santa Barbara, Iloilo 5002
Tel: (033) 332-1456 and (033) 333-1458

BRANCHES

MAASIN
14 Taft St., Maasin, Iloilo 5030
Tel: (033) 333-1439

ILOILO CITY
Brgy. Maria Clara, Iznart Extension, Iloilo City 5000
Tel: (033) 336-0924 , (033) 336-0426 and (033) 503-3193

ROXAS CITY
Km 2 Lawaan, Roxas City, Capiz 5800
Tel: (036) 320-0077 and (036) 522-1097

BRANCH-LITE UNITS

PROVINCE OF ILOILO

BAROTAC NUEVO
Cartagena St., Poblacion,
Barotac Nuevo, Iloilo 5007
Tel: (033) 323-0375

MIAG-AO
Brgy. Igtuba, Miag-ao, Iloilo 5023
Tel: (033) 513-7674

PASSI CITY
Commonwealth St., Passi City, Iloilo 5037
Tel: (033) 536-7994

SARA
Tady St., Sara, Iloilo 5014
Tel: (033) 331-9305

BALASAN
Brgy. Camambugan, Balasan, Iloilo 5018
Tel: (033) 331-9305

OTON
Brgy. San Antonio, Oton, Iloilo 5020
Tel: (033) 510-8501

POTOTAN
Guanco St., Pototan, Iloilo 5008
Tel: (033) 529-0032

BAROTAC VIEJO
Gerogalin Bldg., Tupaz St., Barotac Viejo, Iloilo 5011
Tel: 0917 506 2536

LAMBUNAO
No.6 Larlar Bldg., Loberiza St., Poblacion Ilawod, Lambunao, Iloilo 5042
Tel: (033) 533-0074

CALINOG
Caraecle Bldg., Brgy. Poblacion Rizal Ilawod, Calinog, Iloilo 5040
Tel: (033) 320-2159

SAN MIGUEL
Bendicion Bldg., RV Sanchez St., San Miguel, Iloilo 5025
Tel: (033) 327-4487

JANIUAY
Masacote Bldg., Brgy. San Julian, Janiuay, Iloilo 5034
Tel: (033) 315-3064

ESTANCIA
Villanueva Bldg., Samonte St., Villa Paterna Subdivision, Estancia, Iloilo 5017
Tel: (033) 325-1007

LEGANES
LML Property Management Bldg., National Road, Guihaman, Leganes, Iloilo 5003
Tel: (033) 524-1030

PROVINCE OF CAPIZ

MAMBUSAO
Brgy. Atiplo, Mambusao, Capiz 5807
Tel: (036) 651-0941

DUMALAG
Sitchon Bldg., Salazar St., Brgy. Poblacion, Dumalag, Capiz 5813

CUARTERO
Pimentel Commercial Bldg., Brgy. Poblacion Takas, Cuartero, Capiz 5811
Tel: 0917 501 9840

PONTEVEDRA
Inocencio Bldg., Abucayan Rizal, Pontevedra, Capiz 5802

PROVINCE OF GUIMARAS

JORDAN
Capitol View San Miguel, Jordan, Guimaras 5045
Tel: (033) 581-2249

BUENAVISTA
Metal Bldg., Purok 4 New Poblacion, Buenavista, Guimaras 5044
Tel: 0917 505 8015

PROVINCE OF ANTIQUE

SAN JOSE
Project 8 Bagumbayan, San Jose, Antique 5700
Tel: (036) 540-9179

CULASI
Brgy. Centro Norte, Culasi, Antique 5708
Tel: 0977 819 4801

BUGASONG
Corner Gen. Luna-Bonifacio, Bugasong, Antique 5704
Tel: 0917 505 9136

PANDAN
Rodillon Bldg., Brgy. Dionela, Pandan, Antique 5712
Tel: 0917 638 8532

HAMTIC
Pongyan Bldg., Poblacion IV, Hamtic, Antique 5715
Tel: 0917 625 6984

PROVINCE OF AKLAN

ALTAVAS
Gregorio Bldg., Bonifacio St., Poblacion, Altavas, Aklan 5616
Tel: 0917 506 9705

KALIBO
Roxas Avenue Extension, Andagao, Kalibo, Aklan 5600
Tel: (036) 500-7099

CATICLAN
Villar Commercial Complex, Brgy. Caticlan, Malay, Aklan 5608
Tel: 0917 501 3864

MALINAO
Santiago Bldg., Alfonso St., Malinao, Aklan 5606
Tel: (033) 504-6943

IBAJAY
Martizano Bldg., Dr. Jose C. Miraflores St., Ibajay, Aklan 5613
Tel: (036) 390-1532

BANGA
Retiro Bldg., Linabuan Sur, Banga, Aklan 5601
Tel: (036) 500-9431

FOR FILING WITH THE BANGKO SENTRAL NG PILIPINAS

LIFEBANK - A RURAL BANK

FINANCIAL STATEMENTS
December 31, 2019 and 2018

With Independent Auditors' Report

R.G. Manabat & Co.
The KPMG Center, 9/F
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Philippines 1226
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Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
LifeBank - A Rural Bank
Bypass Road, Brgy. Duyan-Duyan
Sta. Barbara, Iloilo

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of LifeBank - A Rural Bank (the Bank), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of profit or loss and other comprehensive (loss) income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

KPMG

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

KPMG

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

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

Report on the Supplementary Information Required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations (RR) 15-2010 of the Bureau of Internal Revenue (BIR)

Our audit was made conducted for the purpose of forming an opinion on the Bank's financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 28 and BIR RR 15-2010 in Note 29 to the Bank's financial statements is presented for purposes of filing with the BSP and BIR, respectively, and is not a required part of the Bank's financial statements. Such information is the responsibility of the Bank's management. The supplementary information has been subjected to the auditing procedures applied in our audit of the Bank's financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the Bank's financial statements taken as a whole.

R.G. MANABAT & CO.

Tireso Randy F. Lapidez

TIRESO RANDY F. LAPIDEZ
Partner
CPA License No. 0092183
BSP - Selected External Auditor, Category A, valid for 2-year audit period (2018 and 2019)
SEC Accreditation No. 1472-AR-1, Group A, valid until July 2, 2021
Tax Identification No. 162-411-175
BIR Accreditation No. 08-001987-34-2017
Issued September 4, 2017; valid until September 3, 2020
PTR No. MKT 8116769
Issued January 2, 2020 at Makati City

June 12, 2020
Makati City, Metro Manila

LIFEBANK - A RURAL BANK
STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2019	2018
ASSETS			
Cash and other cash items	*4, 23*	**P12,139,398**	P13,282,437
Due from Bangko Sentral ng Pilipinas	*5, 23*	**17,367,308**	17,652,293
Due from other banks	*6, 23*	**317,833,080**	283,590,014
Loans and advances to customers - net	*7, 23*	**487,481,254**	423,069,251
Debt instruments at amortized cost	*8, 23*	**103,219,044**	94,946,198
Property and equipment - net	*9*	**57,455,079**	42,252,125
Investment properties - net	*10*	**7,294,190**	11,487,657
Right-of-use assets - net	*16*	**5,537,818**	-
Deferred tax assets - net	*22*	**14,023,076**	11,772,596
Other assets - net	*11, 23*	**13,464,637**	4,673,521
		P1,035,814,884	P902,726,092
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	*12, 23*	**P606,161,763**	P531,554,483
Income tax payable		**11,867,298**	13,345,223
Lease labilities	*16, 23*	**5,144,776**	-
Retirement liability	*20*	**13,907,154**	8,362,050
Other liabilities	*13, 23*	**83,691,006**	77,489,290
Total Liabilities		**720,771,997**	630,751,046
Equity			
Capital stock	*14*	**13,915,500**	13,915,500
Retained earnings	*15*	**302,750,941**	257,000,912
Employee benefits reserve		**(1,623,554)**	1,058,634
Total Equity		**315,042,887**	271,975,046
		P1,035,814,884	P902,726,092

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS) INCOME

	Note	Years Ended December 31 2019	2018
INTEREST INCOME			
Loans and advances to customers	*7*	**P314,013,888**	P273,023,730
Debt instruments at amortized cost	*8*	**3,859,996**	5,569,693
Due from other banks	*6*	**2,322,206**	1,525,815
		320,196,090	280,119,238
INTEREST EXPENSE			
Deposit liabilities	*12*	**17,161,881**	17,001,364
Lease liabilities	*16*	**460,378**	-
		17,622,259	17,001,364
NET INTEREST INCOME		**302,573,831**	263,117,874
OTHER INCOME			
Gain on sale of investment properties	*10*	**4,218,981**	196,504
Fees and commissions		**1,929,010**	1,518,764
Service charges		**1,074,631**	1,233,219
Income from penalties		**579,953**	569,563
Recovery of previously written off accounts		**413,883**	443,272
Passbook and checkbook sale		**310,379**	429,415
Identification card lamination		**297,674**	220,496
Membership fee		**188,280**	161,900
Gain on sale of property and equipment	*9*	**-**	334,999
		9,012,791	5,108,132
OTHER EXPENSES			
Compensation and other benefits	*17*	**131,555,304**	116,034,227
Travel and transportation	*18*	**23,753,835**	21,997,620
Taxes and licenses		**19,539,933**	16,691,893
Depreciation	*9, 10, 16*	**15,345,007**	6,725,808
Information technology		**10,479,210**	6,108,710
Communication, light, and water		**6,426,952**	5,668,852
Stationery and supplies		**6,286,841**	4,514,039
Security and janitorial services		**4,012,116**	3,781,729
Impairment losses	*11, 23*	**2,784,430**	69,790
Fuel and oil		**2,748,154**	2,550,982
Insurance		**2,287,995**	2,177,553
Representation and entertainment		**1,169,550**	1,165,232
Legal		**724,789**	24,797
Professional fees		**395,407**	603,906
Donation and charitable contributions		**371,934**	-
Supervision fees		**137,740**	122,923
Rent	*16*	**-**	5,807,310
Miscellaneous	*19*	**13,007,487**	10,142,187
		241,026,684	204,187,558

Forward

	Note	Years Ended December 31 2019	2018
INCOME BEFORE INCOME TAX EXPENSE		**P70,559,938**	P64,038,448
INCOME TAX EXPENSE	*22*	**20,078,369**	17,960,950
NET INCOME		**50,481,569**	46,077,498
OTHER COMPREHENSIVE (LOSS) INCOME			
Items that will not be reclassified to profit or loss			
Remeasurement (loss) gain on retirement liability	*20*	**(3,831,697)**	2,955,220
Deferred tax effect	*22*	**1,149,509**	(886,566)
		(2,682,188)	2,068,654
TOTAL COMPREHENSIVE INCOME		**P47,799,381**	P48,146,152

