PDB
PAMPANGA DEVELOPMENT BANK

2020 ANNUAL REPORT

About Us –Pampanga Development Bank

During the early part of 1959, Mr. Ignacio Jao-Tayag broached the idea of establishing a private development bank in Pampanga to help in the development of the countryside. He invited several businessmen and prominent individuals in its pre-organization.

Following below are the founders of the Bank – the six (6) incorporators listed in the Articles of Incorporation:

1. **Ignacio Jao-Tayag**
2. **Andrea V. Jao**
3. **Angel A. Reyes**
4. **AbelardoTinio**
5. **Felix C. Makabali**
6. **Honesto L. Baltazar**

On January 12, 1961, the Articles of Incorporation was approved by the Central Bank and on June 20, 1961, the Second Pampanga Development Bank was officially opened to the public.

Since its creation, three (3) other branches were established in Central Luzon. The first and largest branch was established in 1966 at the heart of downtown Angeles City, Pampanga. This branch caters to all types of clients from market vendors to top Angeles City businessmen.

The second branch was established in Tarlac City in 1996 and, a year later, the third was established at the heart of downtown Cabanatuan City.

With the able leadership of its organizers and the subsequent directors and officers, Pampanga Development Bank has grown stronger. From a Bank with just ₱1 million in paid-up capitals in 1961, it has slowly but steadily become a competitive Thrift Bank with a **net worth of ₱304.472million** and with **total assets worth ₱607 million** as of the year ended **December 31, 2020**.

Over the years, Pampanga Development Bank has been known for its conservative and stable operations. It has established a distinct and outstanding reputation as a financial institution that caters to countryside development through sustained financial assistance to Micro, Small and Medium-Scale Enterprises.

1. Corporate Policy

a. Bank's Vision and Mission Statements

CORPORATE VISION

Pampanga Development Bank seeks to become the most dynamic privately owned development bank in Central Luzon, fostering sustained economic development in the countryside, providing greater opportunities to all Filipinos.

CORPORATE MISSION

Pampanga Development Bank, by providing an array of financial and developmental resources to our fellow Filipinos, shall improve the quality of life and shall stimulate and accelerate sustainable economic growth in Central Luzon.

The Bank's specific strategies to achieve this mission are:

1. Support micro, small and medium business development.
2. Help Filipinos in acquiring their own homes.
3. Improve the quality and value of real estate in client areas.
4. Increase the number and quality of goods and services available to Filipinos

CORPORATE VALUES

1. Integrity

We are a Bank of professionals that strictly adhere to the Bank's Code of Ethics for the furtherance of our corporate goals and for our moral individual development.

2. Teamwork

We recognize that in working together, we achieve more, that as we direct our individual abilities in harmony we achieve the banks goals better and faster.

3. Dignity of Work

We believe that work allows us to achieve our innate drives to be productive and useful. This opportunity is a gift, thus, in return we will serve the Bank diligently and faithfully, to the best of our abilities.

4. Pride in Excellence

We take pride in knowing that in everything we strive to do; we strive to do it well. We believe that excellence is the best tribute to the Bank and its clients.

5. Concern for Others

We believe in the Filipino people. We support the Bank's goals in trying to improve the Filipinos' quality of life by linking needs with resources for the betterment of all.

b. Bank's brand that differentiates it from other banks

We keep our products simple and we do the same for our rates and charges, so client always know exactly what they are getting. No surprises in the small print.

The Bank's brand reinforces our key differentiating factor which is **PERSONALIZED SERVICE.**

Our brand is driven by a desire to develop an intimate relationship with our customers, putting us in a position to identify their needs and priorities. Our approach is hinged on mutual respect, service, innovation and efficiency.

c. Business Model of the Bank

The Bank, as a private development bank – a thrift bank is a financial intermediary that raise funds primarily through time and savings deposits and invest principally in residential mortgages and consumer loans.

Also, dedicated to fund new and upcoming businesses and economic development projects by providing equity capital and/or loan capital

2. Financial Summary/Financial Highlights

A two (2)-year comparative performance of the Bank's financial condition:

FINANCIAL DATA	SOLO	
	CURRENT YEAR	PREVIOUS YEAR
Profitability		
Total Net Interest Income	29,225,859	43,160,859
Total Non-Interest Income	4,760,528	5,819,565
Total Non-Interest Expenses	31,626,824	37,085,400
Pre-provision Profit	31,564,887	41,967,977
Allowance for Credit Losses	2,421,500	7,012,447
Net Income	504,612	5,849,093
Selected Balance Sheet Data		
Liquid Assets	521,571,920	534,856,849
Gross Loans	303,260,702	359,386,814
Total Assets	607,375,943	601,974,977
Deposits	278,944,791	281,840,016
Total Equity	304,472,412	298,903,972
Selected Ratios		
Return on Equity	0.17%	2.13%
Return on Assets	0.08%	1.04%
CET 1 capital Ratio (for UBs/KBs)		
Tier 1 Capital Ratio (for UBs/KBs)	261,050,751	261,329,791
Capital Adequacy Ratio	71.04%	65.19%

Per common share data (For UBs/KBs and publicly listed Banks)		
Net income per Share:		
Basic	0.25	2.95
Diluted	0	0
Book Value	153.77	160.13
Others		
Cash dividends declared	0	0
Headcount		
Officers	16	16
Staff	24	30

3. Financial Condition and Results of Operation

Message from the **Acting President** and **Chief Executive Officer (CEO)**

Dear **Shareholders, Clients** and **Friends**:

The year **2020** has been a challenging year for **Pampanga Development Bank**.

In the face of all the challenges, the Bank was able to generate positive results, albeit relatively small. But considering the continuing effect of the COVID-19 pandemic on the economy, including increased uncertainty, we weathered the storm.

In terms of total resources, from ₱602 million in 2019 it has increased to ₱607 million in 2020. This was mainly due to fresh capital infusion by shareholders. As expected, deposit generation slightly decreased from ₱282 million in year 2019 gone down to ₱279 million as of the year end 2020.

The Bank's total loan portfolio, also decreased from ₱327 million to ₱267 million or a decrease of about 22% for the same period. This attributed to decreased demand for credit amid slow economic condition prevailing and uncertainties. The Covid-19 pandemic has brought many economic activities to a virtual halt. Slowdown in economic activities put pressure on businesses' cash flow and working capital and during this outbreak, the Bank encountered breach of loan contracts by loan borrowers. Scores of loan borrowers requested for regulatory reliefs as provided by Bayanihan Act 1 and 2 under Republic Act No. 11469.

Amid the economic slowdown, the Bank's capital position remained very strong. Its capital adequacy ratio (CAR) of 71.04% as of December 31, 2020 was significantly higher than the required 10% capital adequacy ratio.

Following is a brief rundown of the Bank's year 2020 performance compared to 2019: Total resources have increased by ₱5 million while total loans and receivables decreased by ₱60 million. Despite economic challenges, the Bank was still able to generate a net income of ₱505 thousand, net of tax. Total capitalization is now at ₱304 million, compliant with the minimum required capitalization set for the Bank.

The year 2020 is difficult and challenging but we are optimistic that the Bank will be able to hurdle the challenges and generate more positive results for the next years as the situation and economy stabilizes.

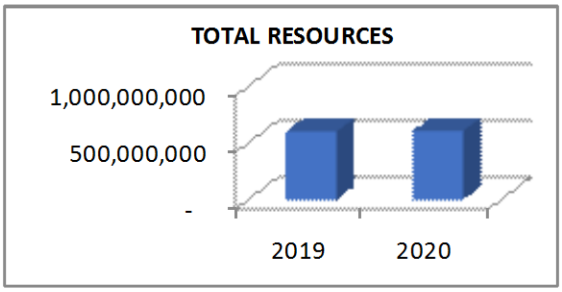
In closing, we wish to extend our sincerest appreciation to our Shareholders, for sharing in our Vision and Mission, to our Board of Directors, for their continued support, trust and confidence, to our Officers and Staff for their hard work and dedication to the Bank, and finally, to our Clients for their continued patronage of the Bank.

