LifeBank
A Rural Bank
CELEBRATING
50
YEARS
1970-2020

ANNUAL REPORT 2020

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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 50 years and now holds a Head Office in Santa Barbara, Iloilo. Its 3 branches are situated in Maasin, Iloilo City and Roxas City in Capiz.

In addition, it has 37 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), now known as LifeBank Microfinance Foundation, Inc. (LBMFI), 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 thirty-seven (37) 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, thirty-seven (37) BLUs were established. These are operating in the Provinces of Iloilo, Guimaras, Capiz, Aklan and Antique.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD

1970 to 2020: LifeBank enriching lives at 50 and beyond

The year 2020 is momentous for LifeBank for two reasons: First, it signaled our veteran age as a people and development oriented rural bank. We commemorated our 50th year founding anniversary in March.

Second, it is a year that the world was brought to its knees by a novelty virus - the COVID-19. Inwardly for LifeBank as an organization, the pandemic year is a meaningful trajectory for it allowed us to demonstrate what a 50-year old microfinance institution is truly capable of doing.

We are still reeling from the unprecedented crisis caused by the pandemic and we are preparing this report within the backdrop of uncertainty with communities facing lack of food because supplies are hampered by border restrictions; desperation and anxiety for those who could not travel back to their hometowns to join their families; and deaths of loved ones who succumbed to the virus and with whom we could not pay our last respects.

The condition that set off LifeBank's Golden Year necessitated actions that aim to preserve the lives of people for we remain focused on our reason for being and that is to continue enriching the lives of people through our financial services.

The challenges brought by the pandemic impelled us to reimagine our system of operations by vigorously integrating health protocol measures. We tightened our health protocols with the Occupational Safety and Health Committee actively taking charge to ensure the safety of all members of the LifeBank family with provision for health protection materials.

The interventions that we adopted allowed us to continue operating with shortened bank hours, managed by a skeletal workforce and with key staff and personnel on a work from home arrangement. This major step helped us bring our services to communities in need.

We genuinely anticipate a closing year with not so rosy financial highlights together with the rest of the financial services sector. However, we are confident that stability is on the horizon with 2020 serving as a slowdown interval being in the middle spot of our 3-year 10 Strategic Direction for 2019 to 2021. We have remarkable pre-pandemic accomplishments and we are determined to achieve our remaining targets next year, especially that we have reinforced these targets with a 3-year Priority Plan composed of three major programs: Digitalization, Expansion of Operations, and Adoption of BSP Sustainable Finance Framework.

LifeBank's transition to the new normal is not for purposes of operational efficiency alone, but with the aim to attain improved inclusivity and stronger relations with our staff, members, partners and stakeholders beyond the pandemic. Our Golden Year would not have been possible without the excellent collective work of everybody from the Board-level down to the rank-and-file, and, without you, who stood with us in this difficult period of our time.

Ruth T. Jarantilla
Board Chair
LBRB

Q & A with the President and CEO: Dr. Rosario Barbasa - Perlas

"Striking a dynamic balance between compassion and accountability amidst this pandemic will keep us alive and go through a higher level of realization that we are all interconnected."

The year 2020 serves a significant milestone for LifeBank – A Rural Bank. It turned 50 years old as a leading provider of a range of financial services, primarily microfinancing to support life uplifting enterprises of people from poor communities.

A colorful celebration was prepared in March 2020 for its Golden Year, a momentous coming together of members of communities that it helped become dynamic agents of change. The global health crisis, however, sidelined the events yet it did not dampen the spirit of an organization that possess superior understanding of nature's inevitable disruptions.

At 50 years old, LifeBank proclaimed enriching the lives of people. From this level, there is no turning back and it now charts a future with a warm extending hands to people whose lives necessitates the support of LifeBank so that it will be transformed for the better.

In this interview, we wish to go inward to its leader – Dr. Rosario Barbasa-Perlas, the President and Chief Executive Officer, to understand the energetic heart of this dynamic financial institution founded in 1970.

Q: LifeBank's performance showed a gradual bounce back one year after the pandemic lockdown. What were your realizations?

The year 2020 taught us the real meaning of resilience, agility, survival and sustainability.

On the 1st Quarter of 2020, as we were gradually recovering from the devastating impact of Typhoon Ursula which hit Northern Panay on Christmas eve of 2019, affecting around 20% of our microfinance clients, the deadly Coronavirus disease (COVID 19) struck the whole world.

The world's financial landscape have changed and no one was exempted from the disruption caused by the pandemic. The Bank faced declining profitability even with the passing of Bayanihan 1 and 2.

We have taken various steps to mitigate the risk posed by the crisis while we comply with government health protocols. One of the major and the most difficult for us was to close all Branch-lite Units (BLUs) for 2 months. We temporarily suspended the operations of all BLUs from late March to May 2020.

It was not easy for LifeBank. The 2 months closure was also a period for moratorium of loans and it resulted to reduced revenues. Our financial highlights is shown in this report.

Q: What were the decisions that you have taken to maintain your operations?

The decision-making process was intense yet deliberate. We made a lot of reviewing and evaluating to arrive at the appropriate decision.

We ensured that vital decisions taken were quickly yet properly communicated to our staff and client. There was no room for delay. As such, we reviewed our communications plan to establish a responsive and workable system for the pandemic.

A big part is the review of our operations. It allowed us to examine the state of LifeBank in general. This is followed by looking at the costs required for operations and identifying what were fixed and controllable expenses.

The process allowed us to make decisive judgement like adjusting our deposit rates and rationalizing our operations. As a result, we were able to cutdown many operational costs.

For instance, it opened an opportunity for us to negotiate the rentals for our BLU spaces with its owners. It yielded affirmative results and we secured 20 to 100 percent discounts on the months that our BLUs operations were temporarily suspended.

We also evaluated our activities. We were able to determine what were high from low impact efforts. It enabled us to prioritize high-impact activities that are relevant with the times and meaningful to our stakeholders and partners.

We have to review the risk underlying every decision that we take considering the high degree of uncertainties of the future.

Q: LifeBank holds a Business Continuity Program (BCP) Improvement. How much of this plan have helped you managed the uncertainties?

Our Business Continuity Program played a big role considering that our loan portfolio was greatly affected by the pandemic.

Q & A with the President and CEO: Dr. Rosario Barbasa - Perlas

The BCP enabled us to navigate through the changing situation. It improved our communication plan which ensured awareness of our people and it developed their ability to quickly respond to pandemic situations. It also directed us to craft policies that respond to the situation, especially when community lockdowns is declared and movement of people is restricted.

The BCP activated our succession program and it minimized pandemic interference in the implementation of livelihood packages.

We continue to enhance staff competency and dedication as investment for succession through our training programs.

Q: Many business institutions have to bite the bullet by letting go many of its personnel. You maintained a robust workforce, what were decisions made to manage your staffing?

We have a strong relationship with our workers. They are family to us. The pandemic brought our relationship to a higher level as we realized the value of collective sacrifice. We attained a consensus to reset our perks based on what LifeBank can afford and we either eliminated or reduced allowances. There were sacrifices made from the Board-level to the rank-and-file.

The Occupational Safety and Health (OSH) Committee was active and we adjusted our operations with the safety of our workers and personnel on top of mind. We implemented a skeletal workforce, shortened work hours and banking hours, adopted a work from home arrangement, and integrated essential needs support like distribution of PPE and health protection materials, groceries and vitamins to our staff.

In addition, we also opened the opportunity for early retirement to our staff holding non- essential functions. The sacrifice was demonstrated both in monetary and non-monetary terms.

Q: LifeBank holds a unique characteristic as a finance institution connected to people and communities. Did the pandemic also strengthened your relationship?

There was a lot of positive happenings in this area. Communication served as a key in maintaining the relationship that we have created and the digital platform offered that silver lining so to speak.

We improved our digital system to effectively utilize the digital platform. The move made a huge difference. It preserved the trust and confidence that we have established with our communities. Our pivot to digitization has in fact expanded our reach and it created new relationships.

Consequently, we forged partnership with Palawan Express Pera Padala and the partnership effectively helped us manage our funding needs to each of our BLUs. We were able to maintain our scholarship program to children of our deserving and loyal microfinance clients with our sister organization and partner LBMFI.

Q: Similarly, you adopted a three year priority plan. What were your course of actions?

The plan ushered our entry to a cloud-based platform, a major decision that we have taken in 2020.

The shift to a new core banking system stimulated significant modifications which enhanced decision-making and improved our operations. The system allowed us to generate real time reports and it offered ease in extracting data, as such, it facilitated data-informed decision-making on my part.

The need to shift to a cloud-based platform specifically with Instafin was accelerated during the pandemic because it can become a foundation for digital applications which is crucial during this challenging times.

It also improved our Portfolio Quality and we managed to open 6 BLUs in 2020.

Likewise, we plan to adopt the Sustainable Finance Framework mandated by BSP and we shall formulate a roadmap that will guide us through the framework. This will be LifeBank's contribution to the environmental, social and governance goals of the government for rural banks to achieve sustainability.

Q: Digitization is now at the center of LifeBank's targets as one of the leading rural banks in Panay by 2023. Where do you stand so far?

We have taken the first step to achieve that target. LifeBank has partnered with a dependable fintech service provider who developed a secure and high-quality cloud-based banking system for us. The technology that they have applied digitized many of our procedures resulting to a robust and efficient banking system.

Moreover, we started activating our application to PhilPaSS. We are hoping to implement InstaPay and PESONet next year.

Towards this end, we are looking forward to develop a partnership with a fintech company that creates systems for remittances and bills payment services using mobile phone technology.

We believe that our digitization program will improve our reach and relationship with our clients and it will greatly benefit our stakeholders in the long run.

Q: LifeBank is now 50-years old. What are your reflections; what is the future for LifeBank?

Reaching a Golden Year is a milestone. Experiences, such as; disasters, economic crisis or pandemic – classified as challenging episodes for LifeBank – became opportunities for continuous improvement and it bolstered our maturity.

We treated every disruption as an opportunity to exercise creative ways to survive and to come out strong, agile, and resilient. We have overcome various crisis episodes in the last 50-years because of the strong support of our dedicated board, management & support team, field staff, and members of our community.

The Covid-19 pandemic is a major trial that tested LifeBank's 50-year old life. I believe that LifeBank will endure this global crisis to fulfill its vision as a catalyst for change and to carry out its mission to eradicate poverty and uplift the lives of the poor.

PRESIDENT'S REPORT 2020

The entry of year 2020 was marked by recovery from Typhoon Ursula that hit Iloilo in December 2019 and by disruption caused by the onset of the Coronavirus pandemic in the first quarter of the year with lockdown that stretched to the second quarter. The rest of the year was characterized by strict compliance to health protocols and operations underwent major adjustments.

LifeBank – A Rural Bank was on an optimistic territory before the pandemic with Premium Deposit Reserve of 7.75-percent by the end of 2019 and a 5.15-percent by February 2020. The Bank registered a net income of P10.1-million and P6.7-million for January and February 2020, respectively.

The micro-finance institution was posed to honor a historical milestone by March 2020 for its 50th Foundation Day. A colorful commemoration was underway but only to be indefinitely put-off after government placed the entire nation under a State of Public Health Emergency as COVID-19 started to spread.

The celebratory mode was drastically transformed with temporary closure of LifeBank's BLUs and suspension of major initiatives bringing net loss to a highest record at P10.9-million by April. The months that followed was met by instituting compliance to the pandemic budget response by the national government that of Bayanihan 1 and 2.

LBRB FULFILLED THE GOALS OF BAYANIHAN 1 AND 2

LifeBank adjusted systems to implement government's response to the pandemic enshrined in Republic Act No. 11469 (Bayanihan Act 1) which was passed in March 20, 2020 and subsequently Republic Act 11494 (Bayanihan Act 2) in September 11, 2020.

In Bayanihan 1, it implemented a 30-day grace period for all loans package. In Bayanihan 2, it enforced one-time 60-day grace period package for the payment of all existing, current and outstanding loans.

PANDEMIC INFLICTED ADJUSTMENTS IN THE OPERATIONS

The system of operation underwent adjustments and modifications by translating what used to be a face-to-face work to a virtual platform.

The management readily shifted to online meetings and consultations from the members of the board down to the staff. It facilitated effective implementation of key decisions like activating operations on a skeletal workforce and with a shortened banking hours to serve the needs of clients.

Cost-cutting measures were effected while material support to employees were integrated with distribution of PPE and health protection supplies, vitamins and groceries. It ensured that all offices observe strict compliance to health protocols.

By end of May up to rest of June, LifeBank gradually reopened BLUs in municipalities with properly-managed COVID-19 situation. The BLUs in other provinces followed suit in the succeeding months. A retrenchment program was also developed and implemented. Furthermore, LBRB's operations advanced fostered by improved communication system using Call Tree procedure.

LINGERING CRISIS PROPELLED SLOW RECOVERY

The second half of 2020 illustrated volatility with COVID-19 infections going up and down prompting government to declare surgical lockdowns on communities with highest number of cases. The lingering uncertainty propelled slow ascent for LifeBank's recovery measures, especially with the second round of adjustment on deposit rates both on Savings and Special Savings Deposit (SSD).

The prevailing condition exhibited an intensive payment of loans. Loan disbursements for LifeBank hit its highest in July. By August down to October, the Bank's financial activities yielded slow recovery and it recorded a net income of P4.1-milion by end of October. The end of 2020 summarized LifeBank's slow recovery with a net loss yet it did not preclude the release of 13th Month Pay to its personnel.

These affirmative development was attributed by LifeBank's pivot digitization which resulted to improved efficiency under the period of the pandemic.

THE 10 STRATEGIC DIRECTIONS 2019 TO 2021

LifeBank's pre-pandemic positive performance was stimulated by its adoption of a strategic roadmap anchored on its vision, mission and goals.

The 10 Strategic Direction covering three-years or from 2019 to 2021 presages its accomplishments for it outlines its priority focus and it facilitates informed decision-making. The strategic direction reinforces gains attained from the preceding period and its wholistic character have factored internal and external events.

The unprecedented disruption caused by the pandemic and how the bank would manage the interference it caused are expressed among provisions in the 10 Strategic Direction and which puts LifeBank at the best spot to recover from the health crisis.