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK
STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31

	Capital Stock (Note 14)	Retained Earnings (Note 15) Unappropriated	Retained Earnings (Note 15) Appropriated	Employee Benefits Reserve	Total Equity
Balance at January 1, 2019	**P13,915,500**	**P257,000,912**	**P -**	**P1,058,634**	**P271,975,046**
Total comprehensive income					
Net income for the year	-	**50,481,569**	-	-	**50,481,569**
Other comprehensive loss	-	-	-	**(2,682,188)**	**(2,682,188)**
	-	**50,481,569**	-	**(2,682,188)**	**47,799,381**
Appropriation for the year	-	**(173,520,000)**	**173,520,000**	-	-
Declaration of cash dividends	-	**(4,731,540)**	-	-	**(4,731,540)**
Balance at December 31, 2019	**P13,915,500**	**P129,230,941**	**P173,520,000**	**(P1,623,554)**	**P315,042,887**
Balance at January 1, 2018	P13,915,500	P215,098,334	P -	(P1,010,020)	P228,003,814
Total comprehensive income					
Net income for the year	-	46,077,498	-	-	46,077,498
Other comprehensive income	-	-	-	2,068,654	2,068,654
	-	46,077,498	-	2,068,654	48,146,152
Declaration of cash dividends	-	(4,174,920)	-	-	(4,174,920)
Balance at December 31, 2018	P13,915,500	P257,000,912	P -	P1,058,634	P271,975,046

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK
STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	**2019**	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax expense		**P70,559,938**	P64,038,448
Adjustments for:			
Interest expense	*12, 16*	**17,622,259**	17,001,364
Depreciation	*9, 10, 16*	**15,345,007**	6,725,808
Impairment losses	*11, 23*	**2,784,430**	69,790
Retirement costs	*17, 20*	**1,713,407**	1,725,571
Gain on sale of property and equipment	*9*	**-**	(334,999)
Gain on sale of investment properties	*10*	**(4,218,981)**	(196,504)
Interest income	*6, 7, 8*	**(320,196,090)**	(280,119,238)
		(216,390,030)	(191,089,760)
Changes in:			
Loans and advances to customers		**(67,196,433)**	(53,746,545)
Other assets		**(5,819,517)**	939,951
Deposit liabilities		**74,607,280**	19,731,824
Other liabilities		**5,302,263**	5,659,366
		(209,496,437)	(218,505,164)
Interest received		**316,169,776**	280,139,231
Interest paid		**(17,274,246)**	(17,352,820)
Income taxes paid		**(22,633,275)**	(21,278,150)
Net cash provided by operating activities		**66,765,818**	23,003,097
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Investment properties	*10*	**7,490,313**	2,399,070
Property and equipment	*9*	**-**	335,000
Changes in security deposits		**374,550**	(791,000)
Additions to:			
Investment properties	*10*	**-**	(5,478,587)
Property and equipment	*9*	**(23,870,271)**	(14,213,887)
Proceeds from redemption of debt instruments at amortized cost		**14,926,398**	21,886,264
Acquisitions of debt instruments at amortized cost		**(23,199,244)**	-
Net cash (used in) provided by investing activities		**(24,278,254)**	4,136,860

Forward

	Note	2019	2018
		Years Ended December 31	
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	*15*	**(P4,180,100)**	(P4,020,361)
Payment of lease liabilities	*16*	**(5,492,422)**	-
Total cash used in financing activities		**(9,672,522)**	(4,020,361)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**32,815,042**	23,119,596
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**13,282,437**	9,335,133
Due from Bangko Sentral ng Pilipinas		**17,652,293**	16,713,758
Due from other banks		**283,590,014**	265,356,257
		314,524,744	291,405,148
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	*4, 23*	**12,139,398**	13,282,437
Due from Bangko Sentral ng Pilipinas	*5, 23*	**17,367,308**	17,652,293
Due from other banks	*6, 23*	**317,833,080**	283,590,014
		P347,339,786	P314,524,744

See Notes to the Financial Statements.

1. Reporting Entity

LifeBank - A Rural Bank (the Bank) was registered with Philippine Securities and Exchange Commission (SEC) on March 10, 1970 principally to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises, to have and exercise all authority and powers, to do and perform all acts, and to transact all business which may legally be 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 proper in connection with the said purpose within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP).

The Bank is majority owned by Joseph Perlas, Vicente Perlas and Bernardita Perlas.

The registered address of the Bank's head office is at Bypass Road, Brgy. Duyan-Duyan, Sta. Barbara, Iloilo and its three (3) branches are located at Roxas City, Iloilo City, and Maasin, Iloilo.

2. Basis of Preparation

Basis of Accounting
These financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). They were authorized for issue by the Bank's board of directors (BOD) on June 12, 2020.

The details of the Bank's significant accounting policies are included in Note 27.

This is the first set of the annual financial statements in which PFRS 16, *Leases,* has been applied. The related changes to significant accounting policies are described in Note 27.

Basis of Measurement
These financial statements have been prepared on the historical cost.

Functional and Presentation Currency
These financial statements are presented in Philippine peso, which is the Bank's functional currency. All amounts have been rounded to the nearest peso, except as otherwise indicated.

3. Use of Judgments and Estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is as follows:

Classifying Financial Instruments

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

Business Model Test

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match expected cash outflows and maintain adequate level of high quality liquid assets while maintaining a strategic portfolio of financial assets for trading activities.

The Bank's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, *Financial Instruments,* however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost and those sales are more than insignificant in value (either individually or in aggregate), the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

Cash Flow Characteristics Test

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

Lease Term - the Bank as Lessee

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to renew or terminate.

Investment Properties

The Bank exercises judgment as to the cost of investment properties that should be recognized initially in the financial statements. The Bank has determined that the fair value of the asset received cannot be reliably determined due to the absence of active market or a recent sale transaction of similar properties within the areas where the properties are located and thus are initially recognized at the carrying amount of loan plus transaction costs incurred upon foreclosure such as non-refundable capital gains tax and documentary stamp tax paid.

Assets Held-for-Sale versus Owner-occupied Properties versus Investment Properties
The Bank determines whether a property qualifies as an investment property based on whether the property generated cash flows largely independent from other assets held by the Bank. Owner-occupied property generates cash flows that are attributable not only to the property but also to other assets used for administrative purposes.

Properties held for uncertain future purposes are classified as investment properties.

A property qualifies as an asset held-for-sale when the management is committed to a plan to sell, when asset is available for immediate sale, when there is an active program to locate a buyer is initiated and the sale is highly probable within twelve (12) months.

Assumptions and Estimation Uncertainties
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is as follows:

Provision for Expected Credit Losses of Financial Assets
The measurement of impairment losses under PFRS 9, across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- the Bank's internal credit grading model, which assigns the probability of defaults (PDs) to individual grades;

- the Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;

- the segmentation of financial assets when their ECL is assessed on a collective basis;

- development of ECL models, including the various formulas and the choice of inputs;

- determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs; and

- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Further details on the carrying amounts of financial assets are discussed in Notes 4, 5, 6, 7, 8 and 11.

Estimating Useful Lives of Property and Equipment and Investment Properties
The Bank estimates the useful lives of property and equipment and investment properties based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, and technical and commercial obsolescence. The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment and investment properties.

Further details on property and equipment and investment properties are disclosed in Notes 9 and 10, respectively.

Impairment of Nonfinancial Assets
The Bank assesses at each reporting date whether there is an indication that the carrying amount of nonfinancial assets may be impaired.

The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- significant negative industry or economic trends.

Based on management's assessment, the carrying amount of the Bank's nonfinancial assets are not impaired as at the reporting date except for investment properties with allowance for impairment losses amounting to P0.10 million and P0.85 million as at December 31, 2019 and 2018, respectively.

Further details on the carrying amounts of nonfinancial assets are disclosed in Notes 9, 10, 11 and 16.

Lease - Estimating the Incremental Borrowing Rate
The Bank cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Taxes
The Bank reviews its deferred tax assets at each reporting date and reduces it 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. The Bank's assessment on the recognition of deferred tax assets is based on the projected taxable income in the following periods.

Further details on deferred tax assets are disclosed in Note 22.

Defined Benefit Plan
The present value of defined benefits obligation (DBO) depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining retirement cost include the discount rate and future salary rate increase. Any changes in these assumptions will impact the carrying amount of the retirement liability.

Further details on retirement liability are disclosed in Note 20.

Fair Value Measurement of Financial Instruments
If the fair value of financial instruments is not traded in an active market, the fair value is determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

The specific methods and assumptions used by the Bank in estimating the fair values of its financial instruments are disclosed in Note 23.

4. Cash and Other Cash Items

This account consists of:

	Note	2019	2018
Cash on hand and in vault		**P10,661,658**	P11,103,821
Checks		**1,477,740**	2,178,616
	23	**P12,139,398**	P13,282,437

Cash on hand and in vault consist primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers.

Checks pertain to cash items (other than Philippine currency notes and coins on hand) such as checks drawn on other banks after the Bank's clearing cut-off time until the close of the regular banking hours.

5. Due from BSP

Due from BSP amounting to P17.37 million and P17.65 million as at December 31, 2019 and 2018, respectively, represents deposit with BSP to meet the reserve requirement against deposit and deposit substitute liabilities in accordance with Section 252, *Composition of Reserves*, of the latest Manual of Regulations for Banks (MORB) (see Note 23).

In accordance with Section 251, *Accounts Subject to Reserves; Amounts Required*, of the latest MORB, the required reserve against savings and time deposits is 3.00% for rural banks in 2019 and 2018.

As at December 31, 2019 and 2018, the Bank is in compliance with such MORB provision.

6. Due from Other Banks

Due from other banks amounting to P317.83 million and P283.59 million as at December 31, 2019 and 2018, respectively, represent deposits with other domestic banks (see Note 23).

All accounts under due from other banks are classified as cash and cash equivalents for cash flow purposes since they are composed of savings and time deposits that can be withdrawn anytime. Savings deposits earn interest ranging from 0.10% to 0.25% while time deposits earn interest ranging from 0.5% to 3.40% in 2019 and 2018.

Interest income on due from other banks amounted to P2.32 million and P1.53 million in 2019 and 2018, respectively, and was presented under "Interest income" in the statement of profit or loss and other comprehensive (loss) income.

7. Loans and Advances to Customers

Details of this account are as follows:

	Note	**2019**	2018
Current loans:			
Microfinance		**P412,413,007**	P387,171,008
Commercial		**54,855,602**	35,627,010
Agricultural		**3,021,655**	3,406,168
		470,290,264	426,204,186
Past due		**36,435,590**	15,406,347
Items in litigation		**3,084,196**	206,398
		39,519,786	15,612,745
	23	**509,810,050**	441,816,931
Unamortized interest and discounts		**(551,735)**	(456,914)
		509,258,315	441,360,017
Allowance for impairment losses	*23*	**(21,777,061)**	(18,290,766)
	23	**P487,481,254**	P423,069,251

Interest income on loans and advances to customers amounted to P314.01 million and P273.02 million in 2019 and 2018, respectively, and was presented under "Interest income" in the statement of profit or loss and other comprehensive (loss) income.