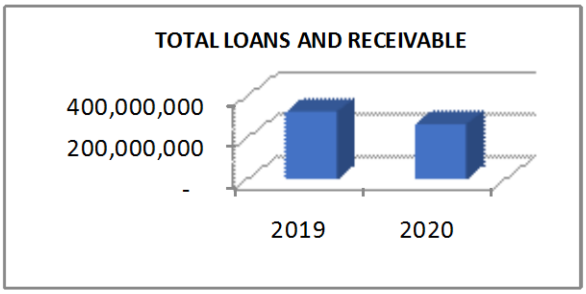
RODOLFO V. JAO
Acting President and CEO

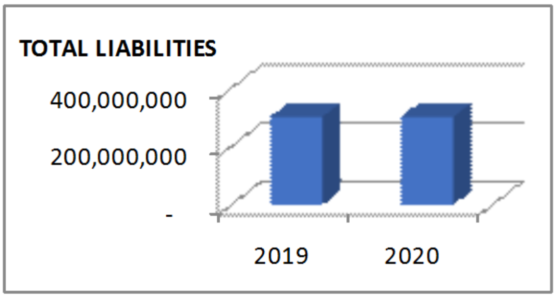
PAMPANGA DEVELOPMENT BANK

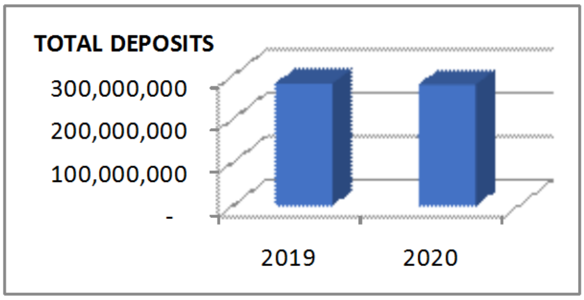
TWO YEAR FINANCIAL HIGHLIGHTS

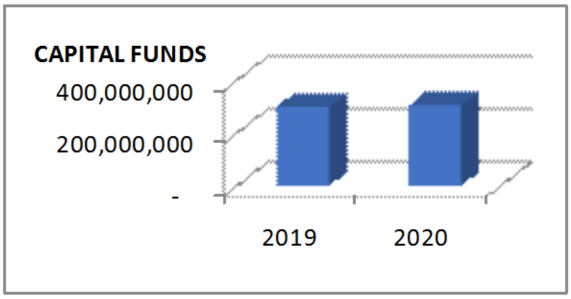
	2019	2020
TOTAL RESOURCES	601,974,977	607,375,943
TOTAL LOANS AND RECEIVABLE, Net	326,668,223	266,832,244
TOTAL LIABILITIES	303,071,005	302,903,531
TOTAL DEPOSITS	281,840,016	278,944,791
CAPITAL FUNDS	298,903,972	304,472,412
REVENUES	52,611,590	37,521,646
TOTAL EXPENSES	46,762,497	37,017,035
NET INCOME	5,849,093	504,612
BOOK VALUE PER SHARE	160	154

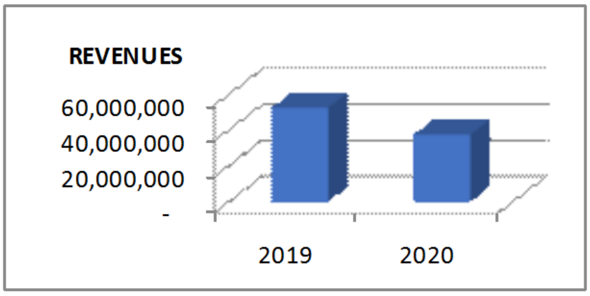


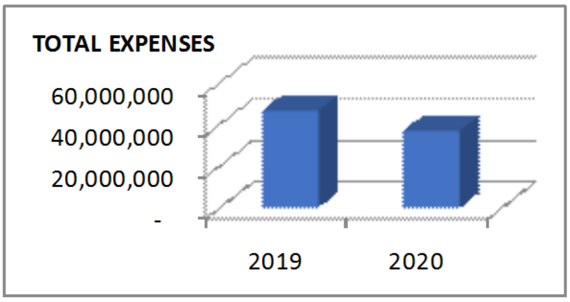


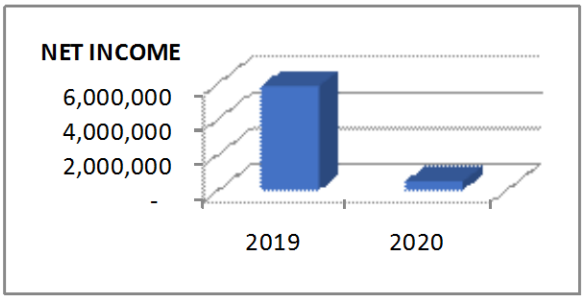


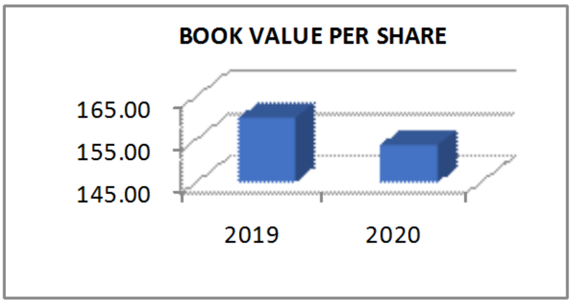



CAPITAL FUNDS
400,000,000
200,000,000
-
2019
2020


REVENUES
60,000,000
40,000,000
20,000,000
-
2019
2020


TOTAL EXPENSES
60,000,000
40,000,000
20,000,000
-
2019
2020


NET INCOME
6,000,000
4,000,000
2,000,000
-
2019
2020


BOOK VALUE PER SHARE
165.00
155.00
145.00
2019
2020

4. Risk Management Framework Adopted

a. Overall risk management culture and philosophy

The Bank's risk management system helps management to achieve its performance and profitability targets and prevent loss of resources. It helps to ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the Bank's reputation and associated consequences. In total, risk management system helps the Bank to get to where it wants to go and avoid pitfalls and surprises along the way.

The Bank has established various risk management policies, manual, and guidelines that lays down sound risk management practices and to guide the Bank's management and Board of Directors (BOD) to understand, measure, monitor and control the risk assumed, adopt risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled, and maintains capital commensurate with the risk exposure assumed.

Risk Management Structure

The Board is responsible for setting and monitoring the risk appetite for the Bank when pursuing its strategic objectives.

The Board and Senior Management of the Bank are ultimately responsible for the oversight of the Bank's risk management process. Effective Board and Senior Management oversight of the Bank's risk activities is critical to a sound risk management process. The Board is responsible for understanding the nature and the level of risks taken by the Bank and directly in-charge in the implementation of the risk management process which includes, among others, the development of various risk strategies and principles, control guidelines policies and procedures, implementation of risk measurement tools, monitoring of key risk indicators, and the imposition and monitoring of risk limits. Likewise, the Senior Management is responsible for ensuring that risks are adequately managed both long-term and day-to-day basis.

The Compliance Department manage and monitors the implementation of the Bank's compliance risk management system designed to specifically identity and mitigate risks that may erode the franchise value of the Bank such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation. Compliance risk management is also the responsibility and shared accountability of all personnel, officers, and the Board of Directors.

The Audit Committee is responsible for overseeing the risk-taking activities across the bank, as well as in evaluating whether these remain consistent with the Bank's risk-appetite and strategic direction. It ensures that the risk governance framework remain appropriate relative to the complexity of risk taking activities of the Bank. It is also responsible for identifying, measuring, monitoring, and reporting risk on a bankwide basis as part of the second line of defense.

The Internal Audit Department provides 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 the Bank, which helps management and the Board of Directors in protecting the Bank and its reputation. It both asses and complement the Bank's operational management, risk management, compliance and other control function.

The Loan Committee assists the Board of Directors in ensuring that the Bank has an adequate and effective credit risk management systems commensurate to its credit-risk-taking activities. It is responsible in establishing an appropriate credit risk environment, operating under a sound credit granting process, and maintaining appropriate credit administration, measurement, monitoring process and control over credit risk.

The Risk Oversight Committee is an oversight management committee that ensures the proper implementation of the Bank's liquidity and market risk management practices. These includes ensuring that the Bank is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and fulfill its legitimate funding needs, and understands, measures, monitors and controls the Bank's liquidity and market risk exposure.

The Compliance Committee ensures that the Bank is protected against money launderers. It ensures effective implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program (MLPP) approved by the Board and that the oversight on the Bank's AML compliance is adequate.

The Information Technology Governance Committee, together with the Board of Directors set the overall tone and strategic direction for the Bank's information technology and information security by providing leadership, effective information security governance and oversight. It leads in establishing an information security culture that regards security as an intrinsic part of the Bank's core business and operations. It oversees the Bank's information technology projects and development of an information security strategic plan to clearly articulate security strategies and objectives aligned with business plans.

The Management Committee is an avenue in which the Department Heads interact with the Board of Directors whereby their plans, issues, matters, status or activities are discussed on a regular basis, in order that the day-to-day functions of the different departments are monitored and reported to the Board as part of the latter's governance over the operations of the Bank.

VARIOUS TYPES OF RISK

Credit Risk

This is the risk where a counter party fails to meet its contractual obligation. The Bank's lending business follows credit policy guidelines set by the Board, ROC. These guidelines serve as the Bank's minimum standards for extending credit. Everyone engaged in the credit process are required to understand and adhere to these policies.

The Bank's product manuals contain business plans and define the business parameters by which credit activity is to be performed. Before extending a loan, the Bank observes a system of checks and balances, including the approval of at least two senior officers through the Executive Committee (ExCom), or the Board. The ROC reviews the Bank's business strategies and ensures that revenue-generating activities meet risk standards.