The following are the 10 Strategic Direction:

1. Sustain Economic Growth
2. Compliance with Regulatory Prescriptions
3. Improved Portfolio Quality
4. Address the Competition
5. Improve Retention of Clients Through a More Intense 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 adaption program
10. Cultivate deeper appreciation of LifeBank's vision, mission and goals.

PRIORITY STRATEGIC INITIATIVES FOR 2020 TO 2022

LifeBank has adopted a 3-Year Priority Plan or from 2020 to 2022 with a focus on three major programs, namely: 1. Digitalization, 2. Expansion of Operations, and 3. Adoption of BSP Sustainable Finance Framework.

1. Digitization

The digital transformation work will focus on the following areas: Stabilizing the core banking system and website with the ability for integrated

PRESIDENT'S REPORT 2020

systems to provide better customer experience; digitization of work processes with improved data gathering capability for efficient and accurate report generation, better time management and reduce cost; and to establish a reliable and secure online banking services to clients.

We will ensure that our core clients who are micro-enterprising poor will be given access to financial services, these are the challenges that we have to face in the "digital financial Inclusion". We will explore strategic partnership with a Fintech company who aligns with our vision and who can offer a lower cost of digital transactional platforms.

2. Expansion of Operations

LifeBank will expand areas of coverage by opening seven (7) additional BLUs in Iloilo, Capiz, and Antique provinces.

The new BLUs will allow portfolio quality improvement by gaining an access to unbanked clients and directing them to appreciate financial services and savings.

3. Adoption of BSP Sustainable Finance Framework

The adoption process of the BSP Sustainable Finance Framework is distributed in a three-year implementation period.

The first year is setting-up of transition plan and a development road map. The target under the first year implementation are the following: to attain a policy framework and to secure board approval of the policy framework. Also included in the implementation is the conceptualization and development of sustainable products and services.

The initiatives undertaken will be reflected in the 2021 Annual Report.

The second year implementation will be composed of finalization of the developed sustainable products and services, approval of the board, conduct of product testing, and drafting of implementing rules and regulations.

In the third and last year, LifeBank envisions full compliance and completion of the requirements set by Circular 1085.

CORPORATE SOCIAL RESPONSIBILITY

LifeBank has sustained its Corporate Social Responsibility program together with LifeBank Microfinance Foundation, Inc. The implementation was challenging however because of the COVID-19 pandemic wherein activities were subjected to health protocol requirements.

Medical Mission

LifeBank carried out a medical mission in Sta. Barbara The Medical Mission offered medical check-up among beneficiaries which extended to neighboring towns with medicines support covering the entire treatment cycle of a patient-beneficiary.

Educational Scholarship Program

The Educational Scholarship Program (ESP) was sustained and scholarship support was served to 122 scholars all over Panay and Guimaras Islands.

PROFITABILITY (IN MILLIONS) & RATIOS

	2020	2019	2018
Total Net Interest Income	181.1	302.6	263.1
Total Non-Interest Income	3.9	9.0	5.1
Total Non-Interest Expense	186.0	241.0	204.1
Allowance for Credit Losses	32.4	0.4	0.4
Net Income	-33.4	50.5	46.1
Return on Equity	-11.70%	17.2%	18.43%
Return on Assets	-3.36%	5.21%	5.31%
Capital Adequacy Ratio	22.01%	28.01%	31.71%
Minimum Liquidity Ratio	87.55%	76.59%	65.21%

SELECTED BALANCE SHEET (IN MILLIONS)

	2020	2019	2018
Liquid Assets	526.0	449.5	409.2
Gross Loans	426.5	509.8	441.8
Total Assets	997.1	1035.8	902.7
Deposits	627.1	606.1	531.6
Total Equity	286.1	315.0	272.0

OTHER SELECTED ACCOUNTS (IN MILLIONS)

	2020	2019	2018
Assets	997.1	1035.8	902.7
Liabilities	711.0	720.7	630.7
Equity	286.1	315.0	271.9
Income	202.5	311.6	268.2
Expense	236.0	261.1	222.1
Microfinance Loans	307.7	444.4	393.8
Regular Loans	63.9	64.9	48.0
Deposits	627.1	606.1	531.5

FINANCIAL HIGHLIGHTS

LifeBank – A Rural Bank (LBRB) has established a solid niche in the Micro to Small and Medium Enterprises sector with a three major branches and 37 Branch-Lite Units providing Microfinance Loans and services.

In March 20, 2020, Republic Act No. 11469 - Bayanihan to Heal as One Act (Bayanihan Act 1) was enacted. The law was passed in response to the pandemic and it directed financing institutions to implement a thirty (30)-day grace period for all loans with principal and/or interest falling due within the enhanced community quarantine period without incurring interest on interest, penalties, fees and other charges.

Subsequently, six months after or in September 11, 2020, Republic Act 11494 - Bayanihan to Recover as One Act (Bayanihan Act 2) was enacted. The law this time grants a one-time sixty (60)-day grace period for the payment of all existing, current and outstanding loan falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees and other charges and thereby extending the maturity of the said loans.

LifeBank fulfilled the directives of the law to cushion the impact of Covid-19 pandemic to its members and stakeholders. The impact from the measure, however, was also mirrored on its operations and financial position primarily through decreased net income.

It recorded a significant decrease in net income after tax at P72.78 million or 144.18-percent, attributable to the decrease in interest income by P121.57 million.

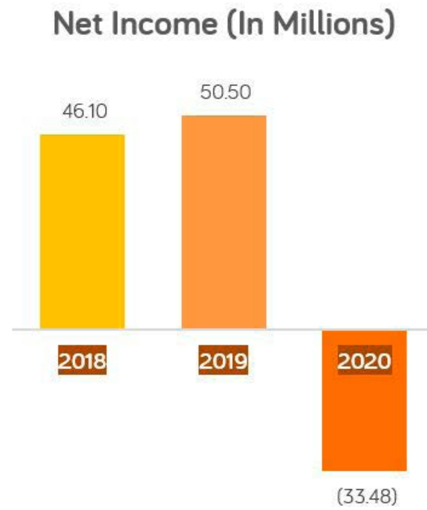
IMPLICATION ON THE INCOME OF THE BANK

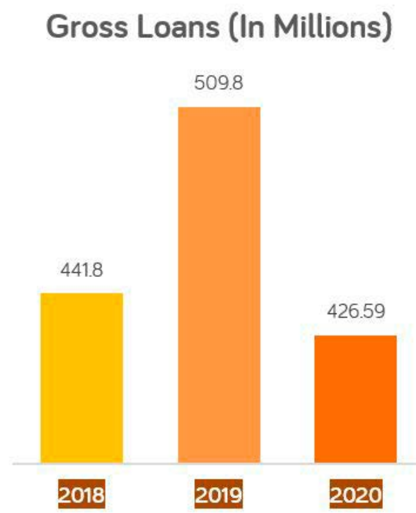
The overall decrease in Total Interest Income was attributable to the decrease in the loan portfolio in 2020, a consequence of LifeBank's move to temporarily suspend releases of microfinance and commercial loans from April to May 2020 considering the lockdown which affected financial activities both on the part of LifeBank and its service beneficiaries.

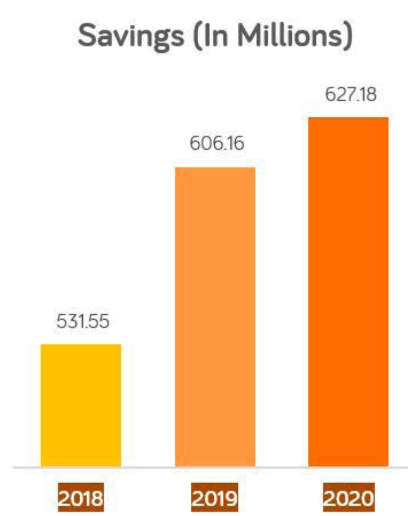
LifeBank experienced a 16-percent net decrease on Gross Loans and Advances to customers in 2020 as a result of a higher collection amounting to P981.79 million versus loans releases of P898.57 million.

On the other hand, LifeBank obtained a slight increase of one (1)-percent on Interest Expense on Deposit Liabilities or P0.14-million, an offshoot from an increase in Special Savings Deposits which totaled to P26.44-million. The savings was derived from 72 newly opened Special Savings Deposit Accounts during the year which offset the 0.50-percent decrease in interest rates on Special and Regular Savings Deposit Accounts starting August 2020.

Compensation and Other Benefits went down by 14-percent or P18.23-million, as a result of a decrease in the number of employees from 565 in December 31, 2019 to 497 by December 31, 2020.







REGULATORY QUALIFYING CAPITAL PERFORMANCE

LifeBank observes the latest regulatory policy governing Minimum Capitalization requirement approved by the Monetary Board in its Resolution No. 1607 dated October 9, 2014.

This is reflected in the latest Manual of Regulations for Banks (MORB) issued by the BSP, specifically Section 121 – on “Minimum Capitalization” which mandate to increase the minimum capital requirement for all bank categories, to ensure that banks stand on a strong capital base to support a threshold scale of operations, to operate viably and service effectively the needs of clients.

The Bank’s Capital Adequacy Ratio (CAR) is 22.01-percent and 28.01-percent representing December 31, 2020 and 2019, respectively. The figures demonstrate LifeBank’s compliance status to the Capital Adequacy Ratio and Minimum Capitalization requirement.

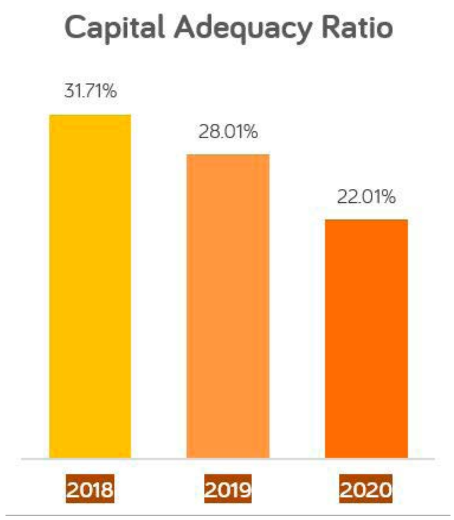
The CAR of 22% is a result of a move of the Bank to increase the allowance for Credit Losses to thirty (P30) million to buffer the probable loan loss with doubtful recovery.

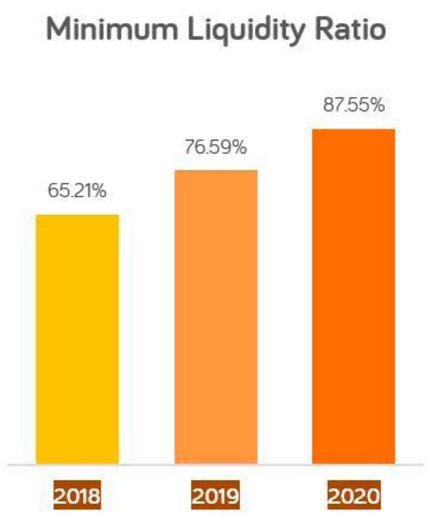
MINIMUM LIQUIDITY RATIO PERFOMANCE

In the same manner, LifeBank also observes the promotion of short-term resilience to liquidity shocks, banks shall maintain a stock of liquid assets proportionate to their on-and-off balance sheet liabilities as highlighted in the MORB.

The policy is specifically governed by Section 145 – “Minimum Liquidity Ratio (MLR) for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks” which states that ongoing prudential MLR of twenty percent (20.00%) shall apply to banks on an ongoing basis absent a period of financial stress.

The Bank’s MLR is 87.55-percent and 76.59-percent for December 31,2020 and 2019, respectively. It illustrates satisfactory compliance to MORB provision.





RISK MANAGEMENT

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.

No DOSRI loan has been granted for 2020.

RISK GOVERNANCE STRUCTURE AND RISK MANAGEMENT PROCESS

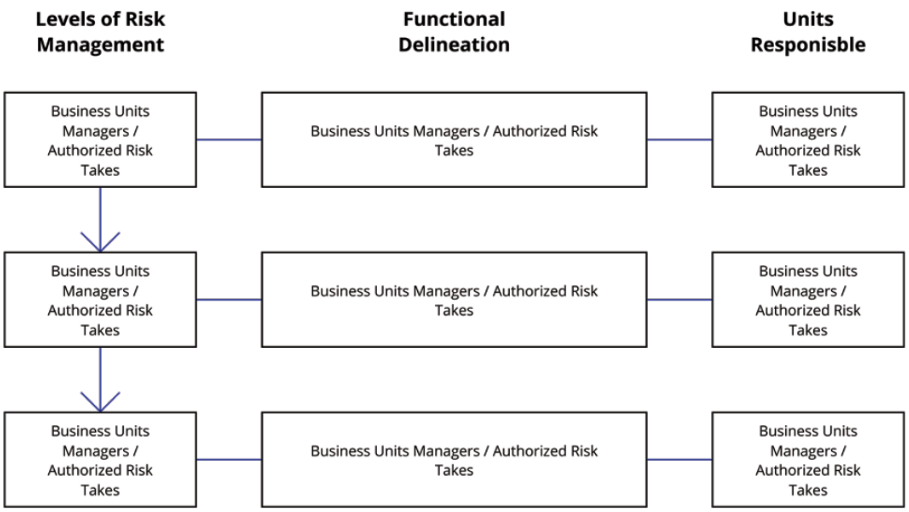
Reports on risk events, policy breaches and procedural infractions, and its corresponding risk mitigation strategies should be elevated to the Unit Managers. Risk reports should be prepared on a regular basis and must be submitted by the risk-taking units to the Unit Managers.