Accrued interest receivable as at December 31, 2019 and 2018 amounted to P4.43 million and P0.40 million, respectively (see Note 11).

8. Debt Instruments at Amortized Cost

This account consists of:

	Note	2019	2018
Land Bank of the Philippines (LBP) 10-year bonds		**P58,541,913**	P58,257,413
Philippine retail treasury bonds (RTBs):			
Bank of the Philippine Islands		**17,685,000**	17,685,000
Philippine National Bank		**11,000,000**	8,000,000
China Banking Corporation		**8,000,000**	3,000,000
Banco De Oro Unibank, Inc.		**5,000,000**	5,000,000
EastWest Bank		**2,992,131**	3,003,785
	23	**P103,219,044**	P94,946,198

LBP 10-year bonds earn interest ranging from 2.00% to 4.10% and have various maturity dates from June 2020 to January 2029.

Philippine RTBs purchased from various domestic banks earn interest ranging from 3.25% to 6.00% and have various maturity dates from January 2020 to August 2023.

Interest income on debt instruments at amortized cost amounted to P3.86 million and P5.57 million in 2019 and 2018, respectively, and was presented under "Interest income" in the statement of profit or loss and other comprehensive (loss) income.

9. Property and Equipment

The movements in this account are as follows:

	Note	Year Ended December 31, 2019				
	Note	Land	Buildings	Furniture, Fixtures and Equipment	Construction-in-Progress	Total
Cost						
Beginning balance		P17,245,017	P35,865,069	P34,971,679	P3,280,000	P91,361,765
Additions		8,306,381	-	8,504,416	7,059,474	23,870,271
Reclassification	10	900,000	-	-	-	900,000
Balance at end of year		26,451,398	35,865,069	43,476,095	10,339,474	116,132,036
Accumulated Depreciation						
Beginning balance		-	17,185,965	31,923,675	-	49,109,640
Depreciation		-	2,910,210	6,657,107	-	9,567,317
Balance at end of year		-	20,096,175	38,580,782	-	58,676,957
Carrying Amount		P26,451,398	P15,768,894	P4,895,313	P10,339,474	P57,455,079

	Year Ended December 31, 2018				
	Land	Buildings	Furniture, Fixtures and Equipment	Construction-in-Progress	Total
Cost					
Beginning balance	P15,928,317	P23,979,222	P30,162,838	P8,671,083	P78,741,460
Additions	1,316,700	-	6,402,423	6,494,764	14,213,887
Disposals	-	-	(1,593,582)	-	(1,593,582)
Reclassification	-	11,885,847	-	(11,885,847)	-
Balance at end of year	17,245,017	35,865,069	34,971,679	3,280,000	91,361,765
Accumulated Depreciation					
Beginning balance	-	14,510,737	29,580,022	-	44,090,759
Depreciation	-	2,675,228	3,937,234	-	6,612,462
Disposals	-	-	(1,593,581)	-	(1,593,581)
Balance at end of year	-	17,185,965	31,923,675	-	49,109,640
Carrying Amount	P17,245,017	P18,679,104	P3,048,004	P3,280,000	P42,252,125

Depreciation amounting to P9.57 million and P6.61 million in 2019 and 2018, respectively, are included as part of "Depreciation" in the statement of profit or loss and other comprehensive (loss) income.

During 2019, the Bank acquired a land amounting to P8.31 million, with the intention of constructing a new building for future branch site. Moreover, an investment property amounting to P0.90 million was transferred to property and equipment for the branch operations of its Iloilo City Branch.

In 2018, the Bank sold property and equipment for a total net proceeds of P0.34 million and recognized gain of P0.33 million presented as "Gain on sale of property and equipment" in the statement of profit or loss and other comprehensive (loss) income.

The cost of fully depreciated property and equipment used by the Bank amounted to P19.90 million and P12.31 million as at December 31, 2019 and 2018, respectively.

There were no property and equipment pledged or mortgaged as security as at December 31, 2019 and 2018.

10. Investment Properties

Investment properties consist of a building and parcels of land acquired in settlement of loans upon foreclosure. The movements in this account as at December 31 are as follows:

		Year Ended December 31, 2019		
	Note	**Land**	**Building**	**Total**
Cost				
Balance at beginning of year		**P11,466,335**	**P1,554,430**	**P13,020,765**
Disposals		**(3,172,385)**	**(1,554,430)**	**(4,726,815)**
Reclassification	*9*	**(900,000)**	-	**(900,000)**
Balance at end of year		**7,393,950**	-	**7,393,950**
Accumulated Depreciation				
Balance at beginning of year		-	**683,348**	**683,348**
Depreciation		-	**22,135**	**22,135**
Disposals		-	**(705,483)**	**(705,483)**
Balance at end of year		-	-	-
Accumulated Impairment Losses				
Balance at beginning of year		**849,760**	-	**849,760**
Disposals		**(750,000)**	-	**(750,000)**
Balance at end of year		**99,760**	-	**99,760**
Carrying Amount		**P7,294,190**	**P -**	**P7,294,190**

	Year Ended December 31, 2018		
	Land	Building	Total
Cost			
Balance at beginning of year	P8,190,314	P1,554,430	P9,744,744
Additions	5,478,587	-	5,478,587
Disposals	(2,202,566)	-	(2,202,566)
Balance at end of year	11,466,335	1,554,430	13,020,765
Accumulated Depreciation			
Balance at beginning of year	-	570,002	570,002
Depreciation	-	113,346	113,346
Balance at end of year	-	683,348	683,348
Accumulated Impairment Losses	849,760	-	849,760
Carrying Amount	P10,616,575	P871,082	P11,487,657

In 2019 and 2018, the Bank sold investment properties for a total net proceeds of P7.49 million and P2.40 million, respectively, and recognized a gain of P4.22 million and P0.20 million, respectively, presented as "Gain on sale of investment properties" in the statement of profit or loss and other comprehensive (loss) income.

Depreciation amounting to P0.02 million and P0.11 million in 2019 and 2018, respectively, are presented as part of "Depreciation" in the statement of profit or loss and other comprehensive (loss) income.

As at December 31, 2019 and 2018, the fair value of investment properties cannot be determined due to the absence of active market or a recent sale transaction of similar properties within the areas where the properties are located thus, "Gain on sale of investment properties" is measured as the excess of selling price of the investment property over carrying amount at the time of sale.

11. Other Assets

This account consists of:

	Note	**2019**	2018
Accrued interest receivable	*7, 23*	**P4,428,944**	P402,630
Sales contract receivable	*23*	**3,930,453**	967,383
Prepaid expenses		**1,740,982**	648,392
Stationary and supplies on hand		**1,481,898**	545,642
Due from employees		**1,309,560**	1,162,124
Security deposits	23	**1,178,800**	1,553,350
Others	23	**27,475**	27,475
		14,098,112	5,306,996
Allowance for impairment losses on:			
Due from employees		**(563,685)**	(563,685)
Accrued interest receivable	23	**(69,790)**	(69,790)
		P13,464,637	P4,673,521

Accrued interest receivable pertains to the interest earned but not yet collected in relation to the loans extended by the Bank to its customers.

Sales contract receivable pertains to investment properties acquired in settlement of loans that were subsequently sold on an installment basis whereby their titles are transferred to the buyers only upon full payment of the agreed selling price (see Note 10).

Prepaid expenses include, among others, insurance, and power bill deposit.

Stationery and supplies on hand pertain to office supplies used by the Bank for its daily operations.

Due from employees are cash advances that are settled through expense liquidation within seven working days after return from trip or completion of a project.

Movements in the allowance for impairment losses in respect of other assets are as follows:

	2019	2018
Balance at beginning of year	**P633,475**	P563,685
Impairment loss	**-**	69,790
Balance at end of year	**P633,475**	P633,475

12. Deposit Liabilities

This account consists of:

	Note	**2019**	2018
Regular savings deposits		**P315,741,168**	P289,431,429
Special savings deposits		**290,404,050**	242,105,015
Time deposits		**16,545**	18,039
	23	**P606,161,763**	P531,554,483

For 2019 and 2018, savings deposits have an annual interest rate of 0.75% while time deposits have interest rates ranging from 1.25% to 3.50%.

Interest expense on deposit liabilities amounted to P17.16 million and P17.00 million in 2019 and 2018, respectively, and was presented under "Interest expense" in the statement of profit or loss and other comprehensive (loss) income.

13. Other Liabilities

This account consists of:

	Note	**2019**	2018
Accounts payable	*23*	**P58,651,577**	P56,732,617
Accrued expenses	*23*	**13,713,472**	10,421,925
Statutory payables		**3,051,604**	2,329,465
Cash dividends payable	*23*	**2,468,149**	1,916,709
Accrued interest payable	*23*	**1,434,645**	1,086,632
Miscellaneous	*23*	**4,371,559**	5,001,942
		P83,691,006	P77,489,290

Accounts payable primarily pertains to the Bank's payable to Country Bankers Life Insurance Corporation and Pioneer Life Insurance, Inc. for the insurance premiums of its borrowers.

Accrued expenses consist mainly of accruals for repairs and maintenance, professional fees, and utilities.

Miscellaneous primarily pertains to liability for the purchase of office supplies from various suppliers.

14. Capital Stock

This account consists of:

	2019		2018	
	Shares	**Amount**	Shares	Amount
Authorized Capital Stock				
P100 par value per common stock	**140,000**	**P14,000,000**	140,000	P14,000,000
Outstanding, Issued and Paid				
Balance at beginning and end of year	**139,155**	**P13,915,500**	139,155	P13,915,500

The holders of common stocks are entitled to receive dividends as and when declared by the Bank. All common stocks carry one vote per share without restrictions.

15. Retained Earnings

Dividend Declarations
On January 12, 2019, the BOD declared 34.00% cash dividends equivalent to P4.73 million or P34.00 per stock on common stocks for stockholders on record at January 21, 2019.

On February 7, 2018, the BOD declared 30.00% cash dividends equivalent to P4.17 million or P30.00 per stock on common stocks for stockholders on record at February 13, 2018.

Total cash dividends paid as at December 31, 2019 and 2018 amounted to P4.18 million and P4.02 million, respectively.