The Bank holds regular audit across the organization. Its Board – through the Executive Committee (EXCOM), Management Committee (MANCOM), and ROC – ensures that all business segments follow sound credit policies and practices.

The Bank manages risk concentration by type of individual or group of borrowers, by geographical region, and by industry sector. It assesses the credit quality of financial assets using the Bangko Sentral ng Pilipinas' (BSP) credit classifications. The Bank uses credit scoring models and decision systems for consumer loans, and borrower risk rating and facility risk rating models for SME loans, as approved by the Board.

The Bank carries out stress testing analyses using Board approved statistical models relating the default trends to macroeconomic indicators. Since 2017, enhanced stress testing models and stress limits were implemented for consumer loans.

Liquidity Risk

In managing its liquidity position, the Bank ensures that it has more than adequate funds to meet its maturing obligations.

The Bank administers stress testing to assess its funding needs and strategies under different conditions. Stress testing enables the Bank to gauge its capacity to withstand both temporary and long-term liquidity disruptions. The Liquidity Contingency Funding Plan (LCFP) helps the Bank anticipate how to manage a liquidity crisis under various stress scenarios. Liquidity limits for normal and stress conditions cap the projected outflows on a cumulative and per tenor basis.

The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits. Fund Management is responsible for managing the liquidity of the Bank while ROC review and oversee the Bank's overall liquidity risk management.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. To mitigate these, Pampanga Development Bank "the Bank" constantly strives to maintain our strong "control culture," prudent use of technology and effective internal control system, which are key factors towards continuous self-improvement under a "no-surprise" operating environment.

The Bank's Board-approved bankwide organizational chart clearly establishes areas of management responsibility, accountability and reporting lines for all its senior officers. Operational risk management policies and frameworks are continuously reviewed and updated, subject to ROC and Board approvals to ensure that they remain relevant and effective.

The Bank's products and operating manuals, policies and procedures spell out internal controls implemented by its business and operating support units. Its Internal Audit (IA) provides independent reasonable assurance on control adequacy and compliance with these manuals. The Bank continually identifies and assesses operational risks across the organization and develops controls to mitigate and manage them as part of continuing efforts to enhance its Operational Risk Management Framework.

To ensure that the Bank manages all operational risks adequately, specialized functions are engaged in risk management. These include Information Technology, Legal, Compliance, Human Resources and regularly reports to the Board's Audit Committee on the effectiveness of internal controls.

The Bank likewise has a Business Continuity Plan and a Disaster Recovery Program that are reviewed and tested annually on a per segment and bankwide basis to ensure their effectiveness in case of business disruptions, system failures and disasters.

Technology Risk

Technology risk is the risk to earnings or capital arising from deficiencies in systems design, implementation, maintenance of systems or equipment and the failure to establish adequate security measures, contingency plans, testing and auditing standards.

To provide simpler, faster, more convenient and secured banking services to its growing clientele and to avail of an advanced management information system that enables the Bank to make fast and well-informed business decisions, it continually invests in Information Technology by venturing into core business process automations, key system enhancements, and information security solutions.

Given this heavily automated operating environment, The Bank makes sure that it continuously identifies and quantifies risks to the greatest extent possible and establishes controls to manage technology-associated risks through effective planning, proper implementation, periodic measurement and monitoring of performance.

Legal Risk

Legal risk is the potential loss due to nonexistent, incomplete, incorrect, and unenforceable documentation that the Bank uses to protect and enforce its rights under contracts and obligations. A legal review process, which its Legal Retainers (thru legal sufficiency) performs, is the primary control mechanism for this type of risk to ensure that the Bank's contracts and documentation adequately protects its interests and complies with applicable legal and regulatory requirements.

Regulatory Risk

Regulatory Risk, also known as Compliance Risk, covers the potential loss from non-compliance with laws, rules and regulations, policies and procedures, and ethical standards.

The Bank recognizes that compliance risk can diminish its reputation, reduce its franchise value, limit its business opportunities, and reduce its potential for expansion. Thus, The Bank, guided by its Compliance Office, continuously promotes a culture of compliance.

Strategic Risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper resolution of conflicts, and slow response to industry changes.

Strategic risk can influence the Bank's long-term goals, business strategies, and resources. Thus, the Bank utilizes both tangible and intangible resources to carry out its business strategies. These include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

Reputational Risk

Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or manage existing relationships. The risk may expose the Bank to litigation, financial loss, or a decline in customer base.

All employees are responsible for building the Bank's reputation and exercising an abundance of caution when dealing with customers and communities.

Anti-Money Laundering Governance and Culture

The prevention of financial crimes is a top priority of Pampanga Development Bank, not only because they pose a significant threat to our reputation, but because they weaken the integrity of the global financial system. Hence, our Compliance Office extends its ambit beyond the Bank, its policies, and its employees to ensure that our clients also act within the law and do not use the Bank for illegal activities.

The Compliance Office is responsible for monitoring customer and counterparty transactions in compliance with the Anti-Money Laundering Law, its implementing rules and regulations, and BSP Circular No. 706 and 950. Developed under the guidance of the BSP's Money Laundering and Terrorist Financing Prevention Program, the Bank's anti-money laundering program covers all its various units, branches, and employees.

This program aims to implement sound anti-money laundering practices and combat terrorist financing and other financial crimes. It consists of conscientious due diligence and know-your-customer, or KYC, processes; technology to identify financial transactions of a suspicious nature; and monitoring, periodic review and timely reporting of anti-money laundering-combating the financing of terrorism (AML-CFT) events to senior management. This program also includes regular and effective AML-CFT training and awareness programs for all personnel; maintenance of customer data and transaction documents within prescribed timelines; and timely updates of policies and procedures in accordance with changes in regulations and AML and CFT typologies.

5. Corporate Governance

a. Overall corporate governance structure and practices

The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to heighten awareness within the organization and amongst its stakeholder at every opportunity.

The Board of Directors, through policies and its own practices, establish and actively promote, communicate and recognize sound governance principles and practices to reflect a culture of strong governance in the Bank as seen by both internal and external stakeholders.

1. The Board of Directors ensures that the Bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of lines of responsibility and accountability, especially between the roles of the Chairman of the Board of Directors and Chief Executive Officer/President.

2. The Board of Directors maintains, and periodically updates, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.

3. The Board of Directors structures itself in a way, including in terms of size, frequency of meetings and the use of committees, so as to promote efficiency, critical discussion of issues and thorough review of matters. It meet-regularly to properly discharge its functions. It also ensures that independent views in board meetings are given full consideration and all such meetings be duly minuted.

4. The Board conducts and maintains the affairs of the institution within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It ensures effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound banking practice. The Board appoints a compliance officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. The compliance officer shall be vested with appropriate authority and provided with appropriate support and resources.

5. The Board of Directors establishes a system of checks and balances which applies in the first instance to the board itself. Among the members of the board, an effective system of checks and balances must exist. The system shall also provide a mechanism for effective check and control by the Board over the chief executive officer and key managers and by the latter over the line officers of the Bank. Checks and balances in the board shall be enhanced by appointing a chairperson who is a non-executive, whenever possible.

6. The Board of Directors assesses at least annually its performance and effectiveness as a body, as well as its various committees, the chief executive officer, the individual directors, and the bank itself, which may be facilitated by the corporate governance committee or external facilitators. The composition of the Board shall also be reviewed regularly with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation shall be adopted which shall include, but not limited to, the setting of benchmark and peer group analysis.

7. The Board ensures that individual members of the board and the shareholders are accurately and timely informed. It shall provide all its members and to the shareholders a comprehensive and understandable assessment of the Bank's performance, financial condition and risk exposures. All members of the board shall have reasonable access to any information about the institution at all times. It shall also provide appropriate information that flows internally and to the public.

b. Selection process for the Board and Senior Management

Process and criteria for Nominations to the Board

The Nomination Committee establishes the principles for the selection of candidates to the Board of Directors, selects candidates for the election or re-election to the Board of Directors and prepares a proposal for the Board of Directors' decision. The Committee shall be guided by the Bank's mission and vision in the fulfillments of its functions.

The Committee shall observe the following process and criteria in receiving and evaluating nominations to the Board in line with the Bank's strategic directions and in accordance with its Board Diversity Policy:

1. Receive all written nominations to the Board submitted by stockholders not later than the date prescribed by law, rules and regulations or at such earlier or later date as the Board of Directors may fix before the date of the next annual meeting of the stockholders.

2. Review and evaluate the qualifications of all those nominated in accordance with the following criteria:

    a. Ownership of at least one (1) share of the capital stock of PDB;

b. At least twenty five (25) years of age at the time of his election or appointment;

c. A college degree or its equivalent or adequate competence and understanding of the fundamentals of doing business or membership in good standing in relevant industry, and membership in business or professional organizations or sufficient experience and competence in managing a business to substitute for such formal education;

d. Possesses integrity, probity and shall be diligent and assiduous in the performance of his functions;

e. Adequate physical health and mental stamina to withstand the rigors of his responsibilities;

f. No potential conflict of time and attention due to competing officerships, directorships, memberships position in other corporations;

g. Attendance of an accredited corporate governance seminar, as required by the BSP & SEC; and

h. No disqualifications as provided for in the Corporation Code, BSP Circulars and SEC Rules and Regulations.