RISK MANAGEMENT APPROACHES

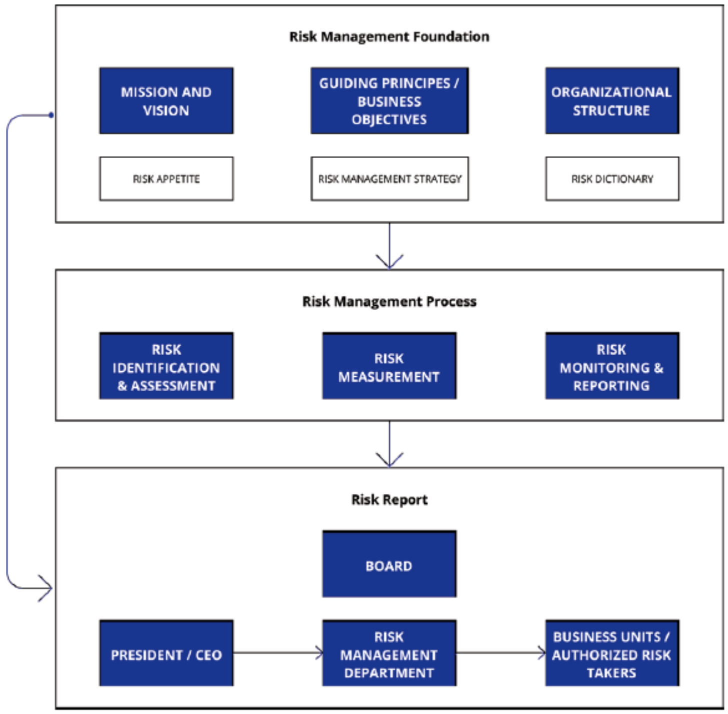
Risk management may be undertaken by using two approaches: The Silo and the Integrated Approach. The Silo Approach is used to tackle risks on an individual or compartmentalized basis. It is usually transactional and reactive and it concentrates on how individual business units operates and perform and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

RISK MANAGEMENT PROCESS



RISK MANAGEMENT FRAMEWORK



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.

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.

4. Risk Appetite Assessment Matrix

Operational Risk – Information Technology

No Risk	No case of Malicious Attacks & No incidents generated
Low Risk	100% availability of system & insignificant IT Related incidents generated by poor management practices
Medium Risk	Significant related incidents with regards to innovation and Bank's digital operations
High Risk	Cases of Malicious Attacks and unavailability of System

Operational Risk - Fraud and Misappropriation

No Risk	No Case of Fraud & Misappropriation
Low Risk	With cases but with no financial loss
Medium Risk	With cases but resolved (below 10,000.00)
High Risk	Cases of Misappropriation (Above 10,000.00)

Reputational Risk - Turnover Rate

Low Risk	Turnover Rate less than the Industry Average
Medium Risk	Turnover Rate equal to the Industry Average
High Risk	Turnover Rate more than the Industry Average

Reputational Risk - Customer Service Risk

Low Risk	No Case of Costumer Complaints
Medium Risk	Not more than 3 cases of Costumer Complaints
High Risk	More than 3 cases of Customer Complaints

Data Privacy Remediation Gap - Percentage of Accomplishment

Low Risk	>75% ≤100%
Medium Risk	>50% ≤75%
High Risk	<50%

Liquidity Risk – Minimum Liquidity Ratio

Low Risk	Not less than the MLR required by BSP (20%)
High Risk	Less than the MLR required by BSP (20%)

Interest and Market Risk

Low Risk	No case of Deliberate and Purposeful violations of internal policies resulting to negative effect in income
High Risk	Cases of Purposeful Violations of Internal Policies which will result to negative effect in income

Compliance Risk

No Risk	No case for violations of legislative or regulatory requirements
High Risk	Case for violations of legislative or regulatory requirements

Internal and External Regulatory Findings

Low Risk	CRD overall risk rating is low risk as per audit
Medium Risk	SDID overall risk rating is low risk as per audit

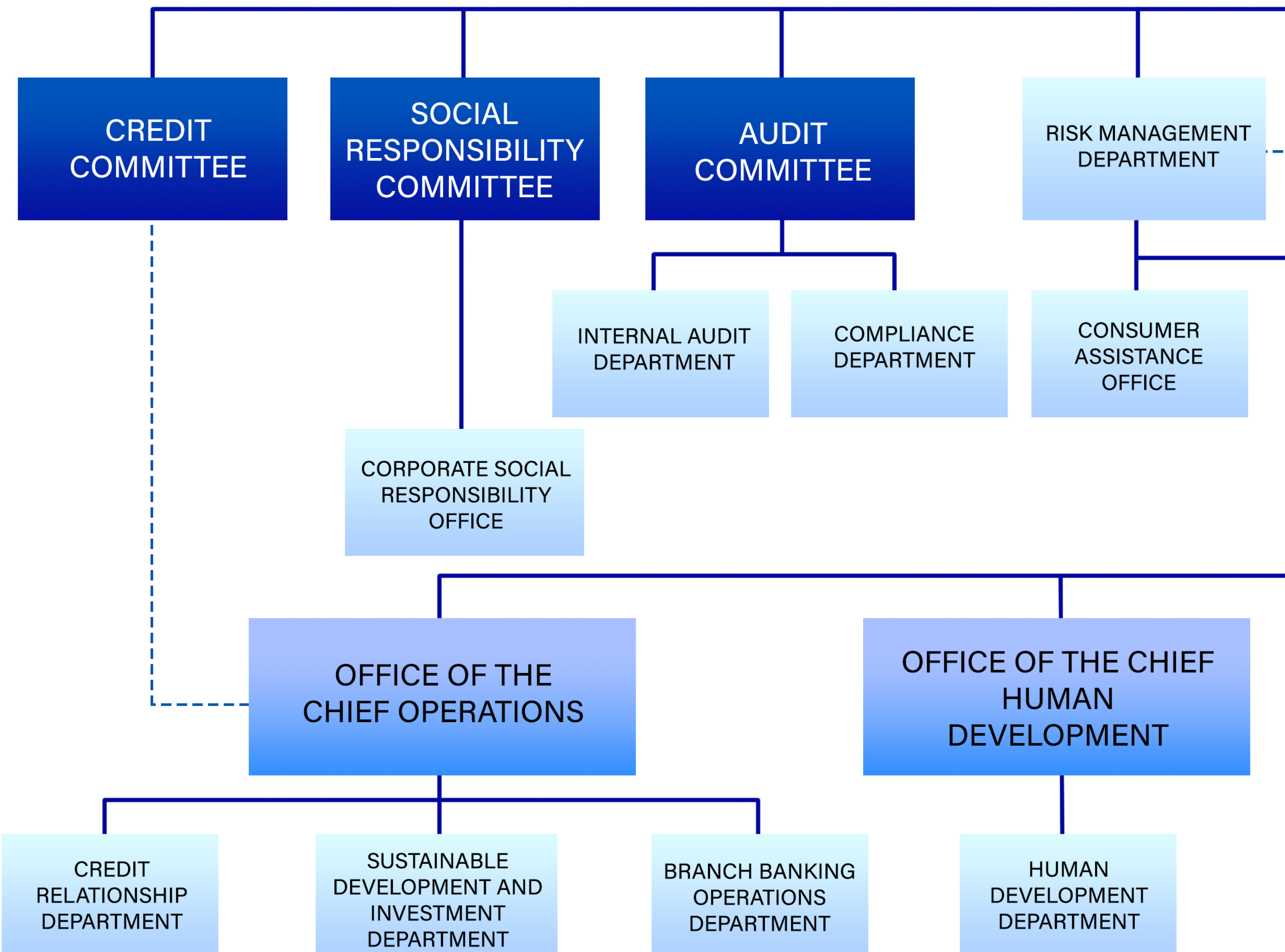
Credit Risk – Past Due Ratio (PDR)

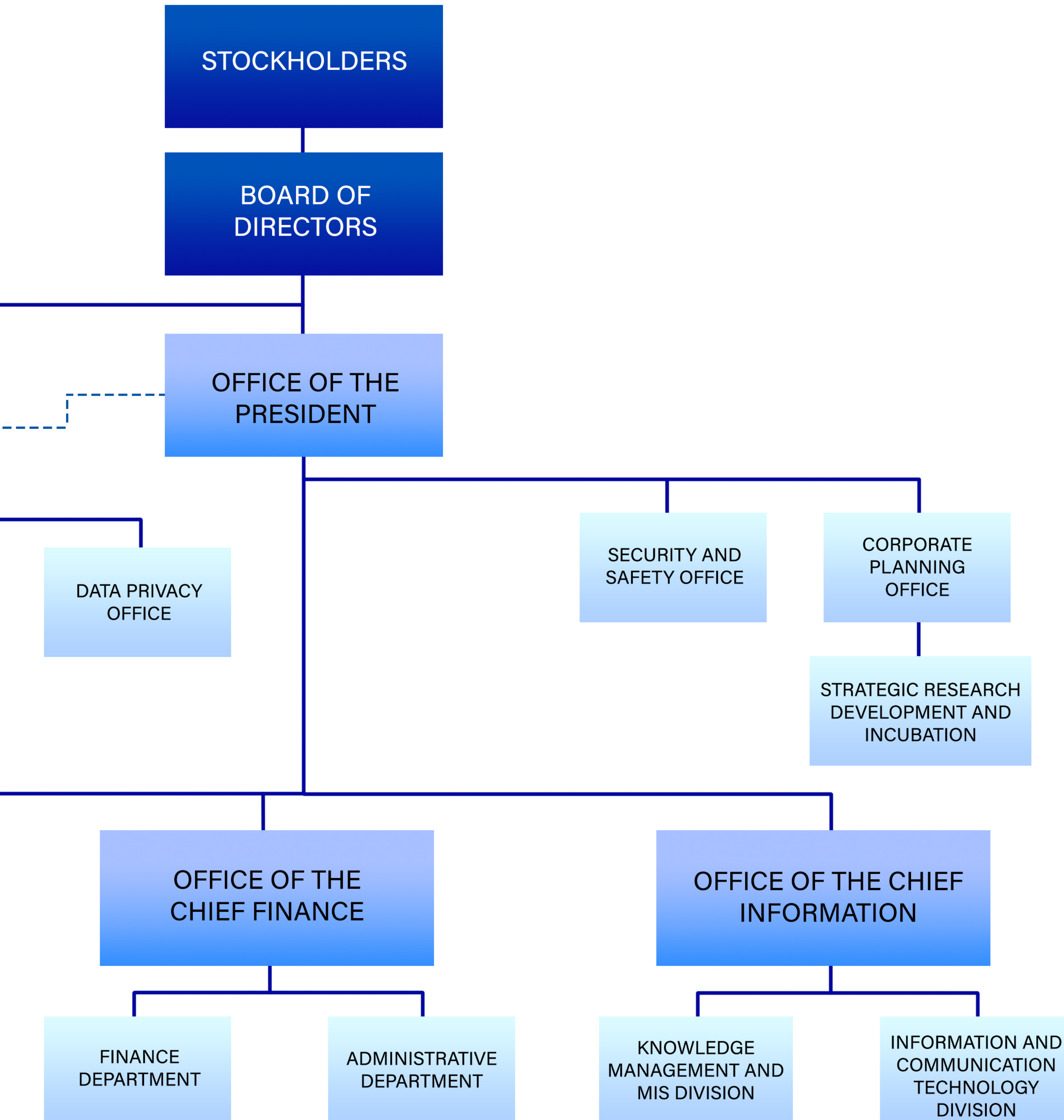
Low Risk	< PDR Industry Average
Medium Risk	= PDR Industry Average
High Risk	> PDR Industry Average

Strategic Risk - Target Achievement

Low Risk	>75% ≤100%
Medium Risk	>50% ≤75%
High Risk	<50%

Organizational Chart




STOCKHOLDERS
BOARD OF DIRECTORS
OFFICE OF THE PRESIDENT
DATA PRIVACY OFFICE
SECURITY AND SAFETY OFFICE
CORPORATE PLANNING OFFICE
STRATEGIC RESEARCH DEVELOPMENT AND INCUBATION
OFFICE OF THE CHIEF FINANCE
OFFICE OF THE CHIEF INFORMATION
FINANCE DEPARTMENT
ADMINISTRATIVE DEPARTMENT
KNOWLEDGE MANAGEMENT AND MIS DIVISION
INFORMATION AND COMMUNICATION TECHNOLOGY DIVISION

FOUNDATION

BOARD OF DIRECTORS

from left to right.

ROSARIO B. PERLAS, M.D.
President/Chief Executive Officer

57 years old, Filipino
Doctor of Medicine
West Visayas State University

Credit Committee Member
Ex Officio Member
Social Responsibility
Committee Member

Qualifications:
Corporate Governance
Risk Management
AMLA
Credit Risk Management
Operational Risk Management

Directorship/Officership:
LBMFI
Blue Fields Enterprises, Inc.

15 years of Directorship

9,466 shares
6.80% stockholding shares

VICENTE P. PERLAS, M.D.
Director

70 years old, Filipino
Doctor of Medicine, MBA
West Visayas State University
University of the Philippines
Diliman

Credit Committee Member
Social Responsibility
Committee Member

Qualifications:
Corporate Governance
Risk Management
AMLA
Credit Risk Management
Operational Risk Management

Directorship/Officership:
LBMFI
Blue Fields Enterprises, Inc.

33 years of Directorship

14,847 shares
10.67% stockholding shares

RUDYARD M. MONDEJAR
Treasurer
Director

64 years old, Filipino
BS Architecture
Far Eastern University

Credit Committee Chairperson
Social Responsibility
Committee Member

Qualifications:
Corporate Governance
AMLA

Directorship/Officership:
LBMFI

33 years of Directorship

3,298 shares
2.37% stockholding shares

JESUS NICANOR P. PERLAS III
Director

70 years old, Filipino
BS Agriculture, MS Botany
Xavier University

Social Responsibility Committee Chairperson

Qualifications:
Corporate Governance
AMLA

Directorship/Officership:
LBMFI

11 years of Directorship

3,545 shares
2.55% stockholding shares

MIGUEL ANTONIO O. PERLAS
Director

48 years old, Filipino
AB Communications
Ateneo de Manila University

Audit Committee Member

Qualifications:
Corporate Governance
AMLA

Directorship/Officership:
LBMFI

20 years of Directorship

5,576 shares
4.01% stockholding shares

ATTY. JOSE P. PERLAS
Director

69 years old, Filipino
Bachelor of Laws, CPA
University of the Philippines Visayas

Audit Committee Member

Qualifications:
Corporate Governance
AMLA

Directorship/Officership:
LBMFI

31 years of Directorship

8,356 shares
6.00% stockholding shares

from left to right.

HERMIE R. BARBASA
Director

67 years old, Filipino
BS Civil Engineering
University of Iloilo

Credit Committee Member

Qualifications:
Corporate Governance
AMLA

Directorship/Officership:
LBMFI
Blue Fields Enterprises, Inc.