Appropriation of Retained Earnings
The Bank has retained earnings in excess of one hundred percent (100.00%) of paid-in capital stock as at December 31, 2019. The SEC in its Financial Reporting Bulletin 15 reiterated the provisions of Section 42, *Power to Declare Dividends,* of the Revised Corporation Code which states that stock corporations are prohibited from retaining surplus profits in excess of 100.00% of their paid-in capital stock, except:

- when justified by definite corporate expansion projects or programs approved by the BOD; or

- when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not yet been secured; or

- when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies. The foregoing provisions indicate that the retention for expansion projects must be definite and approved by the BOD.

On a meeting dated December 16, 2019, the BOD approved the appropriation of P173.52 million from the Bank's unappropriated retained earnings to finance its future corporate expansion. The following strategic initiatives are as follows:

- appropriation of P64.00 million for loan expansion to be broken down as follows:
  - Ikabuhi Microfinance Program - P39.00 million
  - Regular Loan Program - P25.00 million;

- appropriation of P7.50 million for the purchase of a lot in San Jose, Antique for the Antique Branch operations;

- appropriation of P40.00 million for the construction of branch offices in Kalibo, Aklan, Iloilo City and San Jose, Antique; and

- appropriation of P62.02 million as capital reserve to buffer the effect on the Bank's capital adequacy ratio as a result of the increasing incidence of calamities.

In addition, under Section 121, *Minimum Required Capital,* of the latest MORB, the Bank is required to maintain a capital of P30.00 million and under Appendix to Section 127, *Revised Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks,* of the latest MORB, the Bank is required to maintain net worth of P115.31 million which is 10% of risk-weighted assets, thus, are considered as mandatory reserves (see Note 24). Given this regulatory reserve requirement, the Bank's retention of excess retained earnings is allowed pursuant to Section 42 of the Revised Corporation Code.

16. Leases

The Bank leases several office spaces for its branch and unit operations. The lease contracts cover a period of one (1) to ten (10) years and renewable under certain terms and conditions as agreed by both parties.

Right-of-Use Assets
The carrying amount of right-of-use assets recognized and movements during the year are as follows:

	2019
Balance at beginning of year	**P8,640,436**
Additions	**2,652,937**
Depreciation	**(5,755,555)**
Balance at end of year	**P5,537,818**

Depreciation amounting to P5.76 million in 2019 is presented as part of "Depreciation" in the statement of profit or loss and other comprehensive (loss) income.

Lease Liabilities
The carrying amount of lease liabilities and the movements during the year are as follows:

	Note	2019
Balance at beginning of year		**P7,984,261**
Additions		**2,652,937**
Accretion of interest		**460,378**
Payments		**(5,952,800)**
Balance at end of year	23	**P5,144,776**

	2019
Current	**P3,490,300**
Noncurrent	**1,654,476**
	P5,144,776

The interest expense associated with lease liabilities in 2019 amounted to P0.46 million is presented under "Interest expense" in the statement of profit or loss and other comprehensive (loss) income.

For the year ended December 31, 2018, the Bank's future minimum lease rentals payable under Philippine Accounting Standard (PAS) 17, *Leases* are as follows:

	2018
Less than one year	P4,538,800
Later than one year and not later than 5 years	3,512,075
	P8,050,875

Rent expense under PAS 17 for 2018 amounted to P5.81 million presented as "Rent" in the statement of profit or loss and other comprehensive (loss) income.

Further, the amount recognized in statement of cash flows is as follows:

	2019
Total cash outflow for leases	**P5,952,800**

17. Compensation and Other Benefits

	Note	2019	2018
Salaries and wages		**P82,136,388**	P74,574,650
Fringe benefits		**32,304,211**	27,088,212
Government contributions		**9,210,685**	7,637,088
Directors' fee		**6,190,613**	5,008,706
Retirement costs	20	**1,713,407**	1,725,571
		P131,555,304	P116,034,227

Salaries and wages primarily pertain to gross remuneration of officers and employees for regular and overtime services rendered.

Fringe benefits refer to the expenses for any good, service or other benefit furnished or granted by the Bank to its officers and employees, in cash or in kind, in addition to basic salaries, such as, but not limited, to housing, life or health insurance as well as expenses for allowances and other fringe benefits granted to employees in accordance with management policy such as bonuses, profit shared, including those for special studies or seminars but excluding medical, dental and hospitalization benefits.

Government contributions include contributions to Social Security System, Home Development Mutual Fund and Philippine Health Insurance Corporation.

18. Travel and Transportation

This account pertains to the expenses incurred for the official travel of directors, officers and employees, including fares, and hotel accommodations. This account also includes expenses incurred by employees for fuel and minor repairs in using their own vehicles during fieldwork. Travel and transportation amounted to P23.75 million and P22.00 million for the years ended December 31, 2019 and 2018, respectively.

19. Miscellaneous Expenses

This account primarily consists of expenses pertaining to payments to staff house personnel, meals of the microfinance field officers and minor repairs. This also includes the difference between the amount of consideration and net identifiable assets as part of the acquisition by the Bank of the microfinance field offices of Lifebank Microfinance Foundation, Inc. (LMFI), an entity under common control (see Note 21). Miscellaneous expense amounted to P13.01 million and P10.14 million for the years ended December 31, 2019 and 2018, respectively.

20. Retirement Cost

The Bank has an unfunded, non-contributory defined benefit retirement plan covering all regular employees which provide retirement benefits equivalent to 22.5 days of the current basic monthly salary for every year of continuous service upon retirement or death.

The retirement plan is exposed to both financial and demographic risks. Risks associated to the retirement plan are as follows:

- Liquidity risk - The inability to meet benefit obligation payout when due.

- Interest rate risk - The present value of DBO is relatively sensitive and inversely related to the discount rate. In particular, if the discount rate, which is referenced to government bonds, decreases then, the DBO increases.

- Salary risk - The present value of DBO is relatively sensitive and directly related to future salary increases. In particular, if the actual salary increases in the future are higher than expected then the DBO and benefits are higher as well.

- Persistency risk - The present value of DBO is relatively sensitive and inversely related to the turnover rates. In particular, lower turnover rates, which means employees persist or stay with the Bank longer, correspond to higher DBO and benefit payouts.

Since there is no retirement plan asset, there is no asset-liability matching strategy.

The present value of the DBO and the related retirement cost of the Bank were actuarially measured using the projected unit credit (PUC) method. The most recent actuarial valuation was carried out at December 31, 2019 by a qualified independent actuary.

The following table below shows the reconciliation from the opening to the closing balances for DBO and its components:

	Note	**2019**	2018
Balance at January 1		**P8,362,050**	P9,591,699
Included in Profit or Loss			
Current service cost		**944,098**	1,150,069
Interest cost		**769,309**	575,502
	17	**1,713,407**	1,725,571
Included in Other Comprehensive Income (OCI)			
Remeasurement (loss) gain:			
Actuarial (loss) gain arising from:			
Demographic assumptions		**-**	(941,142)
Experience adjustment		**(599,755)**	(1,092,211)
Financial assumptions		**(3,231,942)**	4,988,573
		(3,831,697)	2,955,220
Balance at December 31		**P13,907,154**	P8,362,050

The retirement costs amounting to P1.71 million and P1.73 million in 2019 and 2018, respectively, are presented as part of "Compensation and other benefits" in the statement of profit or loss and other comprehensive (loss) income (see note 17).

The principal actuarial assumptions used to determine the present value of DBO and retirement costs as at and for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate	**5.40%**	9.20%
Future salary rate increases	**1.00%**	3.00%

The future mortality rate assumptions for 2019 and 2018 have been based from the 1973-1978 Philippine Intercompany Mortality Table.

The weighted average duration of the DBO is 17 years and 22 years as at December 31, 2019 and 2018, respectively.

Maturity analysis of the benefit payments:

	2019				
	Carrying Amount	**Contractual Cash Flows**	**Within 1 Year**	**Within 1-5 Years**	**More than 5 Years**
DBO	**P13,907,154**	**P161,093,592**	**P1,197,920**	**P3,430,210**	**P156,465,462**

	2018				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
DBO	P8,362,050	P237,338,977	P235,154	P2,927,689	P234,176,134

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the DBO by the amounts shown below.

	2019					
	Discount Rate		**Future Salary Rate Increase**		**Future Mortality**	
Effect in thousand pesos	**+1%**	**-1%**	**+1%**	**-1%**	**+1%**	**-1%**
Present value of the DBO	**(P11,843)**	**P16,490**	**P16,586**	**(P11,743)**	**(P13,002)**	**P14,924**

	2018					
	Discount Rate		Future Salary Rate Increase		Future Mortality	
Effect in thousand pesos	+1%	-1%	+1%	-1%	+1%	-1%
Present value of the DBO	(P7,228)	P9,762	P9,841	(P7,156)	(P7,856)	P8,929

Each sensitivity run is based on a change in a sole actuarial assumption while holding all other assumptions constant. However, the sensitivity runs may not be representative of the actual change in the DBO as it is unlikely that a change in assumption would occur in isolation as the assumptions may be correlated.

Furthermore, DBO figures in this sensitivity runs have been calculated using the PUC method, the same method used in the calculation of DBO.

21. Related Parties

Identity of the Related Parties

The Bank, in the normal course of business, has significant transactions with members of the BOD, officers, stockholders and related interests (DOSRI), LMFI, and key management personnel (KMP), consisting mainly of the following:

Category/Transaction	Year	*Note*	Amount of the Transaction	Deposit Liabilities (Note 12)	Right-of-use Assets (Note 16)	Lease Liabilities (Note 16)	Nature, Terms and Conditions
DOSRI							
Deposit liabilities	**2019**	*1a*	**P12,441,521**	**P12,441,521**	**P -**	**P -**	**Interest-bearing; due and demandable**
	2018	*1a*	-	-	-	-	-
Rentals	**2019**	*1b*	**85,200**	-	**265,591**	**274,613**	-
	2018	*1b*	35,500	-	-	-	-
LMFI							
Payment for acquisition of	**2019**	*2a*	**1,085,137**	-	-	-	-
microfinance field offices	2018	*2a*	4,687,092	-	-	-	-
Deposit liabilities	**2019**	*2b*	**55,254,773**	**82,711,891**	-	-	**Interest-bearing; due and demandable**
	2018	*2b*	27,457,118	27,457,118	-	-	Interest-bearing; due and demandable
Rentals	**2019**	*2c*	**412,291**	-	**295,099**	**305,076**	-
	2018	*2c*	374,810	-	-	-	-
KMP							
Compensation	**2019**	*3a*	**10,411,603**	-	-	-	-
	2018	*3a*	9,507,237	-	-	-	-
TOTAL	**2019**			**P95,153,412**	**P560,690**	**P576,689**	
TOTAL	2018			P27,457,118	P -	P -	

1. DOSRI

   a) The Bank's DOSRI has several deposit accounts with the Bank which bear interest ranging from 1.25% to 3.50% per annum in 2019. Deposit liabilities amounted to P12.44 million as at December 31, 2019.

b) On August 1, 2018, the Bank entered into a 5-year lease contract with a director to lease an office space for its Maasin Branch. The right-of-use asset and lease liability recognized amounted to P0.27 million as at December 31, 2019. The rental payments amounted to P0.09 million and P0.04 million in 2019 and 2018, respectively.