The Committee may consider and recommend to the Board other qualifications for directors including independence criteria/standards for independent directors, which are aligned with the Bank's vision, mission and corporate strategy that are now or may hereafter be provided in relevant laws or any amendments thereto.

The Committee may likewise identify and recommend qualified individuals for nomination and election to the Board. For this purpose, the Committee may make use of professional search firms or other external sources of candidates to search for qualified candidates to the Board.

3. Screen and shortlist qualified individuals for election as directors to ensure that only those that possess all the qualifications and none of the disqualifications from directorship as provided in the Corporation's By-Laws, Corporate Governance Manual and relevant laws, rules and regulations may be elected to the Board.

4. Identify and prepare a final list of qualified nominees, recommend for final approval of the Board such final list, and recommend to the stockholders the qualified nominees included in the final list for election in the annual meeting of stockholders.

5. In case of vacancy in the Board other than removal of a director or expiration of term, determine and identify the qualified nominee and recommend to the Board, if the remaining directors still constitute a quorum, to elect such qualified nominee to fill the vacancy.

6. Identify and recommend directors to fill vacancies in any of the Board committees, taking into account the requirements set forth in their respective charters.

Nominations to Key Management Positions

The Committee shall review and evaluate the qualifications of all persons nominated to positions in the Bank which require appointment by the Board. In conducting its review, the Committee shall consider the following factors:

a) Duties and responsibilities of the position/s under consideration;
b) For the nominees:

   (i) level of knowledge on the Corporation's business;
   (ii) potential to assume greater responsibility in the organization;
   (iii) ability, integrity and expertise; and
   (iv) Results of previous performance assessments.

c) Board's overall responsibility

Compliance with the principles of good corporate governance shall start with the Board of Directors.

It shall be the Board's responsibility to foster the long-term success of the Corporation and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Corporation, its shareholders and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability and fairness.

Specific Duties and Functions

To insure a high standard of best practice for the Corporation and its stakeholders, the Board shall:

- Install a process of selection to ensure a mix of competent directors and officers.
- Determine the Bank's purpose, its vision and mission and strategies to carry out its objectives.
- Ensure that PDB complies with all relevant laws, regulations and codes of best business practices;
- Adopt a system of internal checks and balances;
- Identify key risk areas and key performance indicators and monitor these factors with due diligence;
- Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted; and
- Keep Board authority within the powers of the institution as prescribed in the

Articles of Incorporation, By-Laws and in existing laws, rules and regulation.

d. Description of the major role and contribution of the chairman of the board

1. The Chairman of the Board shall be elected by the Board of Directors from their own number.
2. Preside at all meetings of the Directors, or assign this duty to the President, if he so chooses.
3. Ensure that the organization abides by its By-Laws and established policies.
4. Support the President
5. Represent the Corporation to other organizations, the media and the public at large, or assign this duty to the President if he so chooses.
6. Appoint or approve committee chairpersons according to approved committee policy.
7. In Collaboration with the President, develop agendas for all meetings of the Board of Directors.
8. Report to the Membership.
9. Communicate regularly with the President.
10. Report Periodically to the Board of Directors.
11. Train the incoming Chairman for his/her responsibilities.
12. Charge committees, based on the Corporation's existing Committee Charters.
13. Receive reports from all officers and committees.

e. Board composition

The Bank's Board of Directors (BOD) is composed of nine (9) members and three (3) of them are independent directors, as follows:

Name of Director	Type of Directorship	Principal Stockholder Represented	# of Years Served	# of Direct and Indirect Shares Held	% of Shares Held to Total O/S Shares
Mrs. Lourdes R. Bustamante	Non-Executive	n/a	14	777	0.039241%
Mr. Rodolfo V. Jao	Executive	n/a	35	777,077	39.244529%
Mr. Francis R. Bustamante	Executive	n/a	09	1,501	0.075805%
Mrs. Luz N. Feliciano	Executive	n/a	02	1	0.000051%
Mr. Roberto N. Suarez	Non-Executive	n/a.	09	1	0.000051%
Mrs. Josefina T. David	Non-Executive	n/a	23	20,608	1.040761%
Mr. Cresencio R. Selispara	Independent	n/a	10	1	0.000051%

Mr. Erasmo T. Cruz	Independent	n/a	10	1	0.000051%
Atty. Jerome D. Canlas	Independent	n/a	3	1	0.000051%

f. Board qualification

NAME/POSITION AT PDB	CURRENT DIRCTORSHIP / OFFICERSHIP	POSITION
MRS. LOURDES R. BUSTAMANTE Director, Board Chair 72, Filipino	Systems Plus College Foundation, Inc. Systems Plus Computer College Foundation, San Fernando, Inc. Systems Plus Computer College of Kalookan, Inc. PAIR Management & Development Corp. JAOVIL Realty & Development Corp.	Trustee/President Trustee/President Trustee/President Vice President Vice President
MR. RODOLFO V. JAO Director, Chairman, CEO 79, Filipino	Systems Plus Computer College, Inc. PAIR Management & Development Corp. JAOVIL Realty & Development Corp. RVJ Realty	Trustee Chairman & CEO Chairman & CEO Chairman & CEO
MR. FRANCIS R. BUSTAMANTE Director, President, COO 44, Filipino	Systems Plus College Foundation, Inc. Systems Plus Computer College Foundation, San Fernando, Inc. Systems Plus Computer College of Kalookan, Inc. JAOVIL Realty & Development Corp. PAIR Management & Development Corp. RVJ Realty	Vice President - Administration Vice President - Administration Vice President - Administration President/Director President/Director President/Director
MRS. LUZ N. FELICIANO Director, Vice President, COO 54, Filipino	None	Not Applicable
MR. ROBERTO N. SUAREZ Director 65, Filipino	Narez Development Corporation QFI MACOM, INC.	Director Director
MRS. JOSEFINA T. DAVID Director 74, Filipino	None	No Applicable
MR. CRESENCIO R. SELISPARA Independent Director 70, Filipino	None	Not Applicable

MR. ERASMO T. CRUZ Independent Director 70, Filipino	None	Not Applicable
ATTY. JEROME D. CANLAS Independent Director 37, Filipino	Cruz Marcelo & Tenefrancia Law Office	Senior Associate

g. List of board-level committees including membership and function.

1. EXECUTIVE COMMITTEE

The Executive Committee of the Bank shall have the power to direct the business of the Bank vested by law in the Board of Directors insofar as such powers and authority may be lawfully delegated to the Executive Committee, including the power to review and approve proposals and transactions related to credit in amounts within the limits of its delegated authority.

MEMBERSHIP

The Executive Committee shall be composed of at least three (3) members of the Board of Directors (BOD) including the President. The Executive Committee members shall be appointed annually by the BOD and assign them responsibilities for the oversight and management of the Bank.

The Chief Executive Officer (CEO) shall serve as chair of the Committee. The members of the Executive Committee will serve until their resignation, retirement or removal by the Board or until successors or replacements shall have been appointed. The composition and functions of the Executive Committee will be reviewed by the Board on an annual basis.

If any vacancy shall occur in the Committee by reason of resignation, retirement, or removal, the remaining members of the Committee shall continue to act if still constituting a quorum, and any such vacancy may be filled up by the Board.

No member of this Committee should be designated as a member of the Audit Committee.

DUTIES AND RESPONSIBILITIES

The Executive Committee shall regularly review and approve credit proposals within its authority and limits as well as recommend additional conditions and requirements on loan applications for approval of the Board of Directors.

Other duties and responsibilities:

1. To consider the Bank's business plan and annual budget for presentation to the Board of Directors;

2. To formulate the overall investment strategy of the Bank and to approve investment guidelines and investment requests in accordance with the Bank's regulations;

3. To consider other crucial issues such as new business, interest rate policy, accounting policy, and legal proceedings against the Bank;
4. To screen issues prior to their submission to the Board;
5. To approve or take note of issues related to the management of the Bank which the Committee deems necessary or appropriate;

6. To consider issues assigned by the Board;

The Executive Committee may also act, by majority vote of all its member directors, on such other specific matters within the competence of the Board as may be delegated to it in the Bank's By-Laws or by a majority vote of the Board except with respect to:

- Approval of any action for which stockholders' approval is required;
- Filing of vacancies in the Board;
- Amendment or repeal of By-Laws or the adoption of new By-Laws;
- Amendment or repeal of any resolution of the Board which by its express terms is not amenable; and
- Distribution of dividends to stockholders.

2. MANAGEMENT COMMITTEE

Objective

The Management Committee is established to manage and conduct the Bank's business as designated by the Board of Directors to attain sustained performance excellence, by conscientiously taking into account prevalent and future risk environment, consistent with the Bank's statement of Vision, Mission, and Professional Ethics and in accordance with good corporate governance principles.