11 years of Directorship

9,067 shares
6.52% stockholding shares

MIKKA ELLA B. PERLAS
Director

31 years old, Filipino
BSBA Marketing
University of the Philippines Visayas

Credit Committee Member
Social Responsibility Committee

Qualifications:
Corporate Governance
AMLA

Directorship/Officership:
Lolo Jose Kitchen
Healthy Kitchen Iloilo
Live Comfort Food Restaurant

3 years of Directorship

1,287 shares
0.92% stockholding shares

CARLO K. PERLAS
Director

36 years old, Filipino
AB in Humanities
University of Asia and the Pacific

Audit Committee Member

Qualifications:
Corporate Governance
AMLA

Directorship/Officership:
LBMFI
806 Creatives, Inc.

3 years of Directorship

3,633 shares
2.61% stockholding shares

RUTH T. JARANTILLA
Independent Director
Chairperson of the Board

83 years old, Filipino
BS Pharmacy
University of San Agustin

Audit Committee Member

Qualifications:
Corporate Governance
AMLA

Directorship/Officership:
Sea Wind Resort

17 years of Directorship

930 shares
0.67% stockholding shares

VICTORIO V. BORRA
Independent Director

70 years old, Filipino
BS Statistics, MBA
University of the Philippines
Diliman

Audit Committee Chairperson

Qualifications:
Corporate Governance
AMLA

Directorship/Officership:
JS Contractor, Inc.

17 years of Directorship

1 share
0.00% stockholding shares

JOSEPH A. PERLAS
Corporate Secretary

57 years old, Filipino
BS Business Administration
University of the Philippines
Diliman

Qualifications:
Corporate Governance
AMLA
BRBC

Directorship/Officership:
LBMFI

6 years of Directorship

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
15. Seminar-Workshop on Human Resource Management
January 17-18, 2020
16. Coaching & Mentoring Workshop
February 20-21, 2020
17. 63rd Charter Anniversary Symposium
November 4-5, 2020

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

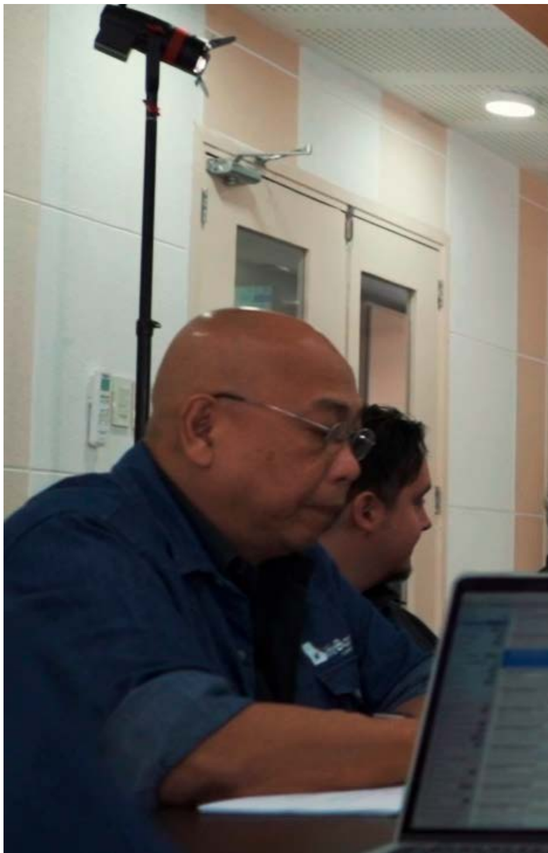
1. Corporate Governance Seminar
2002
2. AMLA Seminar
June 7, 2014
3. Corporate Governance Seminar
August 14-15, 2018
4. AML-CFT Regulatory Framework (Circ. 706)
June 22, 2019

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

Ruth Tirol-Jarantilla
Independent Director/ Chairperson 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

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

Joseph Acevedo Perlas
Corporate Secretary

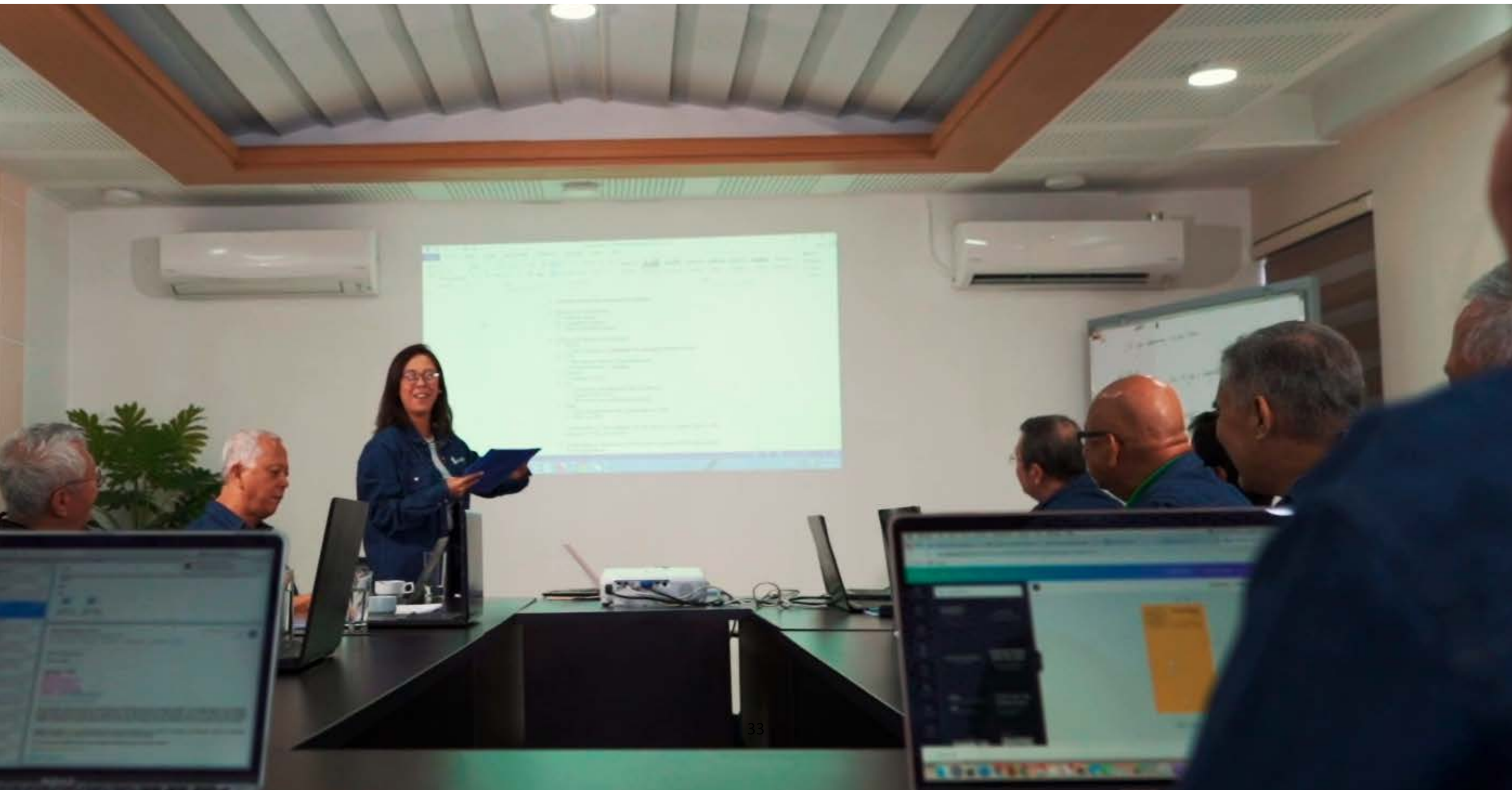
1. Basic Rural Banking Course
1990
2. Corporate Governance Seminar
2003
3. Orientation-Workshop on Team Dynamics
October 16, 2013
4. Best Practices in Corporate Housekeeping
November 15, 2013
5. AMLA Seminar: Briefing on BSP Circ. 706
Updated AML Updates and Regulations
December 2, 2015
6. Master Class 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



STOCKHOLDERS OF THE BANK

Name of Stockholder	Nationality	% Stockholdings	Voting Status
Blue Fields Enterprises	Filipino	13.92	Voting
Joseph A. Perlas	Filipino	10.68	Voting
Vicente P. Perlas	Filipino	10.67	Voting
Rosario B. Perlas	Filipino	6.80	Voting
Bernardita J. Perlas	Filipino	6.53	Voting
Hermie R. Barbasa	Filipino	6.52	Voting
Jose P. Perlas	Filipino	6.00	Voting
Miguel O. Perlas	Filipino	4.01	Voting
Anunciacion P. Perlas	Filipino	3.38	Voting
Emmanuel O. Perlas	Filipino	2.94	Voting
Vicki O. Perlas	Filipino	2.94	Voting
Eric Perlas	Filipino	2.61	Voting
Carlo K. Perlas	Filipino	2.61	Voting
Jesus Nicanor P. Perlas III	Filipino	2.55	Voting
Rudyard M. Mondejar	Filipino	2.37	Voting
Dawn Perlas	Filipino	1.91	Voting
Robin Perlas	Filipino	1.91	Voting
Mikka Ella B. Perlas	Filipino	0.92	Voting
Carla Perlas	Filipino	0.04	Voting

BOARD AND COMMITTEE MEETINGS

	BOARD	AUDIT COMMITTEE	CREDIT COMMITTEE	SOCIAL RESPONSIBILITY COMMITTEE
Director	Attended / %	Attended / %	Attended / %	Attended / %
Vicente P. Perlas, M.D.	12 / 100%		9 / 100%	1 / 100%
Rudyard M. Mondejar	10 / 83%		0 / 0%	0 / 0%
Rosario B. Perlas, M.D.	12 / 100%		9 / 100%	1 / 100%
Miguel Antonio O. Perlas	12 / 100%	11 / 100%		
Atty. Jose P. Perlas	12 / 100%	11 / 100%		
Hermie R. Barbasa	12 / 100%		9 / 100%	
Jesus Nicanor P. Perlas III	12 / 100%			1 / 100%
Ruth T. Jarantilla	12 / 100%	7 / 64%		
Victorio V. Borra	12 / 100%	10 / 91%		
Carlo K. Perlas	12 / 100%	10 / 91%		
Mikka Ella B. Perlas	12 / 100%		9 / 100%	1 / 100%
Total Number of Meetings	12 / 100%	11 / 100%	9 / 100%	1 / 100%

SENIOR MANAGEMENT

ROSARIO B. PERLAS M.D.
President / CEO

RODOLFO P. YAP III
Chief Operating Officer

ROSALIE F. LAUBENIA
Department Manager - Sustainable Development Investment Department

District Manager 2012 - 2013

JESSIE C. CASTIGADOR
Credit Relationship Department Manager

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

FRANCISCO G. JORDAN
Branch Banking Operations Department Manager

REYNABELLE M. MASACOTE
Human Development Department Manager

Manager Internal Audit Department 2012 - 2018

MA. THERESA L. VISTA
Finance Department Manager

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

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

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

MA. CATHERINE M. VILLALUNA
Social Responsibility Program Coordinator

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.

LBRB has no Related Party Transaction Committee and all duties and responsibilities are assumed by the Board of Directors.

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	IRefer 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.

REVIEW AND APPROVAL OF RPTs

a. All credit and non-credit RPTs go through the normal approval process of the Bank given the delegated discretion after due consideration to existing DOSRI and Single Borrower's limits.

b. Upon approval, all Php1,000,000.00 and above RPT including transactions falling under the Ordinary Course of Business with deviation are referred to the Board. The Board reviews, ratifies, and approves these RPTs.

c. The Board will consider the following factors to the extent relevant to the RPT in conducting an evaluation:

(i) the identities of the parties involved in the transaction or relationship;
(ii) the terms of the transactions are fair and on arm's length basis to the Bank;
(iii) the impact on the Director's or Officer's independence; and
(iv) whether the RPT would present an improper conflict of interest for any Director, Officer or Stockholder of the Bank.

d. For a transaction involving a sale of bank assets, the Board shall review the following:

(i) results of the appraisal, valuation methodology used as well as alternative approaches to valuation;
(ii) description of the asset including date acquired and costs basis;
(iii) information concerning potential counterparties in the transactions:
(iv) approximated value of the transaction and the approximated value of the related party's interest in the transaction;
(v) description of provisions or limitations imposed as a result of entering into proposed transaction;
(vi) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
(vii) purpose of transaction; and
(viii) potential benefits to the Bank.

e. The Board approves and confirms all RPTs.

f. Any member of the Board who has interest in the transaction must abstain from participation in the review and approval of any RPT.

g. If an actual or potential conflict of interest arises on the part of a director, officer or stockholder, he is mandated to fully and immediately disclose the same and should not participate in the decision-making process relating to the transaction. Any member of the Board who has an interest in the transaction under discussion shall not participate therein and shall abstain from voting on the approval of the transaction.

h. Transactions entered into with an unrelated party that subsequently becomes a related party shall not be covered by this policy requirement unless alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party has been made.

i. Breaches in limits shall be reported to the Board with the decision of the Board to accept the exposure or to take steps to address the breaches, as may be necessary, duly documented in the minutes of meeting.

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;

PROGRAMS AND POLICIES

5. Have on hand the right people with the right skills in the right place at the right time, thereby 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.

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 Operating 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:

PROGRAMS AND POLICIES

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.

QUALIFICATIONS 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.*

*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

Compliance Department

Role and Mandate

The Compliance Department oversees the implementation of the LBRB's Compliance Risk Management System which is designed to identify and mitigate risks which may erode the franchise value of the Bank such as risks of regulatory sanctions, material financial loss or loss to reputation the 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. Said risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financial activities.