2. LMFI

a) In 2019 and 2018, the Bank entered into a Memorandum of Agreement with LMFI to transfer, by way of sale, its microfinance field offices to comply with the specific directive of the BSP. The purchase price is equal to the net asset of the microfinance field offices as of the end of the month immediately preceding the transfer plus ten percent (10%) premium.

	2019	2018
Total consideration	**P1,085,137**	P4,687,092
Less total identifiable net assets at fair value	**(986,488)**	(4,260,993)
	P98,649	P426,099

Net identifiable assets consist of the following:

	Note	**2019**	2018
Microfinance loans	*23*	**P7,018,650**	P20,001,300
Unamortized interest and discounts		**(826,704)**	(1,537,848)
Allowance for impairment losses on microfinance loans	*23*	**(701,865)**	(2,000,130)
		5,490,081	16,463,322
Prepaid rent		**-**	44,000
		5,490,081	16,507,322
Accounts payable		**(1,298,310)**	(3,868,340)
Regular savings deposits		**(3,205,283)**	(8,377,989)
Net identifiable assets		**P986,488**	P4,260,993

The difference between the amount of consideration and total net identifiable assets was recognized as part of "Miscellaneous" under "Other expenses" in the statement of profit or loss and other comprehensive (loss) income.

b) LMFI has several deposit accounts with the Bank which bear interest ranging from 1.25% to 3.50% in 2019 and 2018. Deposit liabilities amounted to P82.71 million and P27.46 million as at December 31, 2019 and 2018, respectively.

c) On May 1, 2011, the Bank entered into a 10-year lease contract with LMFI to lease office space for its Iloilo City Branch. The right-of-use asset and lease liability recognized amounted to P0.30 million and P0.31 million, respectively, as at December 31, 2019. The rental payments amounted to P0.41 million and 0.37 million in 2019 and 2018, respectively.

3. KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank's KMP consist of executive officers, bank managers, and an operations manager.

   a) The compensation of Bank's KMP is composed of the following:

	2019	2018
Short-term employee benefits	**P9,671,208**	P8,864,302
Director's fee	**538,649**	437,825
Post-employment benefits	**201,746**	205,110
	P10,411,603	P9,507,237

   This was presented as part of "Compensation and fringe benefits" account in the statement of profit or loss and other comprehensive (loss) income (see Note 17).

22. Income Tax

The details of the Bank's income tax expense are as follows:

	2019	2018
Recognized in Profit or Loss		
Current	**P21,179,340**	P21,966,097
Deferred	**(1,100,971)**	(4,005,147)
	P20,078,369	P17,960,950
Recognized in OCI		
Deferred	**P1,149,509**	(P886,566)

The reconciliation of the income tax expense computed at the statutory tax rate to the income tax expense recognized in the statement of profit or loss and other comprehensive (loss) income at December 31 is as follows:

	2019	2018
Income before income tax expense	**P70,559,938**	P64,038,448
Tax at statutory tax rate of 30%	**P21,167,981**	P19,211,534
Adjustments for tax effects of:		
Interest expense limitation	**765,048**	878,069
Interest income subject to final tax	**(1,854,660)**	(2,128,653)
Income tax expense	**P20,078,369**	P17,960,950

The movements of deferred tax assets (liabilities) are as follows:

	Balance January 1, 2019	Recognized in Profit or Loss	Recognized in OCI	Balance December 31, 2019
Deferred Tax Assets				
Allowance for impairment losses:				
Loans and advances to customers	**P5,487,230**	**P1,045,888**	**P -**	**P6,533,118**
Other assets	**190,043**	**-**	**-**	**190,043**
Investment properties	**254,928**	**(225,000)**	**-**	**29,928**
Retirement liability	**2,508,616**	**514,022**	**1,149,509**	**4,172,147**
Accrued expenses	**3,126,578**	**987,464**	**-**	**4,114,042**
Accrued interest payable	**325,990**	**104,404**	**-**	**430,394**
	11,893,385	**2,426,778**	**1,149,509**	**15,469,672**
Deferred Tax Liabilities				
Right-of-use assets	**-**	**(117,913)**	**-**	**(117,913)**
Accrued interest receivable	**(120,789)**	**(1,207,894)**	**-**	**(1,328,683)**
	P11,772,596	**P1,100,971**	**P1,149,509**	**P14,023,076**

	Balance January 1, 2018	Recognized in Profit or Loss	Recognized in OCI	Balance December 31, 2018
Deferred Tax Assets				
Allowance for impairment losses:				
Loans and advances to customers	P5,019,210	P468,020	P -	P5,487,230
Investment properties	254,928	-	-	254,928
Other assets	169,106	20,937	-	190,043
Accrued expenses	333,260	2,793,318	-	3,126,578
Retirement liability	2,877,511	517,671	(886,566)	2,508,616
Accrued interest payable	-	325,990	-	325,990
	8,654,015	4,125,936	(886,566)	11,893,385
Deferred Tax Liability				
Accrued interest receivable	-	(120,789)	-	(120,789)
	P8,654,015	P4,005,147	(P886,566)	P11,772,596

23. Financial Instruments

Exposure to Credit Risk

The carrying amounts of financial assets represent the maximum credit exposure. An analysis of concentration of credit risk by sector on due from BSP, due from other banks, loans and advances to customers, debt instruments at amortized cost and other assets as at December 31, 2019 and 2018 is shown below (in thousands):

	Due from BSP (Note 5)		Due from Other Banks (Note 6)		Loans and Advances to Customers (Note 7)		Debt Instruments at Amortized Cost (Note 8)		Other Assets* (Note 11)	
(In thousands)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Carrying amount	P17,367	P17,652	P317,833	P283,590	P487,481	P423,069	P103,219	P94,946	P9,496	P2,881
Concentration by sector:										
Retail	P -	P -	P -	P -	P487,481	P423,069	P -	P -	P9,496	P2,881
Banks	17,367	17,652	317,833	283,590	-	-	103,219	94,946	-	-
	P17,367	P17,652	P317,833	P283,590	P487,481	P423,069	P103,219	P94,946	P9,496	P2,881

**Excluding prepaid expenses, stationary and supplies on hand, and due from employees*

The summary of concentration of credit risk by sector on loans and advances to customers as to industry is presented in Note 28 to the financial statements.

The maximum exposure to credit risk at the reporting dates are as follows:

	Note	**2019**	2018
Due from BSP	*5*	**P17,367,308**	P17,652,293
Due from other banks	*6*	**317,833,080**	283,590,014
Loans and advances to customers - net	*7*	**487,481,254**	423,069,251
Debt instruments at amortized cost	*8*	**103,219,044**	94,946,198
Other assets - net*	*11*	**9,495,882**	2,881,048
		P935,396,568	P822,138,804

** Excluding prepaid expenses, stationary and supplies on hand, and due from employees*

Credit Quality Per Class of Financial Assets
The credit quality of financial assets is monitored and managed based on the credit standing and history. Credit exposures are classified into three stages of credit impairment with corresponding time horizons in measuring ECL:

- Stage 1 - Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk - 12 months ECL;

- Stage 2 - Credit exposures that are considered "under-performing" or not yet "non-performing" but with significant increase in credit risk since initial recognition - Lifetime ECL; and

- Stage 3 - Credit exposures with objective evidence of impairment, thus, considered as "non-performing" - Lifetime ECL.

The Bank classifies its neither past due nor impaired financial assets subject to credit risk into the following credit grades:

- High grade represents bank deposits, loans, advances or investments which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation. These also include deposits with reputable institutions from where the deposits may be withdrawn and recovered with certainty.

- Standard grade are neither past due nor impaired loans and with partially secured loan status. The standard grade category includes loans for which collections are probable due to the reputation and the financial ability to pay of the counterparty.

- Substandard grade includes loans which have risk of default higher than normal. Substandard grade loans are those where the counterparties are expected to be able to service its debt under normal economic and business conditions. Any prolonged economic or business downturn would however ostensibly create liquidity issues for the borrower.

The credit quality by class of financial assets (gross allowance for impairment losses and unamortized interest and discounts) of the Bank as at December 31, 2019 and 2018 is as follows:

	December 31, 2019			
	ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Due from BSP:				
High grade	**P17,367,308**	**P -**	**P -**	**P17,367,308**
Due from other banks:				
High grade	**317,833,080**	**-**	**-**	**317,833,080**
Loans and advances to customers:				
High grade	**463,180,507**	**-**	**-**	**463,180,507**
Standard grade	**1,518,259**	**20,423,790**	**-**	**21,942,049**
Substandard grade	**897,898**	**2,125,904**	**-**	**3,023,802**
Past due but not impaired	**-**	**465,352**	**8,481,399**	**8,946,751**
Past due and impaired	**-**	**-**	**12,716,941**	**12,716,941**
	465,596,664	**23,015,046**	**21,198,340**	**509,810,050**
Debt instruments at amortized cost:				
High grade	**103,219,044**	**-**	**-**	**103,219,044**
Accrued interest receivable:				
High grade	**4,428,944**	**-**	**-**	**4,428,944**
Sales contract receivable:				
High grade	**3,930,453**	**-**	**-**	**3,930,453**
Security deposits:				
High grade	**1,178,800**	**-**	**-**	**1,178,800**
Others:				
High grade	**27,475**	**-**	**-**	**27,475**
	P913,581,768	**P23,015,046**	**P21,198,340**	**P957,795,154**

	December 31, 2018			
	ECL			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP:				
High grade	P17,652,293	P -	P -	P17,652,293
Due from other banks:				
High grade	283,590,014	-	-	283,590,014
Loans and advances to customers:				
High grade	422,049,206	-	-	422,049,206
Standard grade	2,565,049	1,068,568	-	3,633,617
Substandard grade	-	872,240	-	872,240
Past due but not impaired	-	-	1,234,216	1,234,216
Past due and impaired	-	-	14,027,652	14,027,652
	424,614,255	1,940,808	15,261,868	441,816,931
Debt instruments at amortized cost:				
High grade	94,946,198	-	-	94,946,198
Accrued interest receivable:				
High grade	402,630	-	-	402,630
Sales contract receivable:				
High grade	967,383	-	-	967,383
Security deposits:				
High grade	1,553,350	-	-	1,553,350
Others:				
High grade	27,475	-	-	27,475
	P823,753,598	P1,940,808	P15,261,868	P840,956,274