Management Committee Structure

1. The Board of Directors appoints the Management Committee under the Bank's Articles of Incorporation. The Management Committee shall consist of the Chief Executive Officer, President, and other Bank officers.

2. The Management Committee members shall be persons with requisite qualifications, experiences, and sound judgment that will contribute positively to the management of the Bank's operation.

3. The Chief Executive Officer shall serve as ex-officio Chairman of the Management Committee.

4. The Management Committee Chairman shall appoint the secretary to the Management Committee.

5. The Management Committee shall hold at least one meeting a month, except when there is compelling, reason or when there is no required meeting agenda or other justifiable reasons.

6. The Meeting quorum shall constitute not less than half of all Management Committee Members attending and presides by the Chief Executive Officer or his designated substitute.

7. It is the duty of all Management Committee Members to attend the Meetings, in person or by teleconference (participation in a Meeting by phone shall not be counted in the quorum).

8. The Management Committee may invite responsible or related person(s) to participate in Meetings as deemed appropriate.

9. The Management Committee may consult the Advisory Directors to the Management Committee.

10. The Secretary to the Management Committee shall be responsible for preparing the Meeting agenda, under the approval of the Management Committee Chairman, including other necessary arrangements for the Meeting, compilation and preparation of Meeting documents, and delivering Meeting agenda and documents to every Committee Members 2 days prior to the Meeting, so that everyone can thoroughly review, or seek additional data before the Meeting takes place.

11. The Secretary shall prepare Minutes of all meetings for adoption at the next Meeting of the Management Committee.

Authorities, Duties and Responsibilities

1. The Management Committee shall have the responsibility of managing and conducting the Bank's business as designated by the Board of Directors, or under specific resolution of the Board of Directors.

2. The Management Committee shall have the authority to manage the Bank's business according to set policies and plans.

3. The Management Committee shall have authority as delegated by the Board of Directors, under management authority of the Bank.

4. Management Committee Chairman shall submit Minutes of Management Committee Meetings to the Board of Directors to inform of the business activities undertaken by the Committee. However, the following activities require prior approval of the Board of Directors:

    4.1 Policy-related issues of the Bank

4.2 Issues likely to cause significant changes in the Bank's business

4.3 Certain issues requiring action by the Board of Directors of the Bank in compliance with law

4.4 Issues that action must be taken by the Board of Directors according to the Bank's rules and regulations

4.5 Issues the Management Committee considers appropriate for approval by the Board of Directors on a case by case basis, or under the criteria designated by the Board of Directors, such as credit underwriting, etc.

5. The Management Committee shall have the responsibility and authority to conduct activities as set, for the Bank to attain targets, which include:

5.1 Preparation and review of strategic objectives, financial plans and key policies of the Bank, to be submitted for approval by the Board of Directors

5.2 Considering the annual business plans, capital expenditures, performance targets, and other initiatives to attain the Bank's targets, and submitting for approval by the Board of Directors

5.3 Considering project with capital expenditures, in excess of budgets designated by the Board of Directors, and submitting them for approval by the Board

5.4 Considering and approving issues within its legitimate authority, or as delegated by the Board of Directors

5.5 Reviewing the respective authority for the various operation as specified in the list of approval authority, and submit for approval by the Board of Directors

5.6 Managing and setting balance between short and long-term objectives

5.7 Developing and supervising human resources, to conform with human resources development strategies, endorsed by the Human Resources and Remuneration Committee

5.8 Monitoring and reporting to the Board of Directors the Bank's operating results and other works in progress toward achieving the Bank's objectives

5.9 Monitoring performances of employees at all levels with regard to risk management under the Bank's policies, including the effectiveness of the internal control system, and operations in compliance with related laws, rules and regulations

5.10 Reviewing newly initiated major activities or products, to submit for consideration and approval by the Board of Directors

5.11 Communicating with outside stakeholders as deemed appropriate according to delegated authority

3. LOANS COMMITTEE

I. Purpose and Scope

In line with the Bank's thrusts of maintaining high quality, sound and profitable loan portfolio, the Loans Committee shall ensure:

1. To review all loans before presentation to the Board of Directors for approval;

2. To review credit evaluation and approval procedures and recommend changes, if necessary to ensure continues relevancy and effectiveness.

3. Collaborate with the Vice President and Bank Managers in formulating, implementing and reviewing the Bank's Loan Review System.

II. Duties and Responsibilities

The Committee will carry out the following responsibilities:

1. Establishing the Bank's overall credit risk capacity;

2. Setting strategic targets, portfolio composition and limits at the corporate level;

3. Reviewing and approving credit decision that may pose material risks to the Bank's business strategy or reputation;

4. Reviewing the financial results of the Bank and determining action plans; and

5. Reviewing all loans and credit transactions.

III. Resources and Authority

The Loans Committee in carrying out its objectives is authorizing to:

1. Call on concerned group/department and accounts officers, credit appraisers/ investigators, loan processors and other responsible employees in the conduct of its duties and responsibilities; and

2. Access data or records of loan accounts requiring actions from the Committee.

In case of non-cooperation of management in the conduct of the Committee's functions, the penalties imposed under the Manual of Regulations for Banks (MORB) shall be applied and related provisions of the Code of Conduct shall also be enforced.

IV. Evaluation and Reports

The Loans Committee shall review this charter at least annually and submit recommendations for any additions or changes for approval of the Board

V. Committee Composition and Resource Persons.

The Committee shall consist of at least three (3) members of the Board of Directors (BOD).

Committee Members shall have expertise, experience and understanding of their qualifications, functions and responsibilities.

The BOD will appoint Committee members and the Committee Chair.

The Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary.

The Head Office Manager shall act as the secretariat for this Committee

a. Directors' attendance at board and committee meetings (include the total number of board and committee meetings for the election year and the number of board and committee meetings attended by each director[2]). A sample template below.

4. AUDIT COMMITTEE

I. PURPOSE

This Charter is established by the Board of Directors (the "Board") of Pampanga Development Bank and the purpose of this Charter is to clearly define the Audit Committee's (the "Committee") qualifications, authority and its duties and responsibilities based on the requirements of SEC's Code of Corporate Governance. The Committee's activities and effectiveness will be assessed annually by the Board. For this purpose, the Board may create an independent Governance Committee to assess the performance of the Committee.

The Committee shall be appointed by the Board of PDB. Its primary function is to assist the Board in fulfilling its oversight responsibilities by reviewing:

1. The financial information, which will be provided to the shareholders and others;
2. The systems of internal controls and risk management which Management and the Board have established;
3. The audit process;

4. The process for monitoring compliance with significant applicable legal, ethical and regulatory requirements, including PDB's Code of Ethics; and

5. Such other duties as directed by the Board. In doing so, it is the responsibility of the Committee to provide a free and open avenue of communication among Management, Compliance Officer, Internal Audit, the external auditors, BSP examiners and the Committee. To perform his or her role effectively, each committee member will obtain an understanding of the responsibilities of committee membership as well as the Bank's business, operations and risks.

II. AUTHORITY

The Committee should have sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports and appropriate action on audit recommendations. It has authority to conduct or authorize investigations into matters within its scope of responsibility. It is empowered to:

(a) Appoint, compensate and oversee audit engagements performed by BSP accredited external auditing firm employed by PDB.
(b) Review and comment on all reports issued by internal and external auditors for PDB as well as those from regulatory bodies like Bangko Sentral ng Pilipinas (BSP), Philippine Deposit Insurance Corporation (PDIC), Securities and Exchange Commission (SEC) and Bureau of Internal Revenue (BIR).
(c) Resolve any disagreements between management and the auditor regarding financial reporting.
(d) Conduct or investigate any matter appropriate to fulfilling its responsibilities with full access to all books, records, facilities and personnel of the Bank and retain independent or outside counsel auditors, accountants or other experts to advise the Committee or assist for this purpose.
(e) Meet with Management, external auditors, and regulatory examiners or outside counsel, as necessary.

III. ORGANIZATION AND QUALIFICATIONS

(a) The Committee shall be appointed annually by the Board.

(b) The Committee shall be composed of at least three (3) but not more than five (5) members of the Board, who do not hold executive positions in the Bank and who are not members of the Executive Committee of the Bank. The Committee shall also include at least two (2) independent directors, including the Chairman, who are defined as follows:

- is not an officer or employee of PDB;
- is not a relative of an officer or other employees of PDB;
- does not hold or control, or has not held or controlled, directly or indirectly, within the preceding year, assets representing 10 percent or more of any outstanding class of voting securities of PDB; and

- Does not have any outstanding extensions of credit from PDB.

(c) Each member shall have adequate understanding at least or competence at most, of PDB's operations, financial management systems and environment and preferably with accounting, auditing or related financial management expertise or experience.

(d) Each member shall be required to attend seminar and training to develop their skills and competencies needed in the discharge of their duties and responsibilities.