The Compliance Department performs the compliance function which is an independent function that defines, advises on, monitors and reports on the Bank's compliance risks. It shall facilitate effective management of compliance risk by: (a) advising the Board and Senior Management on relevant laws, rules and standards, including keeping them informed on developments in the area; (b) apprising the Bank's personnel on compliance issues, and acting as contact point with the Bank for compliance queries from its personnel; (c) establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, code of conduct and practice guidelines, (d) identifying, documenting and assessing the compliance risks associated with the Bank's business activities, including new products and business units; (e) assessing the appropriateness of the Bank's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments; (f) monitoring and testing compliance by performing sufficient and representative compliance testing; and (g) maintaining a constructive working relationship with the BSP and other regulatory agencies.

The compliance function shall focus on identifying and mitigating risks (e.g., legal or regulatory sanctions, material financial loss, or loss to reputation) that may erode the franchise value of the Bank as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and code of conduct, or inability to manage conflict of interest, treat customers fairly and money laundering and terrorist financing activities.

Moreover, Compliance Department is also responsible for the management of LBRB's Money Laundering and Terrorist Financing Prevention Program and oversight of its implementation and conduct of AML Compliance Checking for Bank proper, independent from that performed by Internal Audit. The Compliance Department reports to and is under the direct supervision of the Audit Committee.

Authority

The compliance function shall have a formal status a formal status within the organization. It shall be established by a charter or other formal document approved by the board of directors that defines the compliance function's standing, authority and independence. It shall have the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy, and shall directly report to and have direct access to the board of directors through the board-level Audit Committee.

Reporting Process

The Compliance Department reports functionally to the Audit Committee and provides periodic reports concerning the Bank's state of compliance with rules and regulations of BSP and other regulatory bodies.

Internal Audit Department

Function

The Internal Audit Department (IAD) is an independent unit reporting functionally to the Audit Committee and administratively to the President. The IAD performs internal audit function which 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 LBRB, 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.

Mandate

Pursuant to Bangko Sentral regulations, LBRB have in place adequate and effective internal control framework for the conduct of its business taking into account its size, risk profile and complexity of operations. The internal control framework embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; monitoring activities and correcting deficiencies.

Purpose, Authority and Responsibility

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.

Reporting Process

The Audit Committee's primary purpose is to provide assistance to the LifeBank Board in fulfilling its oversight responsibilities over the Bank's reporting policies, practices and control, internal and external audit functions. The IAD reports to the Audit Committee the results of its assurance services, special audits, and other services to ensure that Senior Management is taking necessary corrective actions in a timely manner to address any weakness, noncompliance with policies, laws and regulations, and other issues identified by auditors. The Audit Committee holds its meetings at least once a month to ensure the effectiveness and adequacy of the internal control system and that risks are properly managed. On top of the discussion and notation of the regular reports of the IAD and the Compliance Department, the Committee also deliberates on various issues and concerns related to the Bank's existing internal controls, potential breaches and vulnerabilities and likewise recommends ways and measures to strengthen internal controls and manage risks. The business units that fail in the audit are also required to present to the Audit Committee the status/action taken on audit's recommendations to address internal control breaches or related plans.

The minutes of the meetings of the Audit Committee are confirmed by the LifeBank Board. The Audit Committee held 12 meetings in 2020 with an average attendance of 92%.

The Committee is composed of the following:
• Victorio V. Borra (Chairperson)
• Ruth T. Jarantilla (Member)
• Atty. Jose P. Perlas (Member)
• Miguel Antonio O. Perlas (Member)
• Carlo K. Perlas (Member)

In 2020, the IAD completed a total of 20 audit engagements or 80% of its target of 25 engagements from the revised audit plan for 2020 composed of business units, processes and confirmation of deposit accounts.

The IAD also serves as the Secretariat to the Audit Committee.

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.

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.

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

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) 332-1436 and (033) 523-4506

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 and (033) 503-3193

ROXAS CITY
Km 2 Lawaan, Roxas City, Capiz 5800
Tel: (036) 620-0168 and (036) 520-7023

BRANCH-LITE UNITS

PROVINCE OF ILOILO

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

MIAG-AO
Brgy. Igtuba, Miag-ao, Iloilo 5023
Tel: (033) 513-0083

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

SARA
Tady St., Poblacion Ilawod, Sara, Iloilo 5014
Tel: (033) 327-0243

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

OTON
Semilla Bldg., 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

SAN JOAQUIN
Cervantes Bldg., Purok 1 Poblacion, San Joaquin,
Iloilo 5024
Tel: (033) 504-7794

BANATE
Cabangal Bldg., Alacaygan, Banate, Iloilo 5010

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

NUEVA VALENCIA
Libarnes Bldg., Poblacion, Nueva Valencia, Guimaras
5046

PROVINCE OF CAPIZ

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

DUMALAG
Sitchon Bldg., Salazar St., Brgy. Poblacion, Dumalag, Capiz 5813
Tel: 0917 506 4290

CUARTERO
Pimentel Commercial Bldg., Brgy. Poblacion Takas, Cuartero, Capiz 5811

PONTEVEDRA
Inocencio Bldg., Abucayan Rizal, Pontevedra, Capiz 5802
Tel: (036) 651-6093

PANIT-AN
Daradar Bldg., Poblacion Ilawod, Panit-an, Capiz 5815

IVISAN
Facundo Bldg., Poblacion Norte, Ivisan, Capiz 5805

PROVINCE OF ANTIQUE

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

CULASI
Delos Reyes Bldg., Brgy. Centro Norte, Culasi, Antique 5708

BUGASONG
Mariwa Bldg., Corner Gen. Luna-Bonifacio, Bugasong, Antique 5704

PANDAN
Rodillon Bldg., Brgy. Dionela, Pandan, Antique 5712

HAMTIC
Pongyan Bldg., Poblacion IV, Hamtic, Antique 5715

SIBALOM
Salde Bldg., Rojo St. District 4 Poblacion, Sibalom, Antique 5713

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) 500-7198

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

AUDITED FINANCIAL STATEMENT

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
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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, 2020 and 2019, and the statements of profit or loss and other comprehensive loss, 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, 2020 and 2019, 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.

- 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 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 29 and BIR RR 15-2010 in Note 30 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 Accreditation No. 92183-BSP, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
SEC Accreditation No. 1472-AR-1, Group A, valid until July 2, 2021
Tax Identification No. 162-411-175
BIR Accreditation No. 08-001987-034-2020
Issued July 20, 2020; valid until July 19, 2023
PTR No. MKT 8533905
Issued January 4, 2021 at Makati City

March 29, 2021
Makati City, Metro Manila

KPMG

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

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

We have audited the accompanying financial statements of LifeBank - A Rural Bank (the Bank) as at and for the year ended December 31, 2020, on which we have rendered our report dated March 29, 2021.

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

R.G. MANABAT & CO.

TIRESO RANDY F. LAPIDEZ
Partner
CPA License No. 0092183
BSP Accreditation No. 92183-BSP, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
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Issued January 4, 2021 at Makati City

March 29, 2021
Makati City, Metro Manila

LIFEBANK - A RURAL BANK

FINANCIAL STATEMENTS
December 31, 2020 and 2019

With Independent Auditors' Report

LIFEBANK - A RURAL BANK
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS

	Note	2020	2019
		Years Ended December 31	
INTEREST INCOME			
Loans to customers	*7*	**P192,180,451**	P314,013,888
Debt securities at amortized cost	*8*	**4,806,507**	3,859,996
Due from other banks	*6*	**1,636,826**	2,322,206
		198,623,784	320,196,090
INTEREST EXPENSE			
Deposit liabilities	*12*	**17,298,299**	17,161,881
Lease liabilities	*16*	**210,798**	460,378
		17,509,097	17,622,259
NET INTEREST INCOME		**181,114,687**	302,573,831
OTHER INCOME			
Service charges		**1,432,707**	1,312,421
Fees and commissions		**1,127,734**	1,691,220
Income from penalties		**457,649**	579,953
Gain on rent concessions	*16*	**344,973**	-
Passbook and checkbook sale		**291,544**	310,379
Identification card lamination		**130,202**	297,674
Recovery of previously written off accounts		**106,556**	413,883
Membership fee		**75,680**	188,280
Gain on sale of investment properties	*10*	**-**	4,218,981
		3,967,045	9,012,791
OTHER EXPENSES			
Compensation and other benefits	*17*	**113,327,206**	131,555,304
Impairment losses	*23*	**32,491,406**	2,784,430
Travel and transportation	*18*	**19,469,504**	23,753,835
Depreciation	*9, 10, 16*	**12,212,309**	15,345,007
Taxes and licenses	*19*	**12,123,122**	19,539,933
Communication, light, and water		**5,136,031**	6,426,952
Rent	*16*	**3,577,058**	-
Stationery and supplies		**3,466,162**	6,286,841
Information technology		**2,567,031**	10,479,210
Insurance		**2,402,737**	2,287,995
Security and janitorial services		**2,250,855**	4,012,116
Fuel and oil		**1,820,851**	2,748,154
Professional fees		**534,681**	395,407
Representation and entertainment		**488,884**	1,169,550
Supervision fees		**159,482**	137,740
Legal		**64,185**	724,789
Donation and charitable contributions		**-**	371,934
Miscellaneous		**6,471,539**	13,007,487
		218,563,043	241,026,684

Forward

	Note	2020	2019
		Years Ended December 31	
(LOSS) INCOME BEFORE INCOME TAX (BENEFIT) EXPENSE		**(P33,481,311)**	P70,559,938
INCOME TAX (BENEFIT) EXPENSE	*22*	**(11,180,030)**	20,078,369
NET (LOSS) INCOME		**(22,301,281)**	50,481,569
OTHER COMPREHENSIVE LOSS			
Items that will not be reclassified to profit or loss			
Remeasurement loss on retirement liability	*20*	**(1,474,251)**	(3,831,697)
Deferred tax effect	*22*	**442,275**	1,149,509
		(1,031,976)	(2,682,188)
TOTAL COMPREHENSIVE (LOSS) INCOME		**(P23,333,257)**	P47,799,381

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK
STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31

	Capital Stock	Retained Earnings (Note 15)		Employee Benefits	
	(Note 14)	Unappropriated	Appropriated	Reserve	Total Equity
Balance at January 1, 2020	**P13,915,500**	**P129,230,941**	**P173,520,000**	**(P1,623,554)**	**P315,042,887**
Total comprehensive loss					
Net loss for the year	-	**(22,301,281)**	-	-	**(22,301,281)**
Other comprehensive loss	-	-	-	**(1,031,976)**	**(1,031,976)**
	-	**(22,301,281)**	-	**(1,031,976)**	**(23,333,257)**
Appropriation for the year	-	**(132,915,843)**	**132,915,843**	-	-
Reversal of appropriation	-	**173,520,000**	**(173,520,000)**	-	-
Transactions with Owners of the Bank					
Declaration of cash dividends	-	**(5,566,470)**	-	-	**(5,566,470)**
Balance at December 31, 2020	**P13,915,500**	**P141,967,347**	**P132,915,843**	**(P2,655,530)**	**P286,143,160**
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	-	-
Transactions with Owners of the Bank					
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

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK
STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	**2020**	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) income before income tax (benefit) expense		**(P33,481,311)**	P70,559,938
Adjustments for:			
Impairment losses	*23*	**32,491,406**	2,784,430
Interest expense	*12, 16*	**17,509,097**	17,622,259
Depreciation	*9, 10, 16*	**12,212,309**	15,345,007
Retirement costs	*17, 20*	**1,507,974**	1,713,407
Gain on sale of investment properties	*10*	**-**	(4,218,981)
Gain on rent concessions	*16*	**(344,973)**	-
Interest income	*6, 7, 8*	**(198,623,784)**	(320,196,090)
		(168,729,282)	(216,390,030)
Changes in:			
Loans to customers		**83,284,385**	(67,196,433)
Other assets		**1,752,962**	(5,819,517)
Deposit liabilities		**21,020,892**	74,607,280
Other liabilities		**(18,626,524)**	5,302,263
		(81,297,567)	(209,496,437)
Interest received		**199,310,667**	316,169,776
Benefits paid		**(1,060,867)**	-
Income taxes paid		**(12,747,056)**	(22,633,275)
Interest paid		**(17,610,016)**	(17,274,246)
Net cash provided by operating activities		**86,595,161**	66,765,818
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from redemption of debt securities at amortized cost		**19,169,178**	14,926,398
Proceeds from sale of investment properties	*10*	**-**	7,490,313
Changes in security deposits		**(49,615)**	374,550
Additions to property and equipment	*9*	**(2,515,990)**	(23,870,271)
Acquisitions of debt securities at amortized cost		**(28,930,325)**	(23,199,244)
Net cash used in investing activities		**(12,326,752)**	(24,278,254)

Forward

		Years Ended December 31	
	Note	**2020**	2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of lease liabilities	*16*	**(P3,809,037)**	(P5,492,422)
Cash dividends paid	*15*	**(4,722,180)**	(4,180,100)
Total cash used in financing activities		**(8,531,217)**	(9,672,522)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**65,737,192**	32,815,042
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**12,139,398**	13,282,437
Due from Bangko Sentral ng Pilipinas		**17,367,308**	17,652,293
Due from other banks		**317,833,080**	283,590,014
		347,339,786	314,524,744
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	*4, 23*	**17,521,158**	12,139,398
Due from Bangko Sentral ng Pilipinas	*5, 23*	**17,207,826**	17,367,308
Due from other banks	*6, 23*	**378,347,994**	317,833,080
		P413,076,978	P347,339,786

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK
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) other 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 March 27, 2021.

The details of the Bank's significant accounting policies are included in Note 28.

The Bank has early adopted COVID-19-related rent concessions (Amendments to PFRS 16, *Leases*) issued on May 28, 2020. The amendment introduces an optional practical expedient for leases in which the Bank is a lessee. The Bank has applied the amendment retrospectively. The amendment has no impact on retained earnings at January 1, 2020.

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

Functional and Presentation Currency
These financial statements are presented in Philippine peso (Php), which is the Bank's functional currency. All amounts have been rounded to the nearest Php, 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:

Determining the Lease Term for Lease Contracts with Renewal and Termination Options - The Bank as a 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 has several lease contracts that include extension and termination options. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option 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 that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

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, *Financial Instruments*, 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 useful lives of property and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment, and investment properties. However, it is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment and investment properties would increase the recorded expenses and decrease the 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 as at December 31, 2020 and 2019.