The movements in gross carrying amount of loans and advances to customers between stages are as follows:

	December 31, 2019			
	ECL Staging			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Gross Carrying Amount at January 1, 2019	**P424,614,255**	**P1,940,808**	**P15,261,868**	**P441,816,931**
Transfers:				
Transfer to stage 1	**116,187**	**-**	**(116,187)**	**-**
Transfer to stage 2	**(26,061,752)**	**26,061,752**	**-**	**-**
Transfer to stage 3	**(4,209,244)**	**(2,899,306)**	**7,108,550**	**-**
New financial assets originated or purchased	**1,826,536,574**	**-**	**-**	**1,826,536,574**
Financial assets derecognized	**(1,755,399,356)**	**(2,088,208)**	**(1,055,891)**	**(1,758,543,455)**
Gross Carrying Amount at December 31, 2019	**P465,596,664**	**P23,015,046**	**P21,198,340**	**P509,810,050**

	December 31, 2018			
	ECL Staging			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Gross Carrying Amount at January 1, 2018	P371,355,843	P864,304	P14,047,889	P386,268,036
Transfers:				
Transfer to stage 2	(4,192,254)	5,128,818	(936,564)	-
Transfer to stage 3	(2,401,719)	(367,318)	2,769,037	-
New financial assets originated or purchased	1,422,447,028	-	-	1,422,447,028
Financial assets derecognized	(1,362,594,643)	(3,684,996)	(178,431)	(1,366,458,070)
Write-offs	-	-	(440,063)	(440,063)
Gross Carrying Amount at December 31, 2018	P424,614,255	P1,940,808	P15,261,868	P441,816,931

The movements of the allowance for impairment losses between stages are as follows:

	December 31, 2019			
	ECL Staging			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Allowance for impairment losses at January 1, 2019	**P12,718,079**	**P1,372,868**	**P4,199,819**	**P18,290,766**
Movements with profit or loss impact				
Transfers:				
Transfer to stage 2	**(130,018)**	**130,018**	**-**	**-**
Transfer to stage 3	**(9,229,848)**	-	**9,229,848**	**-**
New financial assets originated or purchased	**18,265,366**	**-**	-	**18,265,366**
Financial assets derecognized	**(13,902,993)**	**(522,052)**	**(1,055,891)**	**(15,480,936)**
Total net profit or loss charge	**(4,997,493)**	**(392,034)**	**8,173,957**	**2,784,430**
Other movements without profit and loss impact				
Other movements	**701,865**	**-**	**-**	**701,865**
Allowance for impairment losses at December 31, 2019	**P8,422,451**	**P980,834**	**P12,373,776**	**P21,777,061**

	December 31, 2018			
	ECL Staging			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Allowance for impairment losses at January 1, 2018	P7,865,412	P2,182,037	P6,683,250	P16,730,699
Movements with profit or loss impact				
Transfers:				
Transfer to stage 1	1,752,857	(304,870)	(1,447,987)	-
Transfer to stage 2	-	723,993	(723,993)	-
Transfer to stage 3	-	(307,043)	307,043	-
New financial assets originated or purchased	14,154,680	-	-	14,154,680
Financial assets derecognized	(13,055,000)	(921,249)	(178,431)	(14,154,680)
Total net profit or loss charge	2,852,537	(809,169)	(2,043,368)	-
Other movements without profit or loss impact				
Other movements and write-offs	2,000,130	-	(440,063)	1,560,067
Allowance for impairment losses at December 31, 2018	P12,718,079	P1,372,868	P4,199,819	P18,290,766

Impairment losses on loans and advances to customers amounting to P2.78 million in 2019 is presented as "Impairment losses" in the statement of profit or loss and other comprehensive (loss) income.

The Bank acquired microfinance loans from LMFI amounting to P7.02 million and P20.00 million in 2019 and 2018, respectively. The related allowance on these acquired loans amounted to P0.70 million and P2.00 million in 2019 and 2018, respectively (see Note 21).

Carrying Amount of Loans and Advances to Customers which Terms have been Renegotiated

Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. Restructured receivables amounted to P0.48 million and P0.71 million as at December 31, 2019 and 2018.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations due to shortage of funds.

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

All liquidity policies and procedures are subject to review and approval by the BOD.

Exposure to Liquidity Risk

The table below summarizes the maturity profile of the Bank's financial assets and liabilities (in thousands) based on contractual repayment arrangements:

December 31, 2019	Note	Total Carrying Amount	Contractual Undiscounted Payments Up to 1 Month	1 to 6 Months	6 to 12 Months	Over 1 Year	Total
Assets							
Cash and other cash items	4	P12,139	P12,139	P -	P -	P -	P12,139
Due from BSP	5	17,367	17,367	-	-	-	17,367
Due from other banks	6	317,833	263,199	10,190	44,444	-	317,833
Loans and advances to customers - net	7	487,481	11,115	416,056	19,093	63,546	509,810
Debt instruments at amortized cost	8	103,219	227	187	1,048	101,757	103,219
Other assets - net*	11	9,496	5,636	903	936	2,091	9,566
		947,535	309,683	427,336	65,521	167,394	969,934
Liabilities							
Deposit liabilities	12	606,162	211,974	72,983	321,205	-	606,162
Lease liabilities**	16	5,145	557	2,862	1,064	920	5,403
Other liabilities***	13	80,639	60,479	20,160	-	-	80,639
		691,946	273,010	96,005	322,269	920	692,204
Net Liquidity Gap		P225,589	P36,673	P331,331	(P256,748)	P166,474	P277,730

**Excluding prepaid expenses, stationary and supplies on hand, and due from employees*
***including future interest payments*
****Excluding statutory payables*

December 31, 2018	Note	Total Carrying Amount	Contractual Undiscounted Payments Up to 1 Month	1 to 6 Months	6 to 12 Months	Over 1 Year	Total
Assets							
Cash and other cash items	4	P13,282	P13,282	P -	P -	P -	P13,282
Due from BSP	5	17,652	17,652	-	-	-	17,652
Due from other banks	6	283,590	283,590	-	-	-	283,590
Loans and advances to customers - net	7	423,069	264,816	79,445	44,136	53,419	441,816
Debt instruments at amortized cost	8	94,946	-	-	-	94,946	94,946
Other assets - net*	11	2,881	403	-	-	2,548	2,951
		835,420	579,743	79,445	44,136	150,913	854,237
Liabilities							
Deposit liabilities	12	531,554	265,777	159,466	106,311	-	531,554
Other liabilities**	13	75,160	56,370	18,790	-	-	75,160
		606,714	322,147	178,256	106,311	-	606,714
Net Liquidity Gap		P228,706	P257,596	(P98,811)	(P62,175)	P150,913	P247,523

** Excluding prepaid expenses, stationary and supplies on hand, and due from employees*
***Excluding statutory payables*

Interest Rate Risk

At the reporting date, the interest rate profile of the Bank's interest-bearing financial instruments is as follows:

	Note	**2019**	2018
Fixed Rate Instruments			
Financial assets:			
Due from other banks	6	**P317,833,080**	P283,590,014
Loans and advances to customers - net	7	**487,481,254**	423,069,251
Debt instruments at amortized cost	8	**103,219,044**	94,946,198
		908,533,378	801,605,463
Financial liabilities:			
Deposit liabilities	12	**606,161,763**	531,554,483
Lease liabilities	16	**5,144,776**	-
		P297,226,839	P270,050,980

Effective interest rates for 2019 and 2018 are as follows:

	2019	2018
Assets		
Due from other banks	**0.10%-3.40%**	0.10%-3.40%
Loans and advances to customers - net	**6.00%-77.88%**	6.00%-77.88%
Debt instruments at amortized cost	**2.00%-6.00%**	2.00%-6.00%
Liabilities		
Deposit liabilities	**0.75%-3.50%**	0.75%-3.50%
Lease liabilities	**6.33%**	-

The financial instruments of the Bank have fixed interest rates and the management assessed that the Bank's exposure to changes in interest rate risk is immaterial.

Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair values of the financial assets and financial liabilities are as follows:

Cash and Other Cash Items, Due from BSP, Due from Other Banks, and Other Financial Assets under "Other Assets" - Carrying amounts approximate fair values in view of the relatively short-term maturities.

Loans and Advances to Customers and Debt Instruments at Amortized Cost - Carrying amounts approximates fair value as at reporting dates because these bear interest rates that approximate market rates.

Deposit Liabilities, Lease Liabilities, and Other Financial Liabilities under "Accounts Payable and Accrued Expenses" and "Other Liabilities" - Carrying amounts approximate fair values considering that these are due and demandable or with short-term maturities.

24. Financial Risk Management Policies and Objectives

Introduction and Overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk; and
- Market Risk

Risk Management Framework

The Bank manages risk and capital through a framework of principles, organizational structures as well as measurement and monitoring process.

Financial Risk and Capital Management Principles

The Bank's BOD has overall responsibility for the establishment and oversight of the risk management framework. The BOD has established Credit and Operational Risk Committees, which are responsible for developing and monitoring risk management policies in their specified areas. All BOD Committees have both executive and non-executive members and report regularly to the BOD on their activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are viewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The following information discusses the Bank's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks:

Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from loans and advances to customers and other banks' investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank holds collateral against loans and advances to customers (except microfinance loans) in the form of mortgage interest over property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired. Generally, collateral is not held over due from other banks and microfinance loans.

The Risk Management Committee has established a credit policy under which, each new customer is analyzed individually for creditworthiness before approval of loan application.

The review and analysis is based on information and documents submitted, which includes external ratings and investigations.

ECL Parameters and Methodologies

In compliance with PFRS 9, the Bank developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions. The Bank uses a provision matrix to calculate ECLs for loans and advances to customers. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Bank's historical observed default rates. The Bank will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the banking sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Bank's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Definition of Default

As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in Section 304, *Accounts Considered as Past Due*, of the latest MORB. Defaults refer to loans, investments, receivables, or any financial asset, even without missed contractual payments, that satisfy any of the following conditions: impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than 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.

Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. A significant increase in credit risk can be measured by comparing the probability of default of the borrower from the initial recognition and the result of the current probability of default.

Other indications may include, among others, indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments, probability that the borrower will enter bankruptcy or other financial reorganization/restructuring, and other observable data indicating measurable decrease in the estimated future cash flows, such as changes in business or economic conditions that correlate with defaults.

Generally, the Bank applies a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due.

Forward-looking Information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The Bank's loans and advances to customers consist of different portfolios, such as microfinance, commercial and consumer loans.

The key forward-looking economic variables used in each of the economic scenarios for the ECL calculations are gross domestic product and consumer price index rates.

In monitoring credit risk, customers are banked according to their credit characteristics, including whether they are individual or legal entity, industry, aging profile and maturity (see Note 23).