5. RISK MANAGEMENT

PURPOSE

The purpose of the Risk Oversight Committee is to assist the Board of Directors (Board) in fulfilling its responsibilities in managing the Bank's risk taking activities.

The Risk Oversight Committee shall be responsible for the development and oversight of the risk management program for the Bank. The responsibility for executing the Bank's risk oversight policy and framework lies with Senior Management led by the Chief Risk Officer (CRO).

AUTHORITY

1. To aid in fulfilling its duties and responsibilities, the Board of Directors has bestowed upon the Risk Oversight Committee the authority to:

    a. Review and approve principles, policies, strategies, processes and control frameworks, pertaining to risk oversight recommended by the Chief Risk Officer.
    b. Form and delegate authority to sub-committees.
    c. Have direct and unrestricted access to management and auditors (internal and external), and receive regular reports.
    d. Obtain advice and assistance from independent professional advisors.
    e. Conduct or direct any investigation when the need arises.

MEMBERSHIP

a. The Risk Oversight Committee shall be composed of at least three (3) members of the Board of Directors including at least one (1) independent director, and a chairperson who is a non-executive member.
b. Each member shall be appointed by the Board of Directors.
c. The members of the risk of the risk oversight committee shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

MEETINGS

b. The Risk Oversight Committee may conduct meetings only when a majority of the Committee members are present.
c. Although not member of the Committee, the Chief Risk Officer act as Committee Secretary and shall regularly attend the meetings.
d. Meetings shall be held on a quarterly basis, as a minimum.
e. The Risk Oversight Committee may request non-members to join the meetings when deemed necessary to address the Committee's objectives.
f. Non-members may be asked by the Committee to withdraw for all or any part of any meeting.
g. The agenda shall be prepared by the CRO prior to the meetings. At a minimum, the agenda should include reports on limits compliance, as well as the profile of the Bank's risk exposures. Minutes of the meeting shall be prepared by the Committee Secretary.

DUTIES AND RESPONSIBILITIES

a. Identifies and evaluates the Bank's risk exposures. The Committee assesses the likelihood of each risk identified and estimates its impact to the Bank. Further attention shall be given to those risks that are more likely to happen and bear more costly impact to the Bank.

b. Ensures that all risk oversight strategies and policies for all types of risks are developed, properly documented, and effectively communicated to the organization. The Committee also ensures that the concerned units follow the loss mitigating strategies and procedures laid out in the risk oversight policies.

c. Evaluates and approves all types of recommended risk tolerances including portfolio credit tolerances, market and liquidity risk limits, and operational risk parameters that include information security; taking into consideration the overall risk appetite of the Board.

d. Ensures that relevant risks are measured and monitored for all portfolios and business activities.

e. Evaluates the magnitude, direction and distribution of risk across the Bank. Provides direction to the bank on how to control or mitigate these risks through its developed risk oversight strategies and policies.

f. Evaluates and reports to the Board the Bank's overall risk exposures and the effectiveness of its overall risk oversight practices and processes and recommends further action or policy revisions, if necessary.

g. It shall oversee the system of limits to discretionary authority that the Board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

h. Recommends the allocation of capital in order to manage risk and corresponding earnings.

i. On internal audit –

   a. Ensures that the Bank's risk oversight framework is evaluated regularly by Internal Audit.

   b. Reviews issues raised by Internal and External Auditors regarding the Bank's risk oversight framework.

   c. Relays to the Audit Committee any issues that the Committee sees as relevant.

j. Examines other matters referred by the Board.

k. Reviews, at least annually, the Committee's charter and recommend any proposed changes to the Board for approval.

h. Directors' attendance at board and committee meetings

Name of Directors	Board Number of Meetings		Executive Committee Number of Meetings		Mgmt. & Loans Committee Number of Meetings		Audit, Risk Mgmt. &Corporate Governance Committee Number of Meetings		IT Governance & Compliance Committee Number of Meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Mrs. Lourdes R. Bustamante	10/10	100								
Mr. Rodolfo V. Jao	10/10	100	7/7	100	7/7	100				
Mr. Francis R. Bustamante	10/10	100	7/7	100	7/7	100			7/7	100
Mrs. Luz N. Feliciano	10/10	100	7/7	100	7/7	100			7/7	100
Mr. Roberto N. Suarez	10/10	100					6/7	86	6/7	86
Mrs. Josephine T. David	12/10	100								
Mr. Cresencio R. Selispara	4/10	40					4/7	57	4/7	57
Mr. Erasmo T. Cruz	10/10	100					7/7	100	7/7	100
Atty. Jerome D. Canlas	10/10	100					6/7	86	6/7	86
Total Number of Meetings Held During the Year	10		7		7		7		7	

i. Changes in the board of directors

No changes.

j. List of Executive Officers/Senior Management

NAME OF OFFICER	POSITION	RELEVANT QUALIFICATION / EXPERIENCE
MR. FRANCIS R. BUSTAMANTE 44, Filipino	President, Chief Executive Officer (CEO)	AB Economics, Ateneo de Manila University MA Education Administration, Ateneo de Manila University MS Industrial Economics, University of Asia & The Pacific

		Vice President – Admin, Systems Plus College Foundation, Inc. Vice President – Admin, Systems Plus College Foundation, San Fernando, Inc. Vice President – Admin, Systems Plus Computer College of Kalookan, Inc. President/Director, JAOVIL Realty & Development Corporation President/Director, PAIR Management & Development Corporation President/Director, RVJ Realty Former Head Office Manager, PAMDB
MRS. LUZ N. FELICIANO **54, Filipino**	Vice President, Chief Operating Officer (COO)	BS Business Administration, Accounting Major Holy Angel University CPA, PRTC Former Compliance Officer, PAMDB Former Branch Control Officer, PAMDB
ATTY. JOHNDY B. ROXAS 53, Filipino	Corporate Secretary	Bachelor of Law, Araullo University Legal Consultant, Systems Plus College Foundation Legal Consultant, JAOVIL Realty and Development Corporation Lecturer, College of Management & Business Technology, Nueva Ecija University of Science and Technology
DRA. LARA MARIE D. BUSTAMANTE 49, Filipino	Asst. Corporate Secretary	BS Psychology, UP Diliman M.D., UP Manila Residency Training in OB-Gyn, UP-PGH Active Consultant, Dr. Jesus Delgado Memorial Hospital School Physician, Systems Plus College Foundation, Inc. Clinical Associate, Professor & Attending Physician – PGH
MRS. CHERYL R. CORLETO-ROXAS 39, Filipino	Corporate Treasurer	BSA, Mirriam College MBA, Wesleyan University Philippines PhD, Wesleyan University Philippines Former New Account Clerk, Banco De Oro Former Marketing Manager, Korean Ion For You Former Credit & Collection Staff, Asiatic Group of Companies Former Branch Manager, PAMDB Cabanatuan
MR. NEPTALI C. PABUSTAN 66, Filipino	Chief Compliance Officer	BSC Banking & Finance, University of the Assumption Former Head Office Manager, PAMDB Former Chief Security Officer, PAMDB Former Branch Manager & 2nd AVP, Banco Filipino Savings & Mortgage Bank
MR. ALVIN M. CARAGDAG 39, Filipino	IT Manager, Chief Security Officer (CSO)	BS Computer Science, Laguna College of Business and Arts Head – Software Development Services Former ICTDU – Head, Systems Plus College Foundation, Inc. Former Department Head, AMA Computer College, Olongapo City Former Program Head, CS Gordon College Former Instructor, Lyceum Subic Bay ICT Coordinator, Zambales Central Institute

k. Performance Assessment Program

ANNUAL SELF-ASSESSMENT

The Board conducts an annual self-assessment of its performance, including the performance of the Chairman, the President and individual members and committees, as well as the other key officers of the Bank.
The Board has created an internal self-rating system and procedures to determine and measure compliance with the Manual on Corporate Governance vis-à-vis good corporate governance principles and practices:

(i) Each Director self-rates and collectively rates the Board, the President and the Chairman

(ii) Corporate Governance, Audit, Risk Oversight and other Board committees respectively rate themselves. Every three (3) years, as much as practicable, the assessment should be supported by an external facilitator.

1. The evaluation shall cover the period April of the previous year to March of the following year (whole term).

2. In order to properly assess the Board, its individual Directors, the President, the Board Committees, etc., self-assessment forms shall be used. The Secretary of the Corporate Governance and Nomination Committee shall initiate the performance evaluation every March of each year.

3. Self-assessment forms must be accomplished as objectively as possible. The rating to be assigned shall reflect the personal view of the evaluator to the various corporate governance mechanisms.

4. Self-assessment forms must be accomplished as objectively as possible. The rating to be assigned shall reflect the personal view of the evaluator to the various corporate governance mechanisms.