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

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	2020	2019
Cash on hand and in vault		**P16,617,122**	P10,661,658
Checks		**904,036**	1,477,740
	23	**P17,521,158**	P12,139,398

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 P17.21 million and P17.37 million as at December 31, 2020 and 2019, 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).

On July 27, 2020, the BSP issued Circular No. 1092, *Reduction in Reserve Requirements*, to reduce the required reserves against deposit and deposit substitute liabilities. The amended required reserve against savings and time deposits for rural banks is 2% in 2020.

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% for rural banks in 2019.

As at December 31, 2020 and 2019, the Bank is in compliance with such MORB provision.

6. Due from Other Banks

Due from other banks amounting to P378.35 million and P317.83 million as at December 31, 2020 and 2019, 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 0.05% to 0.13% and 0.10% to 0.25% in 2020 and 2019, respectively, while time deposits earn interest of 0.10% to 0.63% and 0.5% to 3.40% in 2020 and 2019, respectively.

Interest income on due from other banks amounted to P1.64 million and P2.32 million in 2020 and 2019, respectively, and was presented under "Interest income" in the statement of profit or loss and other comprehensive loss.

7. Loans to Customers

Details of this account are as follows:

	Note	2020	2019
Current loans:			
Microfinance		**P284,150,390**	P412,413,007
Commercial		**42,693,777**	54,855,602
Agricultural		**1,450,714**	3,021,655
		328,294,881	470,290,264
Past due		**95,344,355**	36,435,590
Items in litigation		**2,949,521**	3,084,196
		98,293,876	39,519,786
	23	**426,588,757**	509,810,050
Unamortized interest and discounts		**(614,827)**	(551,735)
		425,973,930	509,258,315
Allowance for impairment losses	*23*	**(54,268,467)**	(21,777,061)
	23	**P371,705,463**	P487,481,254

Interest income on loans to customers amounted to P192.18 million and P314.01 million in 2020 and 2019, respectively, and was presented under "Interest income" in the statement of profit or loss and other comprehensive loss.

Accrued interest receivable as at December 31, 2020 and 2019 amounted to P3.74 million and P4.43 million, respectively (see Note 11).

8. Debt Securities at Amortized Cost

This account consists of:

	Note	2020	2019
Land Bank of the Philippines (LBP)			
10-year bonds		**P47,274,912**	P58,541,913
Philippine retail treasury bonds (RTBs):			
Philippine National Bank		**19,010,695**	11,000,000
Bank of the Philippine Islands		**17,685,000**	17,685,000
China Banking Corporation		**17,009,584**	8,000,000
Security Bank Corporation		**7,000,000**	-
Banco De Oro Unibank, Inc.		**5,000,000**	5,000,000
EastWest Bank		-	2,992,131
	23	**P112,980,191**	P103,219,044

LBP 10-year bonds earn interest ranging from 0.75% to 1.43% and have various maturity dates from January 2021 to August 2029.

Philippine RTBs purchased from various domestic banks earn interest ranging from 1.25% to 6.25% and have various maturity dates from January 2021 to August 2025.

Interest income on debt securities at amortized cost amounted to P4.81 million and P3.86 million in 2020 and 2019, respectively, and was presented under "Interest income" in the statement of profit or loss and other comprehensive loss.

9. Property and Equipment

The movements in this account are as follows:

	Year Ended December 31, 2020				
	Land	Buildings	Furniture, Fixtures and Equipment	Construction-in-Progress	Total
Cost					
Balance at beginning of year	**P26,451,398**	**P35,865,069**	**P43,476,095**	**P10,339,474**	**P116,132,036**
Additions	**-**	**-**	**1,305,630**	**1,210,360**	**2,515,990**
Write-off	**-**	**-**	**(8,600)**	**-**	**(8,600)**
Balance at end of year	**26,451,398**	**35,865,069**	**44,773,125**	**11,549,834**	**118,639,426**
Accumulated Depreciation					
Balance at beginning of year	**-**	**20,096,175**	**38,580,782**	**-**	**58,676,957**
Depreciation	**-**	**2,910,211**	**4,704,929**	**-**	**7,615,140**
Write-off	**-**	**-**	**(8,600)**	**-**	**(8,600)**
Balance at end of year	**-**	**23,006,386**	**43,277,111**	**-**	**66,283,497**
Carrying Amount	**P26,451,398**	**P12,858,683**	**P1,496,014**	**P11,549,834**	**P52,355,929**

		Year Ended December 31, 2019				
	Note	Land	Buildings	Furniture, Fixtures and Equipment	Construction-in-Progress	Total
Cost						
Balance at beginning of year		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						
Balance at beginning of year		-	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

Depreciation amounting to P7.62 million and P9.57 million in 2020 and 2019, respectively, are included as part of "Depreciation" in the statement of profit or loss and other comprehensive loss.

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.

The cost of fully depreciated property and equipment used by the Bank amounted to P39.79 million and P19.90 million as at December 31, 2020 and 2019, respectively.

There were no property and equipment pledged or mortgaged as security as at December 31, 2020 and 2019.

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, 2020
	Land
Cost	
Balance at beginning and end of year	**P7,393,950**
Accumulated Impairment Losses	
Balance at beginning and end of year	**(99,760)**
Carrying Amount	**P7,294,190**

	Note	Year Ended December 31, 2019 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

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

Depreciation amounting to P0.02 million in 2019 is presented as part of "Depreciation" in the statement of profit or loss and other comprehensive loss.

As at December 31, 2020 and 2019, 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	2020	2019
Accrued interest receivable	*7, 23*	**P3,742,061**	P4,428,944
Sales contract receivable	*23*	**2,756,295**	3,930,453
Due from employees		**1,827,824**	1,309,560
Stationary and supplies on hand		**1,690,374**	1,481,898
Security deposits	*23*	**1,228,415**	1,178,800
Prepaid expenses		**312,332**	1,740,982
Others	*23*	**91,508**	27,475
		11,648,809	14,098,112
Allowance for impairment losses on:			
Due from employees		**(563,685)**	(563,685)
Accrued interest receivable	*23*	**(69,790)**	(69,790)
		P11,015,334	P13,464,637

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).

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.

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

12. Deposit Liabilities

This account consists of:

	Note	2020	2019
Special savings deposits		**P316,844,407**	P290,404,050
Regular savings deposits		**310,321,703**	315,741,168
Time deposits		**16,545**	16,545
	23	**P627,182,655**	P606,161,763

In 2020 and 2019, savings deposits have an annual interest rate of 0.25% and 0.75% while time deposits have interest rates ranging from 0.75% to 2.75% and 1.25% to 3.50%, respectively.

Interest expense on deposit liabilities amounted to P17.30 million and P17.16 million in 2020 and 2019, respectively, and was presented under "Interest expense" in the statement of profit or loss and other comprehensive loss.

13. Other Liabilities

This account consists of:

	Note	2020	2019
Accounts payable	*23*	**P46,762,413**	P54,769,052
Accrued expenses	*23*	**9,433,069**	13,713,472
Statutory payables		**4,966,206**	6,947,629
Cash dividends payable	*21, 23*	**3,312,439**	2,468,149
Accrued interest payable	*23*	**1,333,726**	1,434,645
Miscellaneous	*23*	**-**	4,358,059
		P65,807,853	P83,691,006

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 employee benefits, repairs and maintenance, professional fees, and utilities.

Statutory payables consist of Social Security System (SSS), Philippine Health Insurance Corporation (PHIC) and Home Development Mutual Fund (HDMF) contributions of employees to different government agencies withheld by the Bank through salary deductions.

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

14. Capital Stock

This account consists of:

	2020		2019	
	Stocks	**Amount**	Stocks	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 stock without restrictions.

15. Retained Earnings

<u>Dividend Declarations</u>
On January 7, 2020, the BOD declared 40% cash dividends equivalent to P5.57 million or P40 per stock on common stocks for stockholders on record at January 7, 2020.

On January 12, 2019, the BOD declared 34% cash dividends equivalent to P4.73 million or P34 per stock on common stocks for stockholders on record at January 21, 2019.

Total cash dividends paid as at December 31, 2020 and 2019 amounted to P4.72 million and P4.18 million, respectively.

Appropriation of Retained Earnings

The Bank has retained earnings in excess of one hundred percent (100%) of paid-in capital stock as at December 31, 2020. 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% 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.

On a meeting dated December 8, 2020, the BOD approved the reversal of 2019 appropriated retained earnings amounting to P173.52 million and approved the appropriation of P132.92 million from the Bank's unappropriated retained earnings to expand operations as a response to the impact of COVID-19. The following strategic initiatives are as follows:

- appropriation of P87 million for loan expansion to be broken down as follows:

  - Ikabuhi Microfinance Program - P77 million

  - Regular Loan Program - P10 million

- appropriation of P45.92 million as capital reserve to buffer the effect on the Bank's capital adequacy ratio as a result of the increasing incidence of pandemic, calamities and disasters.

The Bank will implement these strategic initiatives in 2021.

In addition, under Section 121, *Minimum Required Capital,* of the latest MORB, the Bank is required to maintain a capital of P30 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 P111.97 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:

	2020	2019
Cost		
Balance at beginning of year	**P11,293,373**	P8,640,436
Additions	**596,744**	2,652,937
Write-offs	**(8,318,970)**	-
Balance at end of year	**3,571,147**	11,293,373
Accumulated Depreciation		
Balance at beginning of year	**5,755,555**	-
Depreciation	**4,597,169**	5,755,555
Write-offs	**(8,318,970)**	-
Balance at the end of year	**2,033,754**	5,755,555
Carrying Amount	**P1,537,393**	P5,537,818

Depreciation amounting to P4.60 million and P5.76 million in 2020 and 2019, respectively, are presented as part of “Depreciation” in the statement of profit or loss and other comprehensive loss.

Write-offs pertain to terminated lease contracts in 2020.

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

	Note	**2020**	2019
Balance at beginning of year		**P5,144,776**	P7,984,261
Additions		**596,744**	2,652,937
Accretion of interest		**210,798**	460,378
Gain on rent concessions		**(344,973)**	-
Payments		**(4,019,835)**	(5,952,800)
Balance at end of year	*23*	**P1,587,510**	P5,144,776

	2020	2019
Current	**P693,025**	P3,490,300
Noncurrent	**894,485**	1,654,476
	P1,587,510	P5,144,776

The Bank negotiated rent concessions with its landlords for the majority of its office space leases as a result of the severe impact of COVID-19 pandemic during the year. The Bank applied the practical expedient for COVID-19-related rent concessions consistently to eligible rent concessions relating to its office space leases.

The interest expense associated with lease liabilities in 2020 and 2019 amounted to P0.21 million and P0.46 million, respectively, is presented under "Interest expense" in the statement of profit or loss and other comprehensive loss.

The gain recognized in the statement of profit or loss and other comprehensive loss for the reporting period to reflect changes in lease payments arising from rent concessions to which the Bank has applied the practical expedient for COVID-19-related rent concession is P0.34 million in 2020.

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

	2020	2019
Total cash outflow for leases	**P7,596,893**	P5,952,800

The rent expense associated with short-term leases in 2020 amounted to P3.58 million and was presented under "Rent expense" in the statement of profit or loss and other comprehensive loss.

17. Compensation and Other Benefits

	Note	2020	2019
Salaries and wages		**P84,338,694**	P82,136,388
Government contributions		**9,732,260**	9,210,685
Retirement costs	*20*	**1,507,974**	1,713,407
Directors' fee		**853,368**	6,190,613
Other benefits		**16,894,910**	32,304,211
		P113,327,206	P131,555,304

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

Other benefits refer to the expenses for any good, service or other benefit furnished or granted by the Bank to its officers, 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 SSS, PHIC and HDMF.

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 P19.47 million and P23.75 million for the years ended December 31, 2020 and 2019, respectively.

19. Taxes and Licenses

This refers to the expenses incurred for taxes and licenses other than income tax, such as corporate residence tax, motor vehicle registration fees, privilege tax, firearms tax, gross receipts tax and other taxes.

20. Retirement Costs

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, 2020 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	2020	2019
Balance at January 1		**P13,907,154**	P8,362,050
Included in Profit or Loss			
Current service cost		**1,403,204**	944,098
Interest cost		**717,445**	769,309
Settlement gain		**(612,675)**	-
	17	**1,507,974**	1,713,407
Included in Other Comprehensive Income (OCI)			
Remeasurement loss (gain):			
Actuarial loss (gain) arising from:			
Experience adjustment		**(1,410,810)**	599,755
Transferred out liability		**(16,124)**	-
Financial assumptions		**2,901,185**	3,231,942
		1,474,251	3,831,697
Other			
Benefits paid		**(1,060,867)**	-
Balance at December 31		**P15,828,512**	P13,907,154

The retirement costs amounting to P1.51 million and P1.71 million in 2020 and 2019, respectively, are presented as part of "Compensation and other benefits" in the statement of profit or loss and other comprehensive loss (see note 17).

A subset of employee workforce was involuntarily separated in 2020 resulting in settlement calculations. The settlement gain amounting to P0.61 million is presented as part of "Compensation and other benefits" in the statement of profit or loss and other comprehensive loss (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, 2020 and 2019 are as follows:

	2020	2019
Discount rate	**4.10%**	5.40%
Future salary rate increases	**0%**	1%

The future mortality rate assumptions for 2020 and 2019 have been based from the 2017 Philippine Intercompany Mortality Table.

The weighted average duration of the DBO is 17.3 years and 17 years as at December 31, 2020 and 2019, respectively.

Maturity analysis of the benefit payments:

	2020				
	Carrying Amount	**Contractual Cash Flows**	**Within 1 Year**	**Within 1-5 Years**	**More than 5 Years**
DBO	**P15,828,512**	**P154,624,554**	**P525,687**	**P792,795**	**P153,306,072**

	2019				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
DBO	P13,907,154	P161,478,803	P1,197,920	P3,430,210	P156,850,673

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.