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities (see Note 23).

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board Operational Committee.

Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank is not exposed to foreign exchange and price risks because it does not have foreign currency denominated financial assets and liabilities nor holds investments in equity securities classified as fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL), respectively. The Bank is not also engaged in commodity trading; hence, is not exposed to commodity price risk.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial assets.

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rate are kept within acceptable limits.

Interest computation used by the Bank is add-on for microfinance and based on diminishing balance for small and medium enterprises loans. As to the interest rate of the Bank's deposits from customers, the substantial amount are the termed deposits.

Capital Management

The BOD's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The BOD monitors the return on equity, which the Bank defines as net income divided by the average capital accounts.

Capital is composed of the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;

- total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the Bank;

- unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates; and

- deferred tax.

The BOD seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Bank's approach to capital management during the year.

BSP Reporting

Regulatory Qualifying Capital

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

The BSP sets and monitors capital requirements for the Bank. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk weighted assets) of not less than 10.00%.

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and

- Tier 2 capital, which includes collective impairment allowances (general loan loss provision subject to certain limitation).

Risk-weighted assets are computed under Appendix to Section 127 of the latest MORB.

The capital-to-risk assets ratio of the Bank as reported to the BSP is shown in the table below (amounts in millions):

	2019	2018
Tier 1 capital	**P314.93**	P305.22
Tier 2 capital	**8.04**	6.82
Total Qualifying Capital	**P322.97**	P312.04
Risk-weighted Assets	**P1,153.12**	P984.18
Total tier 1 capital expressed as a percentage of risk-weighted assets	**27.31%**	31.01%
Total qualifying capital expressed as a percentage of total risk-weighted assets	**28.01%**	31.71%

Under Section 121 of the latest MORB, the required minimum capitalization for the Bank as a rural bank with up to 10 branches is P30.00 million.

The Bank was compliant with the capital adequacy ratio and required minimum capitalization for the years ended December 31, 2019 and December 31, 2018.

Minimum Liquidity Ratio
To promote short-term resilience to liquidity shocks, banks shall maintain a stock of liquid assets proportionate to their on and off-balance sheet liabilities. In accordance with Section 145, *Minimum Liquidity Ratio (MLR) for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks,* of the latest MORB, a prudential MLR of twenty percent (20%) shall apply to banks on an on-going basis absent a period of financial stress. The liquidity ratio is expressed as a percentage of a bank's eligible stock of liquid assets to its total qualifying liabilities.

The Bank's MLR as percentage are as follows:

	2019	2018
Stock of liquid assets	**P448,836,721**	P407,034,518
Qualifying liabilities	**586,055,777**	624,237,112
	76.59%	65.21%

The Bank was in compliance with such MORB provision for the years ended December 31, 2019 and December 31, 2018.

Minimum Leverage Ratio
In accordance with Section 3, *Prompt Corrective Action Framework*, of the latest MORB, the minimum leverage ratio requirement is 5.00%.

The Bank's leverage ratios as percentage are as follows:

	2019	2018
Total capital	**P315,042,887**	P271,975,046
Total assets	**1,035,814,884**	902,726,092
	30.41%	30.13%

Consequently, the Bank is compliant for the years ended December 31, 2019 and December 31, 2018.

25. Commitments and Contingencies

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities, such as commitments to extend credit and similar arrangements which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

26. Subsequent Events

Dividend Declaration
The Bank's BOD, in its meeting held on January 7, 2020, approved the declaration of 40.00% cash dividends equivalent to P5.57 million or P40.00 per stock on common stocks for stockholders on record at January 7, 2020. The Bank considers this as a non-adjusting event after the end of the reporting period.

Novel Coronavirus
The novel coronavirus (COVID-19) outbreak has spread across the globe causing disruptions to businesses and economic activities. On January 30, 2020, the World Health Organization announced COVID-19 as a global health emergency and, on March 11, 2020, declared it as a pandemic.

On March 8, 2020, under Proclamation 922, the Office of the President declared a state of public health emergency and, subsequently, on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the rapidly increasing cases of COVID-19. To manage the spread of the disease, the major areas of the Philippines have been placed under an Enhanced Community Quarantine, effective from March 17, 2020 until May 15, 2020, which involved several measures including travel restrictions, strict home quarantine and temporary suspension or regulation of business operations, among others, limiting activities to only the provision of essential goods and services. As of June 12, 2020, community quarantine restrictions of varying degrees remain in place throughout the country.

The Bank considers the financial reporting effects of the outbreak to be non-adjusting events after the end of the reporting period and the events do not cast significant doubt on the Bank's ability to continue as a going concern. The Bank has assessed that there could be potential financial impacts in terms of macroeconomic forecasts, valuations and ECL provisioning. As the situation is fluid and rapidly evolving, the Bank does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on its financial statements. The impacts of this outbreak, including macroeconomic forecasts and PFRS 9 estimates of ECL provision, will be determined, quantified and recognized in the Bank's financial statements as at and for the year ending December 31, 2020.

27. Significant Accounting Policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except for the adoption of new standard, amendments to standard and interpretation as discussed below.

Adoption of New Standard, Amendments to Standard and Interpretation
The Bank has adopted the following new standard, amendments to standard and interpretation starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new standard, amendments to standard and interpretation did not have any significant impact on the Bank's financial statements.

- PFRS 16, *Leases,* supersedes PAS 17, *Leases,* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

  Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases.

  New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

  The Bank has applied PFRS 16 using the modified retrospective approach, and therefore the comparative information has not been restated and continues to be reported under PAS 17 and related interpretation.

Impact on Transition
On transition to PFRS 16, the Bank recognized right-of-use assets and lease liabilities. Lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's IBR as at January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Bank used the practical expedient of not recognizing right-of-use assets for leases of low-value assets. The impact on transition is summarized below.

	January 1, 2019
Right-of-use assets	P8,640,436
Lease liabilities	7,984,261
Prepayments	(656,175)

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its IBR at January 1, 2019. The weighted-average IBR applied is 6.33%.

	January 1, 2019
Operating lease commitments at December 31, 2018 as disclosed under PAS 17 in the financial statements	P8,050,875
Discounted using IBR at January 1, 2019	7,984,261
Lease liabilities recognized at January 1, 2019	7,984,261

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in OCI.

  The adoption of the amendments to PAS 19 did not have any significant impact in the financial statements of the Bank.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments,* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes,* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Bank's chosen tax treatment. If it is not probable that the tax authority will accept the Bank's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

  The adoption of Philippine Interpretation IFRIC-23 did not have any significant impact in the financial statements of the Bank.

Financial Assets and Liabilities

Recognition and Measurement

The Bank initially recognizes loans and advances to customers on the date on which they are originated. All other financial instruments are recognized on the date the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification of Financial Assets

On initial recognition, a financial asset is classified as measured at: amortized cost, financial asset at FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business Model Assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and

- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment of Whether Contractual Cash Flows are SPPI
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;

- leverage features;

- prepayment and extension terms; and

- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements).

Reclassification
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Subsequent Measurement and Gains and Losses

- Financial assets at FVTPL - Measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss;

- Financial assets at amortized cost - Measured at amortized cost using effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss;

- Debt investments at FVOCI - Measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss; and

- Equity investments at OCI - Measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Financial Liabilities
Financial liabilities are subsequently measured at amortized cost using the effective interest method, except where the Bank designates liabilities at FVTPL.

Derecognition
Financial Assets
The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

Any cumulative gain or loss recognized in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial Liabilities
The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired.

Impairment: Nonderivative Financial Assets
The Bank recognizes loss allowances for ECLs on:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank measures allowance for impairment losses at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments'.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments' otherwise are referred to as 'Stage 3 financial instruments'.

Measurement of ECL
ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured Financial Assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECLs are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired Financial Assets
At each reporting date, the Bank assesses whether financial assets carried at amortized cost are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of Allowance for ECL in the Statement of Financial Position
Allowance for impairment losses for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined allowance for impairment losses for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the allowance for impairment losses over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no allowance for impairment losses is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the allowance for impairment losses is disclosed and is recognized in the fair value reserve.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'recovery of previously written off accounts' in the statement of profit or loss and other comprehensive (loss) income.

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under PFRSs, or for gains and losses arising from a group of similar transactions.

Fair Value Measurement
'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments - e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, and amounts due from BSP and other banks that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Property and Equipment

Items of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use.

Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset, in excess of the originally assessed standard of performance, will flow to the Bank. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, if any.

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

The estimated useful lives are as follows:

	Number of Years
Buildings	12
Furniture, fixtures and equipment	2 to 5

The depreciation methods and useful lives are reviewed at each reporting date to ensure that the period and methods of depreciation are consistent with the expected pattern of economic benefits from the assets.

Construction-in-progress is stated at cost and is not depreciated until such time that assets are put into operational use.

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

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is reflected in current operations.

Investment Properties

Investment properties are accounted for using cost model. Under this model, investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under 'Investment properties' upon:

- entry of judgment in case of judicial foreclosure;

- execution of Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or

- notarization of Deed of Dacion in case of payment in kind (dacion en pago).

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Direct operating expenses related to investment properties, such as repairs and maintenance costs, are normally charged to profit or loss in the year in which the costs are incurred.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed on a straight-line basis over the estimated useful lives of the investment properties of 10-20 years.

Investment properties are derecognized when it has either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains and losses on derecognition of investment properties are recognized in profit and loss in the year of derecognition.

Impairment of Nonfinancial Assets

Property and Equipment, Investment Properties, and Right-of-Use Assets

The carrying amounts of the Bank's nonfinancial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

Any impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. 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. In respect of nonfinancial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined at reversal date, net of depreciation or amortization, if no impairment loss had been recognized.

Leases
Policy Applicable from January 1, 2019

At inception of a contract, the Bank assesses whether a 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. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in PFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

Bank as Lessee
The Bank applies a single recognition and measurement approach for all leases. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's IBR. Generally, the Bank uses its IBR as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use asset that do not meet the definition of investment property and property and equipment in 'right-of-use assets' and lease liability in 'lease liabilities' in the statement of financial position.

Leases of Low-value Assets
The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy Applicable before January 1, 2019

For contracts entered into before January 1, 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfillment of the arrangement was dependent on the use of a specific asset or assets; and

- the arrangement had conveyed a right to use the asset.

Bank as Lessee
Leases that do not transfer substantially all of the risks and rewards of ownership are classified as operating leases and were not recognized in the Bank's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lessee. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

Equity
Capital Stock
Capital stocks are classified as equity. Incremental costs directly attributable to the issuance of ordinary stocks and stock options are recognized as deduction from equity, net of any tax effects.