5. After the assessment forms have been duly accomplished, the Secretary of the Corporate Governance and Nomination Committee shall collate the forms and prepare a summary. For the various Board Committees, the secretary shall coordinate with the respective secretaries of the committees for the results of the assessment of each Committee. The Audit Committee shall perform its self-assessment in accordance with SEC Memorandum Circular No. 4, S.2012.

6. The Committee Secretary shall review the results and report the results to the Board through the Corporate Governance and Nomination Committee. To allow for a feedback mechanism, the criteria, process and collective results of the assessments should, as a rule, be disclosed to ensure transparency and allows shareholders and other stakeholders to determine if the directors are performing their responsibilities.

I. Orientation and Education Program

Name of Director/Officer	In-house/External Training Program	Conducted by:
MRS. LOURDES R. BUSTAMANTE	Corporate Governance for Philippine Banks	Bankers Institute of the Philippines
MR. RODOLFO V. JAO	Corporate Governance for Philippine Banks	Bankers Institute of the Philippines
MR. FRANCIS R. BUSTAMANTE	Best Practices on How to Conduct Strategic Appraisal Seminar Corporate Governance for Philippine Banks Credit Process, Credit Investigation & Property Loan Portfolio Review (Updates) Credit Risk Management Corporate Governance for Philippine banks	Center for Global Practices Banting Appraiser BAIPHIL Pampanga Development Bank & Land Bank of the Philippines BAIPHIL BAIPHIL BAIPHIL
MRS. LUZ N. FELICIANO	Corporate Governance for Philippine Banks Taxpayers Account Management Program Managing Internal Control Nature and Function of Credit Workshop on Tax Remedies	BAIPHIL Training Program BIR District No. 21B South Pampanga Powermax Consulting Group, Inc. Pampanga Development Bank Lupo S. Ramos & Co. CPAs
MR. ROBERTO N. SUAREZ	Corporate Governance for Philippine Banks	Bankers Institute of the Philippines
MRS. JOSEFINA T. DAVID	Teller's Seminar Public Admin Training (Career Employee Dev.) Corporate Governance for Philippine Banks	Philippine National Bank University of the Philippines (Tarlac) Bankers Institute of the Philippines
MR. CRESENCIO R. SELISPARA	Course on Banking Laws, Cases and Issues PDIC Rules, Regulations & Implementing Guidelines Corporate Governance and Risk Management Course for Rural banks Bank Frauds and Forgery Detection Banking Operations: an Overview	Ateneo BAP Institute of Banking Land Bank of the Philippines RBRDFI Land Bank of the Philippines Land Bank of the Philippines
MR. ERASMO T. CRUZ	Program Management Seminar Seminar on Risk Based Internal Audit Micro Agri Finance Rice Program and AGFP	Land Bank of the Philippines SGV and Land Bank of the Philippines LBP, DAR and World Bank Land Bank of the Philippines
ATTY. JEROME D. CANLAS	Corporate Governance for Philippine Banks	Ateneo BAP Institute of Banking

Training in Banking and Other Related Fields

Seminars and Training Program attended by Officers and Staff for year 2020, as follows:

Nature / Title	Conducted by:	Year Taken
Anti-Money Laundering and Countering the Financing of Terrorism	ABCOMP and BAIPHIL	2020
Virtual Training Program on Internal Audit (IA)	Chamber of Thrift Banks (CTB) and BSP	2020

m. Retirement and Succession Policy

The retirement age at Pampanga Development Bank for senior management is sixty (60) years. In a case to case basis and at the option of the Bank, a senior management's employment may be extended up to a maximum of five (5) years.

There is no retirement age set for the Bank's Board of Directors for as long as he/she is still fit and proper for the said position.

While the term limit for an independent director of a Bank may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same Bank but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent director shall be reckoned from 2012.

The Bank maintains a succession management plan, with primary consideration on the qualification, knowledge, skills, and experience of the employee.

n. Remuneration policy

i. Remuneration Policy and Structure for Executive and Non-Executive Directors

The Bank pays salaries commensurate to the individual's qualification and experience, nature of the job, employee performance, role, and level of responsibilities and activities with reference to an approved salary scale.

All officers and the Auditor shall receive such salaries or compensation as may be fixed by the Board of Directors.

The Bank ensures that its compensation package for non-officers or rank and file employees is linked to both performance and the Bank's obligation under the law.

The Board of Directors may fix per diems of the members of the Board for every meeting actually attended.

Aggregate remuneration received by the Board of Directors for the year

Remuneration Item	Chairman of the Board	Executive Directors	Non-Executive Directors (other than independent directors)	Independent Directors
1. Per diem/ Directors Fee	₱66,000.00	₱168,000.00	₱358,000.00	₱606,000.00
(a) Bonuses	nil	nil	nil	nil
(b) Stock Options and/or other financial instrument	nil	nil	nil	nil
(c) Other benefits (Specify)	nil	nil	nil	nil
Total	₱66,000.00	₱168,000.00	₱358,000.00	₱606,000.00
Total Number of Directors	1	3	3	3

ii. Remuneration Policy for Senior Management

Compensation and Benefits

The remuneration of the executive and non-executive directors, independent directors, President and CEO, and its two (2) highly compensated management officers has been determined and approved by the Board.

Actual remuneration received by the Senior Management for the year

Process	Chief Executive Officer (CEO)	Top 2 Highest Paid Management Officers
(a) Fixed remuneration	₱812,500.00	₱1,220,122.00
(b) Variable remuneration – for President/COO	nil	nil
(c) Bonuses	nil	nil
(d) Stock Options and other financial instruments	nil	nil
(e) Others benefits (Specify)	nil	nil

o. Policies and procedures on related party transactions

RELATED-PARTY TRANSACTION - POLICIES AND PROCEDURES

The Bank's Revised Policy on Related Party Transactions (RPT) was approved by the Board of Directors on 21 December 2019. Under the said Policy, the Bank may enter into related party transactions provided, that these are done on an arm's length basis. The Bank shall exercise appropriate oversight and implement effective control systems for managing said exposures as they may potentially lead to abuses that are disadvantageous to the Bank and its depositors, creditors, and other stakeholders.

The Board also approved the creation of RPT Committee whose main function includes evaluation on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured; and evaluation of all material RPTs under the approving authority of the Board of Directors to ensure that these are not undertaken on more favorable economic terms and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. The Committee is composed of three (3) members of the Board of Directors, all of whom are Independent Directors.

The Bank's RPT Policy capture a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose material risk or potential abuse to the Bank and its stakeholders. Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required Bank's RPT Policy, but still subject for evaluation to ensure that said transactions are still in an arm's length terms. However, any alterations to the terms and conditions, or increase in exposure level, related to these transactions after the non-related transactions after the non-related party becomes a related party shall subject the RPTR to the requirements of the Bank's RPT Policy.

The Management and Board of Directors shall ensure that RPTs are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties that similar transactions with non-related parties under similar circumstances. In this regard, an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the Bank and its stakeholders shall be observed. The price discovery mechanism may include, but not limited to the following:

- On-and off balance sheet credit exposures and claims and write-offs;
- Investments and/or subscriptions for debt/equity issuances;
- Consulting, professional, agency and other service arrangements/contracts;
- Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
- Construction arrangement/contracts;
- Lease arrangements/contracts;
- Trading and derivative transactions;
- Borrowing, commitments, fund transfer and guarantees;
- Sale, purchase or supply of any goods or materials; and
- Establishment of joint venture entities.

The Management and Board of Directors shall also ensure the proper identification, prevention or management of political or social conflicts of interest which may arise. The members of the board, stockholders, and management shall dispose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the Bank, Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the Bank.

The Bank did not enter into related party transactions from January 2020 to December 2020. There were no outstanding balances, including off-balance sheet commitments to related parties as of December 31, 2020.

p. Self-Assessment Function

i. The structure of the internal audit and compliance functions including its role, mandate/authority, and reporting process

Internal Auditor

The Bank have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which it's Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.
The Internal Auditor shall report to the Audit Committee.

- The minimum internal control mechanisms for management's operational responsibility shall center on the CEO, being ultimately accountable for the Corporation's organizational and procedural controls.

The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance

ii. The review process adopted by the board to ensure effectiveness and adequacy of the internal control system

Compliance Functions

STATEMENT OF PURPOSE AND RESPONSIBILITIES

The general purpose of the Committee is to oversee the Bank's response to and cooperation with the Regulators and any orders or directives that are in place. Additionally, the Committee will represent and provide assistance to the Board in fulfilling its oversight responsibility relating to compliance with legal and regulatory requirements and the Bank's policies.
The specific responsibilities, policies and powers of the Committee are as follows:

- The Committee is charged with overseeing the development and execution of a plan to remediate all compliance deficiencies identified by the Bank to ensure ongoing compliance with applicable legal and regulatory requirements.

- The Committee shall prepare and present to the Board on a quarterly basis a report of its findings, detailing the form, content, and manner of any actions the Bank has taken to ensure compliance with the existing regulations, the results of those actions, and any recommendations regarding future compliance.

- The Committee shall review and approve, either in person or via electronic means, the Bank's proposed responses to the Regulators prior to submission of such responses.