	2020					
	Discount Rate		**Future Salary Rate Increase**		**Future Mortality**	
Effect in thousand pesos	**+1%**	**-1%**	**+1%**	**-1%**	**+1%**	**-1%**
Present value of the DBO	**(P13,044)**	**P19,350**	**P19,441**	**(P13,575)**	**(P14,605)**	**P17,204**

	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

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), Lifebank Microfinance Foundation, Inc. (LMFI), and key management personnel (KMP), consisting mainly of the following:

Category/Transaction	Year	Note	Amount of the Transaction	Deposit Liabilities (Note 12)	Dividends Payable (Note 13)	Right-of-Use Assets (Note 16)	Lease Liabilities (Note 16)	Nature, Terms and Conditions
DOSRI								
Deposit liabilities	**2020**	*1a*	**P52,191,074**	**P64,632,595**	**P -**	**P -**	**P -**	**Interest-bearing; due and demandable**
	2019	*1a*	12,441,521	12,441,521	-	-	-	Interest-bearing; due and demandable
Rentals	**2020**	*1b*	**85,200**	-	-	**193,157**	**206,587**	-
	2019	*1b*	85,200	-	-	265,591	274,613	-
Dividends paid	**2020**	*1c*	**4,722,180**	-	**3,312,439**	-	-	-
	2019	*1c*	4,180,100	-	2,468,149	-	-	-
LMFI								
Payment for acquisition of microfinance field offices	**2020**	*2a*	-	-	-	-	-	-
	2019	*2a*	1,085,137	-	-	-	-	-
Deposit liabilities	**2020**	*2b*	**(12,295,163)**	**81,887,667**	-	-	-	**Interest-bearing; due and demandable**
	2019	*2b*	55,254,773	82,711,891	-	-	-	Interest-bearing; due and demandable
Rentals	**2020**	*2c*	**277,294**	-	-	**142,639**	**153,710**	-
	2019	*2c*	412,291	-	-	570,556	580,533	-
KMP								
Compensation	**2020**	*3a*	**10,126,223**	-	-	-	-	-
	2019	*3a*	10,411,603	-	-	-	-	-
TOTAL	**2020**			**P146,520,262**	**P3,312,439**	**P335,796**	**P360,297**	
TOTAL	2019			P95,153,412	P2,468,149	P836,147	P855,146	

1. DOSRI

a) The Bank's DOSRI has several deposit accounts with the Bank which bear interest ranging from 0.75% to 2.75% and 1.25% to 3.50% per annum in 2020 and 2019, respectively. Deposit liabilities amounted to P64.63 million and P12.44 million in 2020 and 2019, respectively.

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 recognized amounted to P0.19 million and P0.27 million as at December 31, 2020 and 2019, respectively. Lease liability recognized amounted to P0.21 million and P0.28 million as at December 31, 2020 and 2019, respectively. The rental payments amounted to P0.09 million in 2020 and 2019.

c) Cash dividends paid to the BOD amounted to P4.72 million and P4.18 million as at December 31, 2020 and 2019, respectively. Dividends payable amounted to P3.31 million and P2.47 million in 2020 and 2019, respectively.

2. LMFI

a) In 2019, 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
Total consideration	P1,085,137
Less total identifiable net assets at fair value	(986,488)
	P98,649

Net identifiable assets consist of the following:

	Note	2019
Microfinance loans	*23*	P7,018,650
Unamortized interest and discounts		(826,704)
Allowance for impairment losses on microfinance loans	*23*	(701,865)
		5,490,081
Accounts payable		(1,298,310)
Regular savings deposits		(3,205,283)
Net identifiable assets		P986,488

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.

b) LMFI has several deposit accounts with the Bank which bear interest ranging from 0.75% to 2.75% and 1.25% to 3.50% in 2020 and 2019, respectively. Deposit liabilities amounted to P81.89 million and P82.71 million as at December 31, 2020 and 2019, 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 recognized amounted to P0.14 million and P0.57 million in December 31, 2020 and 2019, respectively. Lease liability recognized amounted to P0.15 million and P0.58 million as at December 31, 2020 and 2019, respectively. The rental payments amounted to P0.28 million and 0.41 million in 2020 and 2019, 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:

	2020	2019
Short-term employee benefits	**P9,881,831**	P9,671,208
Director's fee	**67,705**	538,649
Post-employment benefits	**176,687**	201,746
	P10,126,223	P10,411,603

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

22. Income Tax

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

	2020	2019
Recognized in Profit or Loss		
Current	**P1,542,116**	P21,179,340
Deferred	**(12,722,146)**	(1,100,971)
	(P11,180,030)	P20,078,369
Recognized in OCI		
Deferred	**P442,275**	P1,149,509

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

	2020	2019
(Loss) income before income tax (benefit) expense	**(P33,481,311)**	P70,559,938
Tax at statutory tax rate of 30%	**(P10,044,393)**	P21,167,981
Adjustments for tax effects of:		
Interest expense limitation	**797,362**	765,048
Interest income subject to final tax	**(1,932,999)**	(1,854,660)
Income tax (benefit) expense	**(P11,180,030)**	P20,078,369

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

	Balance January 1, 2020	**Recognized in Profit or Loss**	**Recognized in OCI**	**Balance December 31, 2020**
Deferred Tax Assets				
Allowance for impairment losses:				
Loans to customers	**P6,533,118**	**P9,747,422**	**P -**	**P16,280,540**
Other assets	**190,043**	**-**	**-**	**190,043**
Investment properties	**29,928**	**-**	**-**	**29,928**
Retirement liability	**4,172,147**	**134,132**	**442,275**	**4,748,554**
Accrued expenses	**4,114,042**	**(1,284,121)**	**-**	**2,829,921**
Net operating loss carry over (NOLCO)	**-**	**2,303,930**	**-**	**2,303,930**
Minimum corporate income tax (MCIT)	**-**	**1,542,116**	**-**	**1,542,116**
Accrued interest payable	**430,394**	**(30,276)**	**-**	**400,118**
	15,469,672	**12,413,203**	**442,275**	**28,325,150**
Deferred Tax Liabilities				
Right-of-use assets	**(117,913)**	**102,878**	**-**	**(15,035)**
Accrued interest receivable	**(1,328,683)**	**206,065**	**-**	**(1,122,618)**
	(1,446,596)	**308,943**	**-**	**(1,137,653)**
	P14,023,076	**P12,722,146**	**P442,275**	**P27,187,497**

	Balance January 1, 2019	Recognized in Profit or Loss	Recognized in OCI	Balance December 31, 2019
Deferred Tax Assets				
Allowance for impairment losses:				
Loans 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)
	(120,789)	(1,325,807)	-	(1,446,596)
	P11,772,596	P1,100,971	P1,149,509	P14,023,076

The component of the NOLCO which can be applied against future taxable income is as follows:

Year Incurred	Expiry Date	Balance January 1, 2020	Addition	Expired/ Applied	**Balance December 31, 2020**
2020	December 31, 2025	P -	P2,303,930	P -	**P2,303,930**

The details of outstanding MCIT are as follows:

Year Incurred	Expiry Date	Balance January 1, 2020	Addition	Expired/ Applied	**Balance December 31, 2020**
2020	December 31, 2023	P -	P1,542,116	P -	**P1,542,116**

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 to customers, debt securities at amortized cost and other assets as at December 31, 2020 and 2019 is shown below (in thousands):

	Due from BSP (Note 5)		**Due from Other Banks (Note 6)**		**Loans and Advances to Customers (Note 7)**		**Debt Securities at Amortized Cost (Note 8)**		**Other Assets* (Note 11)**	
(In thousands)	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Carrying amount	**P17,208**	P17,367	**P378,348**	P317,833	**P371,705**	P487,481	**P112,980**	P103,219	**P7,748**	P9,496
Concentration by sector:										
Retail	**P -**	P -	**P -**	P -	**P371,705**	P487,481	**P -**	P -	**P7,748**	P9,496
Banks	**17,208**	17,367	**378,348**	317,833	**-**	-	**112,980**	103,219	**-**	-
	P17,208	P17,367	**P378,348**	P317,833	**P371,705**	P487,481	**P112,980**	P103,219	**P7,748**	P9,496

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

The summary of concentration of credit risk by sector on loans to customers as to industry is presented in Note 29 to the financial statements.

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

	Note	**2020**	2019
Due from BSP	*5*	**P17,207,826**	P17,367,308
Due from other banks	*6*	**378,347,994**	317,833,080
Loans to customers - net	*7*	**371,705,463**	487,481,254
Debt securities at amortized cost	*8*	**112,980,191**	103,219,044
Other assets - net*	*11*	**7,748,489**	9,495,882
		P887,989,963	P935,396,568

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

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, 2020 and 2019 is as follows:

	December 31, 2020			
	ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Due from BSP:				
High grade	**P17,207,826**	**P -**	**P -**	**P17,207,826**
Due from other banks:				
High grade	**378,347,994**	**-**	**-**	**378,347,994**
Loans to customers:				
High grade	**47,346,178**	**-**	**-**	**47,346,178**
Standard grade	**11,253,888**	**-**	**-**	**11,253,888**
Substandard grade	**266,593,413**	**-**	**-**	**266,593,413**
Past due but not impaired	**-**	**89,644,626**	**-**	**89,644,626**
Past due and impaired	**-**	**-**	**11,750,652**	**11,750,652**
	325,193,479	**89,644,626**	**11,750,652**	**426,588,757**
Debt securities at amortized cost:				
High grade	**112,980,191**	**-**	**-**	**112,980,191**
Accrued interest receivable:				
High grade	**3,742,061**	**-**	**-**	**3,742,061**
Sales contract receivable:				
High grade	**2,756,295**	**-**	**-**	**2,756,295**
Security deposits:				
High grade	**1,228,415**	**-**	**-**	**1,228,415**
Others:				
High grade	**91,508**	**-**	**-**	**91,508**
	P841,547,769	**P89,644,626**	**P11,750,652**	**P942,943,047**

	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 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	-	8,946,751	-	8,946,751
Past due and impaired	-	-	12,716,941	12,716,941
	465,596,664	31,496,445	12,716,941	509,810,050
Debt securities 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	P31,496,445	P12,716,941	P957,795,154

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

	December 31, 2020			
	ECL Staging			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Gross Carrying Amount at January 1, 2020	**P465,596,664**	**P31,496,445**	**P12,716,941**	**P509,810,050**
Transfers:				
Transfer to stage 1	**10,710,422**	**(10,710,422)**	**-**	**-**
Transfer to stage 2	**(106,981,683)**	**106,981,683**	**-**	**-**
Transfer to stage 3	**(6,101,211)**	**(12,829365)**	**18,930,576**	**-**
New financial assets originated or purchased	**898,566,600**	**-**	**-**	**898,566,600**
Financial assets derecognized	**(936,597,313)**	**(25,293,715)**	**(19,896,865)**	**(981,787,893)**
Gross Carrying Amount at December 31, 2020	**P325,193,479**	**P89,644,626**	**P11,750,652**	**P426,588,757**

	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	(33,043,151)	33,043,151	-	-
Transfer to stage 3	(727,845)	(1,399,306)	2,127,151	-
New financial assets originated or purchased	1,826,536,574	-	-	1,826,536,574
Financial assets derecognized	(1,751,899,356)	(2,088,208)	(4,555,891)	(1,758,543,455)
Gross Carrying Amount at December 31, 2019	P465,596,664	P31,496,445	P12,716,941	P509,810,050

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

	December 31, 2020			
	ECL Staging			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Allowance for Impairment Losses at January 1, 2020	**P5,709,336**	**P3,400,784**	**P12,666,941**	**P21,777,061**
Movements with Profit or Loss Impact				
Transfers:				
Transfer to stage 1	**571,313**	**(571,313)**	**-**	**-**
Transfer to stage 2	**(3,595,654)**	**3,595,654**	**-**	**-**
Transfer to stage 3	**(1,134,384)**	**(1,229,067)**	**2,363,451**	
New financial assets originated or purchased	**60,718,583**	**-**	**-**	**60,718,583**
Financial assets derecognized	**(24,463,477)**	**(425,874)**	**(3,337,826)**	**(28,227,177)**
Total Net Profit or Loss Charge	**32,096,381**	**1,369,400**	**(974,375)**	**32,491,406**
Allowance for Impairment Losses at December 31, 2020	**P37,805,717**	**P4,770,184**	**P11,692,566**	**P54,268,467**

	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	(5,130,018)	5,130,018	-	-
Transfer to stage 3	(9,442,963)	(1,080,050)	10,523,013	-
New financial assets originated or purchased	18,265,366	-	-	18,265,366
Financial assets derecognized	(11,402,993)	(2,022,052)	(2,055,891)	(15,480,936)
Total Net Profit or Loss Charge	(7,710,608)	2,027,916	8,467,122	2,784,430
Other Movement Without Profit and Loss Impact				
Other movement	701,865	-	-	701,865
Allowance for Impairment Losses at December 31, 2019	P5,709,336	P3,400,784	P12,666,941	P21,777,061

Impairment losses on loans to customers amounting to P32.49 million and P2.78 million in 2020 and 2019, respectively, are presented as "Impairment losses" in the statement of profit or loss and other comprehensive loss.

The Bank acquired microfinance loans from LMFI amounting to P7.02 million in 2019. The related allowance on these acquired loans amounted to P0.70 million in 2019 (see Note 21).

On March 25, 2020, R.A. No. 11469, *Bayanihan to Heal as One Act* (Bayanihan 1 Act) was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest falling due within the enhanced community quarantine period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, R.A. No. 11494, *Bayanihan to Recover as One Act* (Bayanihan 2 Act) was enacted. Under Bayanihan 2 Act, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees and other charges and thereby extending the maturity of the said loans.

Based on the Bank's assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets. The impact of the loan modification including the subsequent accretion of the modified loans is not significant to the Bank's financial statements.

Carrying Amount of Loans 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 as at December 31, 2019.