Dividends on Common Stocks
Dividends on common stocks are recognized as a liability and deducted from equity when approved by the BOD or respective shareholders of the Bank. Dividends for the year that are approved after the financial reporting date are dealt with as subsequent event.

Retained Earnings
Retained earnings include profit or loss attributable to the equity holders of the Bank and reduced by dividends on capital stock. It may also include changes in accounting policy to the extent practicable, except when the transition provisions in other standards require otherwise, restatements to correct errors, all current and prior period results as disclosed in the statement of profit or loss and comprehensive (loss) income.

Appropriated Retained Earnings
Appropriated retained earnings are portions of retained earnings that are set aside for a specific purpose and are not available for dividend distributions.

Unappropriated Retained Earnings
Unappropriated retained earnings are portion of retained earnings that are not classified as appropriated retained earnings and are available for dividend distributions.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

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 a principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements, except for fees and commissions.

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

Revenues within the scope of PFRS 15:

Gains
Gain on sale of properties is recognized when control transfers to the recipient. Gains are measured as the excess of selling price of the property over carrying amount at the time of sale.

Fees and Commissions
Fees and commissions arising from providing transaction services are recognized upon completion of the transaction. Fees are linked to a certain performance of a service or a condition and are recognized after performing the service or fulfilling the condition.

Service Charges and Penalties
Service charges and penalties are recognized upon collection or being accrued when there is reasonable degree of certainty as to its collectability.

Revenue outside the scope of PFRS 15:

Interest Income
Interest income is recognized using the effective interest method at the effective interest rate of a particular financial asset. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of a financial asset to the net carrying amount of that financial asset.

The calculation of the effective interest rate includes all origination fees, transaction costs, and discounts or premiums. Origination fees are incremental fees and charges received by the Bank in facilitating a transaction involving a financial asset. For the loans and advances to customers, origination fees include service fees and charges.

On the other hand, transaction costs are incremental costs that are directly attributable to the acquisition or disposal of a financial asset.

Recovery of Previously Written off Accounts
Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery.

Expense Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity holders. Expenses are recognized in profit or loss in the year these are incurred.

Income Taxes
Income tax expense for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI, in which case it is recognized in equity or OCI, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The deferred tax asset is reviewed at each reporting date and reduced, if appropriate.

The Bank offsets deferred tax assets and deferred tax liabilities if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Retirement Liability
The Bank has no established retirement plan for its permanent employees and only conforms to the minimum regulatory benefit under the Republic Act No. 7641, *Retirement Pay Law,* which is of the defined benefit type. The retirement cost of the Bank is determined using the PUC method. Under this method, the current service cost is the present value of retirement liability in the future with respect to services rendered in the current year.

PUC method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized in full in the period in which they occur in OCI. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

The retirement liability is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Defined benefit costs comprise the following:

- service costs;
- net interest on the defined benefit retirement liability; and
- remeasurements of defined benefit retirement liability

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the defined benefit retirement liability is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the defined benefit retirement liability. Net interest on the defined benefit retirement liability is recognized as expense or income in profit or loss.

Remeasurements of DBO comprising actuarial gains and losses are recognized immediately in OCI in the period in which they arise under "Employee benefits reserve", net of income tax effect.

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other Long-term Employee Benefits

The Bank's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

Provisions

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

Contingencies

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

Related Party Transactions
Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The transactions with each related parties, together with the terms, conditions and outstanding balances, are disclosed in the financial statements.

Events After the End of the Reporting Period
The Bank identifies post-yearend events as events that occurred after the reporting period but before the date when the financial statements were authorized for issue. Any post-yearend events that provide additional information about the Bank's financial position or performance at the end of a reporting period (adjusting events) are reflected in the financial statements. Post-yearend events that are not adjusting events are disclosed in the notes to the financial statements when material.

Amendments to Standards Not Yet Adopted
A number of amendments to standards are effective for annual periods beginning after January 1, 2019 and earlier application is permitted; however, the Bank has not early adopted these amendments to standards in preparing these financial statements. The following amendments to standards are not expected to have significant impact on the Bank's financial statements.

To be Adopted on January 1, 2020

- *Amendments to References to Conceptual Framework in PFRSs* sets out amendments to PFRSs, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;

  - guidance on reporting financial performance;

  - improved definitions of an asset and a liability, and guidance supporting these definitions; and

  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

  - raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';

  - including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;

  - clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;

  - clarifying the explanatory paragraphs accompanying the definition; and

  - aligning the wording of the definition of material across PFRSs and other publications.

  The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

28. Supplementary Information Required Under BSP Circular No. 1074

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

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

A. Financial Performance Indicators

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

	2019	2018
Return on average equity	**17.20%**	18.43%
Return on average assets	**5.21%**	5.31%
Net interest margin	**35.39%**	33.88%

B. Capital Instruments

The Bank considers its capital stock as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2019 and 2018.

C. Significant Credit Exposures as to Industry or Economic Sector

As at December 31, 2019 and 2018, information on the concentration of credit as to industry or economic sector, net of unamortized interest and discounts, are as follows:

	2019		2018	
	Amount	**%**	Amount	%
Wholesale and retail trade, and repair of motor vehicles, motorcycles	**P350,895,856**	**68.90%**	P312,445,306	70.79%
Agriculture, forestry and fishing	**49,908,957**	**9.80%**	51,690,270	11.71%
Other service activities	**27,192,612**	**5.34%**	21,218,754	4.81%
Real estate activities	**23,549,457**	**4.62%**	11,445,362	2.59%
Accommodation and food service activities	**22,687,548**	**4.46%**	18,521,766	4.20%
Education	**10,518,107**	**2.07%**	2,424,686	0.55%
Transportation and storage	**9,149,778**	**1.80%**	11,682,425	2.65%
Personal consumption	**6,879,088**	**1.35%**	4,695,232	1.06%
Manufacturing	**4,038,679**	**0.79%**	4,317,667	0.98%
Water supply, sewerage, waste management and remediation activities	**1,149,759**	**0.23%**	763,817	0.17%
Human health and social work activities	**1,113,706**	**0.22%**	517,677	0.12%
Construction	**1,045,404**	**0.21%**	282,292	0.06%
Activities of households as employers and undifferentiated goods-and-services-producing activities of households for own use	**429,308**	**0.08%**	439,881	0.10%
Administrative and support service activities	**249,687**	**0.05%**	301,533	0.07%
Information and communication	**185,954**	**0.04%**	260,291	0.06%
Arts, entertainment and recreation	**123,322**	**0.02%**	208,545	0.05%
Electricity, gas, steam and air conditioning supply	**97,259**	**0.02%**	115,236	0.03%
Mining and quarrying	**28,233**	**0.00%**	25,427	0.00%
Professional, scientific, and technical activities	**15,601**	**0.00%**	3,850	0.00%
	P509,258,315	**100.00%**	P441,360,017	100.00%

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or a particular economic sector exceeds 30.00% of total loan portfolio. Management believes that the Bank's credit concentration in loans to "Wholesale and retail trade, and repair of motor vehicles, and motorcycles" as at December 31, 2019 and 2018 is justifiable considering that it correlates with the nature of its operation as a rural bank, whose main customers are group of individual entrepreneurs with businesses mostly operating in wholesale and retail industry, repair of motor vehicles and motorcycles.

D. Breakdown of Total Loans as to Security and Status

The following table shows the breakdown of loans and advances to customers, net of unamortized interest and discounts, as to secured and unsecured and the breakdown of loans and advances to customers as to the type of security as at December 31, 2019 and 2018:

	2019		2018	
	Amounts	**%**	Amounts	%
Secured:				
Real estate mortgage	**P46,608,964**	**9.15%**	P32,044,567	7.26%
Chattel mortgage	**1,698,804**	**0.33%**	1,856,817	0.42%
Others	**119,776**	**0.02%**	130,017	0.03%
	48,427,544	**9.50%**	34,031,401	7.71%
Unsecured	**460,830,771**	**90.50%**	407,328,616	92.29%
	P509,258,315	**100.00%**	P441,360,017	100.00%

The following table shows the breakdown of loans and advances to customers, net of unamortized interest and discounts, as to performing and non-performing loans as at December 31, 2019 and 2018:

	2019	2018
Performing loans:		
Microfinance	**P396,463,033**	P368,615,554
Commercial	**56,207,555**	39,548,997
Agricultural	**19,188,067**	22,485,716
	471,858,655	430,650,267
Non-performing loans:		
Microfinance	**31,156,099**	6,526,362
Commercial	**4,434,879**	3,561,162
Agricultural	**1,808,682**	622,226
	37,399,660	10,709,750
	P509,258,315	P441,360,017

In accordance with Section 304, of the latest MORB, loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 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.

E. Information on Related Party Loans

DOSRI transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Bank, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under Section 344, *Individual Ceilings,* of the latest MORB, the total outstanding loans, other credit accommodations and guarantees to each of the bank's DOSRI shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank. Provided, however, that unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI shall not exceed 30.00% of their respective total loans, other credit accommodations and guarantees.

Under Section 345, *Aggregate Ceiling,* of the latest MORB, loans to DOSRI generally should not exceed the lower of the bank's net worth or fifteen percent (15.00%) of the total loan portfolio. Provided, however, that unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI shall not exceed 30.00% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower.

The Bank was in compliance with such MORB provisions as at December 31, 2019 and 2018.

The following table shows information relating to DOSRI loans as part of loans and advances to customers:

	2019	2018
Total outstanding loans to Bank's DOSRI	**P -**	P -
Percent of DOSRI loans to total loan portfolio	**0.00%**	0.00%
Percent of unsecured DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of past due DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of non-performing DOSRI loans to total DOSRI loans	**0.00%**	0.00%

F. Aggregate Amount of Secured Liabilities and Assets Pledged as Security

The Bank has no secured liabilities and assets pledged as security as at December 31, 2019.

G. Commitments and Contingent Liabilities

The Bank has no contingencies and commitments arising from off-balance sheet items as at December 31, 2019.

29. Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the notes to the basic financial statements which were prepared in accordance with PFRSs. The following is the supplementary tax information required for the taxable year ended December 31, 2019:

A. Withholding Taxes

Final withholding taxes	**P3,431,186**
Expanded withholding taxes	**1,493,114**
Tax on compensation and benefits	**608,626**
	P5,532,926

B. All Other Taxes (Local and National)

Other taxes paid during the year recognized under "Taxes and licenses" account under Other expenses	
Gross receipts tax	**P15,369,443**
Documentary stamps	**2,767,118**
License and permit fees	**1,057,008**
Real estate tax	**151,927**
Others	**194,437**
	P19,539,933

C. Tax Cases and Assessments

The Bank has no pending tax cases and assessments as at December 31, 2019.

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• 2014 •

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INSURANCE CORPORATION

BANKERS ASSOCIATION OF ILOILO
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