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, 2020	Note	Total Carrying Amount	Up to 1 Month	1 to 6 Months	6 to 12 Months	Over 1 Year	Total
			Contractual Undiscounted Payments				
Assets							
Cash and other cash items	4	P17,521	P17,521	P -	P -	P -	P17,521
Due from BSP	5	17,208	17,208	-	-	-	17,208
Due from other banks	6	378,348	333,191	45,157	-	-	378,348
Loans to customers - net	7	371,705	76,310	274,614	10,769	50,616	412,309
Debt securities at amortized cost	8	112,980	6	1,702	1,892	109,380	112,980
Other assets - net*	11	7,748	4,606	738	765	1,709	7,818
		905,510	448,842	322,211	13,426	161,705	946,184
Liabilities							
Deposit liabilities	12	627,183	378,719	237,004	11,460	-	627,183
Lease liabilities**	16	1,588	90	374	242	979	1,685
Other liabilities***	13	60,842	45,631	15,211	-	-	60,842
		689,613	424,440	252,589	11,702	979	689,710
Net Liquidity Gap		P215,897	P24,402	P69,622	P1,724	P160,726	P256,474

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

December 31, 2019	Note	Total Carrying Amount	Up to 1 Month	1 to 6 Months	6 to 12 Months	Over 1 Year	Total
			Contractual Undiscounted Payments				
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 to customers - net	7	487,481	11,115	416,056	19,093	63,546	509,810
Debt securities 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	76,743	57,557	19,186	-	-	76,743
		688,050	270,088	95,031	322,269	920	688,308
Net Liquidity Gap		P259,485	P39,595	P332,305	(P256,748)	P166,474	P281,626

*Excluding due from employees, stationary and supplies on hand, and prepaid expenses
**Including future interest payments
***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	**2020**	2019
Fixed Rate Instruments			
Financial assets:			
Due from other banks	*6*	**P378,347,994**	P317,833,080
Loans to customers - net	*7*	**371,705,463**	487,481,254
Debt securities at amortized cost	*8*	**112,980,191**	103,219,044
		863,033,648	908,533,378
Financial liabilities:			
Deposit liabilities	*12*	**627,182,655**	606,161,763
Lease liabilities	*16*	**1,587,510**	5,144,776
		P234,263,483	P297,226,839

Effective interest rates for 2020 and 2019 are as follows:

	2020	2019
Assets		
Due from other banks	**0.05%-0.63%**	0.10%-3.40%
Loans to customers - net	**6%-78.68%**	6%-77.88%
Debt securities at amortized cost	**0.75%-6.25%**	2%-6%
Liabilities		
Deposit liabilities	**0.25%-2.75%**	0.75%-3.50%
Lease liabilities	**6.33%**	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 to Customers and Debt Securities 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 Committee, 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 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 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 BOD 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.

In response to the COVID-19 pandemic, the Board has also been performing more frequent reviews of creditworthiness of the borrowers severely impacted.

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 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 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).

In response to the impact of COVID-19 pandemic, the Bank revised its economic forecasts used as an input into ECL as at December 31, 2020.

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 BOD.

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%.

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):

	2020	2019
Tier 1 capital	**P239.31**	P314.93
Tier 2 capital	**7.18**	8.04
Total Qualifying Capital	**P246.49**	P322.97
Risk-weighted Assets	**P1,119.67**	P1,153.12
Total qualifying capital expressed as a percentage of total risk-weighted assets	**22.01%**	28.01%
Total tier 1 capital expressed as a percentage of risk-weighted assets	**21.37%**	27.31%

Sec. 121, *Minimum Capitalization,* of the latest MORB, increased the minimum capital requirement for all bank categories to ensure that banks stand on a strong capital base to support a threshold scale of operations, to operate viably and service effectively the needs of clients as approved by the Monetary Board in its Resolution No. 1607 dated October 9, 2014.

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 million.

The Bank was compliant with the capital adequacy ratio and required minimum capitalization for the years ended December 31, 2020 and December 31, 2019.

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 (16%) 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:

	2020	2019
Stock of liquid assets	**P525,259,515**	P448,836,721
Qualifying liabilities	**599,983,687**	586,055,777
	87.55%	76.59%

The Bank was in compliance with such MORB provision for the years ended December 31, 2020 and December 31, 2019.

Minimum Leverage Ratio
In accordance with Section 3, *Prompt Corrective Action Framework*, of the latest MORB, the minimum leverage ratio requirement is 5%.

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

	2020	2019
Total capital	**P286,143,160**	P315,042,887
Total assets	**997,157,975**	1,035,814,884
	28.70%	30.41%

Consequently, the Bank is compliant for the years ended December 31, 2020 and December 31, 2019.

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. Other Matter - Continuing Impact of Coronavirus Disease 2019 (COVID-19)

The 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.

As at BOD approval date, Iloilo Province has been placed under Modified General Community Quarantine, which allows for, among others, normal movements of people provided they continue to wear face masks, maintain social distancing, and observe other necessary health protocols; work in all sectors; companies can operate at 100% capacity; and resumption of public transportation, among others.

The Bank has assessed that although COVID-19 will not have significant effect on its ability to continue as a going concern, it will still have continuing impact on its operations. The full impact on the Bank will depend on the duration of this unique crisis and how it severely impacts the economy going forward, with a range of potential outcomes too large to provide a meaningful quantification at this point. The subsequent impact of this outbreak will be determined, quantified and recognized in the Bank's financial statements when these become estimable (see Note 24).

27. Subsequent Events

On March 26, 2021, the President of the Philippines has approved the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act (the Act), with nine (9) provisions vetoed by the President. Below are the salient features of the Act that are relevant to the Bank:

a) Corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million. All other domestic corporations and resident foreign corporations will be subject to 25% income tax. Said reductions are effective July 1, 2020.

b) MCIT rate is reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.

c) The imposition of improperly accumulated earnings tax has been repealed.

On April 8, 2021, the Bureau of Internal Revenue (BIR) issued the following implementing revenue regulations (RR) that are effective immediately upon publication:

- BIR RR No. 2-2021, *Amending Certain Provisions of RR No. 2-98, As Amended, to Implement the Amendments Introduced by Republic Act No. 11534, or the CREATE Act, to the National Revenue Code of 1997, as Amended, Relative to the Final Tax on Certain Passive Income;*

- BIR RR No. 3-2021, *Rules and Regulations Implementing Section 3 of the CREATE Act, Amending Section 20 of the National Internal Revenue Code of 1997, As Amended;*

- BIR RR No. 4-2021, *Implementing the Provisions on Value-Added Tax and Percentage Tax Under the CREATE Act Which Further Amended the National Revenue Code of 1997, as Amended, as Implemented by RR No. 16-2005 (Consolidated Value-Added Tax Regulations of 2005), As Amended;* and

- BIR RR No. 5-2021, *Implementing the New Income Tax Rates on the Regular Income of Corporations, on Certain Passive Incomes, Including Additional Allowable Deductions from Gross Income of Persons Engaged in Business or Practice of Profession Pursuant to CREATE Act, Which Further Amended the National Revenue Code of 1997.*

The enactment of the CREATE Act is a non-adjusting subsequent event thus, the current and deferred income taxes as at December 31, 2020 are measured using the applicable income tax rates as at December 31, 2020.

Further, the BIR has issued its RR No. 5-2021 to promulgate the implementation of the new income tax rates on the regular income of corporations, on certain passive incomes and additional allowable deductions of persons engaged in business or practice of profession as provided for in CREATE Act. The corporate income tax of the Company will be lowered from 30% to 25% on which the Company would qualify, effective July 1, 2020.

Presented below is the estimated effect of changes in tax rates under the CREATE Act.

	As at December 31, 2020	Effect of Change in Tax Rates	Amounts Based on the Reduced Tax Rates
Statements of Profit or Loss and Other Comprehensive Loss			
Current tax expense	P1,542,116	(P385,529)	(1,156,587)
Deferred tax expense (benefit)	(13,164,421)	2,283,354	(10,881,067)
Net loss for the year	(22,301,281)	(1,860,969)	(24,162,250)
Statements of Financial Position			
Deferred tax assets - net	27,187,497	(2,283,354)	24,904,143
Income tax payable	603,285	(385,529)	217,756
Statement of Changes in Equity			
Reserves	(1,031,976)	(36,856)	(1,068,832)

28. Significant Accounting Policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except for the amendments to standards as discussed below.

Adoption of Amendments to Standards

The Bank has adopted the following amendments to standards starting January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Bank's financial statements.

- *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.

Effective June 1, 2020

- COVID-19-related rent concessions (Amendment to PFRS 16). The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient apply if:

  - the revised consideration is substantially the same or less than the original consideration;
  - the reduction in lease payments relates to payments due on or before June 30, 2021; and
  - no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from application of the practical expedient. No practical expedient is provided for lessors.

Financial Assets and Liabilities

Recognition and Measurement

The Bank initially recognizes loans 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 securities 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 securities 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 securities 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.

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	0.5 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.

<u>Investment Properties</u>
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

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.

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.

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

COVID-19-Related Rent Concessions
The Bank has applied COVID-19-related rent concessions. The Bank applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Bank applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Bank chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Bank assesses whether there is a lease modification.

<u>Equity</u>
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.

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:

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

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.

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.

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 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, 2021 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.

- Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4, *Insurance Contracts* and PFRS 16). To ensure that financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:

    - *Practical Expedient for Particular Changes to Contractual Cash Flows.* As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.

- *Relief from Specific Hedge Accounting Requirements.* The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.

- *Disclosure Requirements.* To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted. The amendments retrospectively, but restatement of comparative information is not required. Reinstatement of a discontinued hedging relationship is required if the hedging relationship was discontinued solely because of changes required by the reform, and that discontinued hedging relationship meets all qualifying criteria for hedge accounting at the date of initial application.

The amendments are still subject to the approval of FRSC.

29. 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:

	2020	2019
Return on average equity	**-7.42%**	17.20%
Return on average assets	**-2.19%**	5.21%
Net interest margin	**20.45%**	35.39%

B. Capital Instruments

The Bank considers its capital stock as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2020 and 2019.

C. Significant Credit Exposures as to Industry or Economic Sector

As at December 31, 2020 and 2019, information on the concentration of credit as to industry or economic sector, net of unamortized interest and discounts, are as follows:

	2020		2019	
	Amount	**%**	Amount	%
Wholesale and retail trade, and repair of motor vehicles, motorcycles	**P294,102,182**	**69.04%**	P350,895,856	68.90%
Agriculture, forestry and fishing	**40,117,775**	**9.42%**	49,908,957	9.80%
Other service activities	**27,918,320**	**6.55%**	27,192,612	5.34%
Real estate activities	**19,741,502**	**4.63%**	23,549,457	4.62%
Accommodation and food service activities	**18,884,181**	**4.43%**	22,687,548	4.46%
Transportation and storage	**8,044,588**	**1.89%**	9,149,778	1.80%
Personal consumption	**5,808,591**	**1.36%**	6,879,088	1.35%
Education	**4,708,457**	**1.11%**	10,518,107	2.07%
Manufacturing	**3,152,329**	**0.74%**	4,038,679	0.79%
Construction	**858,352**	**0.20%**	1,045,404	0.21%
Human health and social work activities	**833,405**	**0.20%**	1,113,706	0.22%
Water supply, sewerage, waste management and remediation activities	**815,351**	**0.19%**	1,149,759	0.23%
Administrative and support service activities	**300,552**	**0.07%**	249,687	0.05%
Electricity, gas, steam and air conditioning supply	**213,316**	**0.05%**	97,259	0.02%
Information and communication	**189,741**	**0.04%**	185,954	0.04%
Activities of households as employers and undifferentiated goods-and-services-producing activities of households for own use	**112,932**	**0.03%**	429,308	0.08%
Professional, scientific, and technical activities	**101,771**	**0.02%**	15,601	0%
Arts, entertainment and recreation	**36,292**	**0.01%**	123,322	0.02%
Mining and quarrying	**34,293**	**0.01%**	28,233	0%
	P425,973,930	**100%**	P509,258,315	100%

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, 2020 and 2019 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 to customers, net of unamortized interest and discounts, as to secured and unsecured and the breakdown of loans to customers as to the type of security as at December 31, 2020 and 2019:

	2020		2019	
	Amounts	**%**	Amounts	%
Secured:				
Real estate mortgage	**P48,391,634**	**11.36%**	P46,608,964	9.15%
Chattel mortgage	**1,347,029**	**0.32%**	1,698,804	0.33%
Others	**17,708**	**0%**	119,776	0.02%
	49,756,371	**11.68%**	48,427,544	9.50%
Unsecured	**376,217,559**	**88.32%**	460,830,771	90.50%
	P425,973,930	**100%**	P509,258,315	100%

The following table shows the breakdown of loans to customers, net of unamortized interest and discounts, as to performing and non-performing loans as at December 31, 2020 and 2019:

	2020	2019
Performing loans:		
Microfinance	**P283,983,992**	P396,463,033
Commercial	**48,776,039**	56,207,555
Agricultural	**1,644,575**	19,188,067
	334,404,606	471,858,655
Non-performing loans:		
Microfinance	**77,801,287**	31,156,099
Commercial	**11,609,364**	4,434,879
Agricultural	**2,158,673**	1,808,682
	91,569,324	37,399,660
	P425,973,930	P509,258,315

In accordance with Section 304, *Past Due Accounts And Non-performing Loans,* 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, 2020 and 2019.

The following table shows information relating to DOSRI loans as part of loans to customers:

	2020	2019
Total outstanding loans to Bank's DOSRI	**P -**	P -
Percent of DOSRI loans to total loan portfolio	**0%**	0%
Percent of unsecured DOSRI loans to total DOSRI loans	**0%**	0%
Percent of past due DOSRI loans to total DOSRI loans	**0%**	0%
Percent of non-performing DOSRI loans to total DOSRI loans	**0%**	0%

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, 2020.

G. Commitments and Contingent Liabilities

The Bank has no contingencies and commitments arising from off-balance sheet items as at December 31, 2020.

30. Supplementary Information Required Under RR No. 15-2010 of the 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, 2020:

A. Withholding Taxes

Final withholding taxes on interest paid on deposits	**P3,481,668**
Tax on compensation and benefits	**673,132**
Expanded withholding taxes	**650,585**
Final withholding taxes on deposit account of decedent	**336,573**
	P5,141,958

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	**P8,369,456**
Documentary stamps	**1,739,349**
License and permit fees	**1,070,014**
Real estate tax	**255,528**
Others	**688,775**
	P12,123,122

C. Tax Cases and Assessments

On October 3, 2018, the Bank received a Letter of Authority from the BIR to examine their books of accounts and other accounting records for all internal revenue taxes for the year ended December 31, 2017. Currently, the Bank has an ongoing communication with the BIR for the said assessment.

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CHAMBER OF ILOILO RURAL BANKS, INC. • 2014 •

PHILIPPINE DEPOSIT INSURANCE CORPORATION

PDIC

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