- The Committee shall ensure any and all information requests by the Regulators are accurately addressed in a timely manner.

- The Committee shall be entitled to receive copies of all written or electronic communications directed to Bank management from the Regulators.

- The Committee shall be apprised of all material oral communications between Bank management and the Regulators that relate to the Committee's purpose, duties, or powers.

- The Committee shall communicate with Bank management through, and address its requests for information to, the Bank's Chief Risk Officer, who reports directly to the Committee.

- Minutes of each Committee meeting will be kept and distributed to each member of the Committee, members of the Board who are not members of the Committee and the Secretary of the Company. In addition, the Chairperson of the Committee or his designee shall be available to answer any questions the other directors may have regarding the matters considered and actions taken by the Committee.

The Compliance Office shall likewise report to the Audit Committee and will submit all needed updates on over-all regulatory compliance by the bank and other regulatory advisories. Likewise the function of Compliance Office shall be documented both in the Bank's Compliance Program and Compliance Charter which shall likewise be reviewed and updated periodically.

q. Dividend policy

The Bank, in declaring dividends complies with the provision of Section X136 of the Manual of Regulations for Banks (MORB), to wit:

a. Minimum capitalization requirement and risk based capital ratios as provided under applicable and existing capital adequacy framework;
b. Has not committed any unsafe or unsound banking practice and/or major acts or omissions as may be determined by the Bangko Sentral.

There was no dividend declared for the year 2020.

r. Corporate Social Responsibility Initiatives

For Pampanga Development Bank, social responsibility is a commitment that begins with the exercise of sound and fair corporate practices. The Bank ensures that its entire business is conducted according to rigorous professional, ethical, regulatory, and legal standards. The Bank strives to adhere to high standard of integrity, courtesy, and fairness as defined in its various corporate policies and frameworks. At the same time, social responsibility is a commitment that is shared by everyone in the Bank.

Environmental Commitment

Pampanga Development Bank is deeply committed to the cause of environmental protection as it is an issue that affects all mankind. The Bank sees its active involvement in protecting the environment as crucial contributions towards attaining the wider goal of sustainable development.

Commitment to Community Development

As a corporate citizen, **Pampanga Development Bank** undertake various community/social and philanthropic activities to uplift the lives of the Filipino people by giving donations to selected charities, communities, schools, etc., for various projects on social development including critical assistance in times of calamities and disasters.

Aside from the donations, relief goods, the Bank also offered practical assistance by offering loan restructuring for clients who have been hardly hit by COVID-19 pandemic. Also, aside from implementing the mandates of Republic Act No. 11469 or Bayanihan to Heal as One Act and Republic Act No. 11494 or Bayanihan to Recover as One Act, we also offer to repackage the terms and conditions of the loans of the directly affected clients to suit their present financial conditions and cash flow.

s. Consumer Protection Practices

i. Role and responsibility of the board and senior management for the development of consumer protection strategy and establishment of an effective oversight over the bank's consumer protection programs;

Role and Responsibility of the Board and Senior Management

Board of Directors

The Board shall be primarily responsible for approving and overseeing the implementation of policies governing major areas of the Bank's consumer protection program, including the mechanism to ensure compliance with the set policies.
The Roles of the Board shall include the following:

a. Approve the Consumer Protection policies;

b. Approve Risk Assessment Strategies relating to Effective Recourse by the Consumer;
c. Provide adequate resources devoted to Consumer Protection;
d. Review the applicable policies periodically

Senior Management

The Senior Management shall be responsible for proper implementation of the Consumer protection policies and procedures duly approved by the Board. Also, its role shall focus on ensuring effective management of day-to-day consumer protection activities.

ii. The consumer protection risk management system of the bank.

Consumer Protection Risk Management System (CPRMS)

The CPRMS is a means to identify and measure, monitor and control consumer protection risks inherent in its operations which include both risks to the financial consumer and the Bank. The Bank ensure 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.

iii. The consumer assistance management system of the bank which shall include the consumer assistance policies and procedures as well as the corporate structure for handling complaints.

Consumer Assistance Channels

Consumer may lodge their concerns through any reasonable means, such as, walk-in or personal visit, letter, e-mail, telephone, and facsimile. For consumer assistance, the Bank designated all Branch Managers for customer concerns.

Corporate Structure

Branch Managers are the designated Head Consumer Assistance Officers per branch to handle consumer concerns. They have the following responsibilities:

1. Receive and acknowledge consumer concerns;
2. Record concerns in a Register/Logbook;
3. Make an initial review and investigation of concerns;
4. Process concerns;
5. Provide official reply to consumer;
6. Request client feedback; and
7. Prepare and submit report to the Head Consumer Assistance Officer.

Consumer Assistance Officer

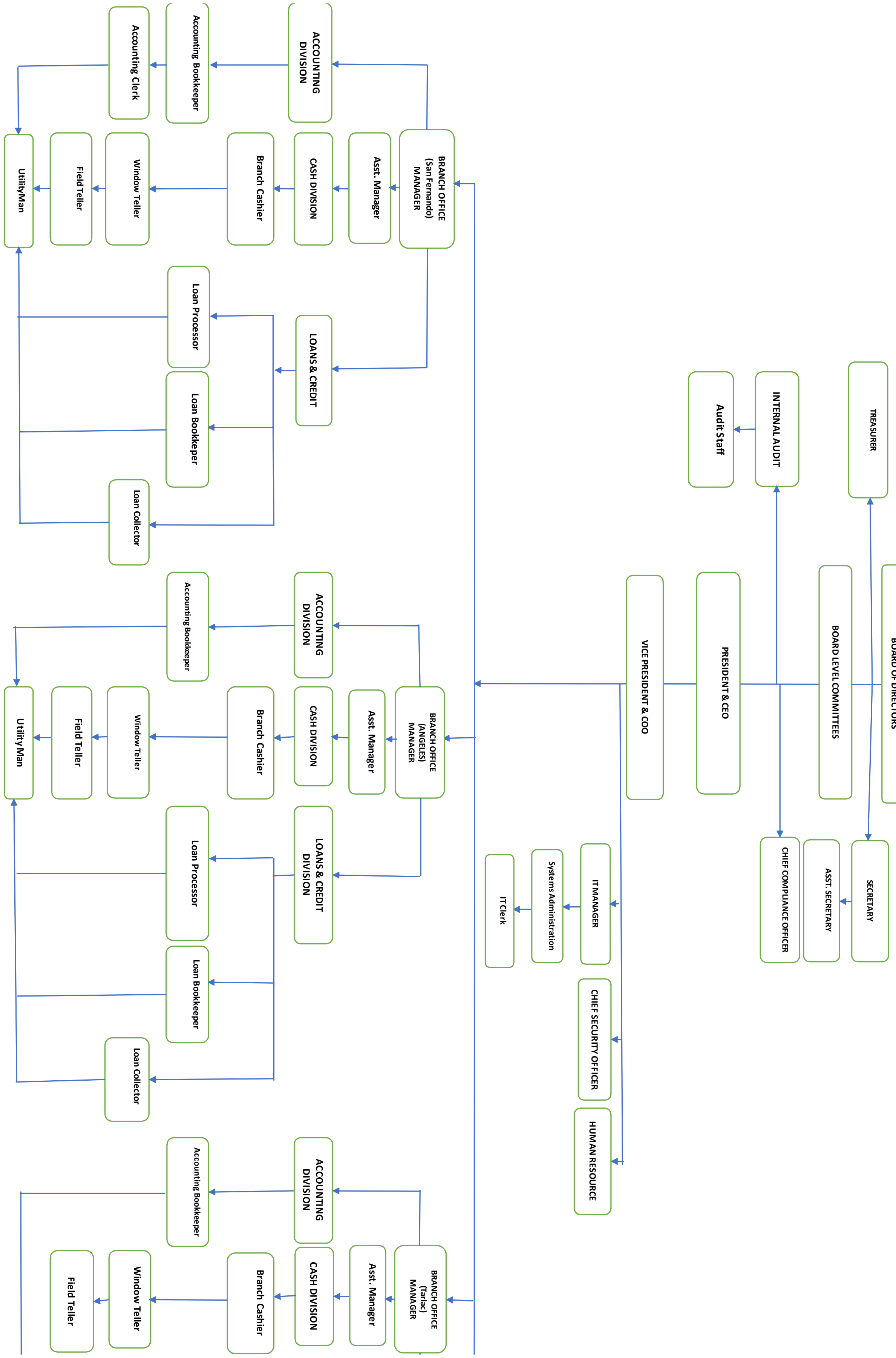
The Consumer assistance officer, as a minimum, performs the following:

1. Monitor consumer assistance process;
2. Keep track, identify, and analyze the nature of complaints and recommend solutions to avoid recurrence;
3. Report to senior management the complaints received on a monthly basis including reasons for such complaints, the recommended solutions to avoid recurrence, and the suggestions for process or personnel competency needing improvement; and
4. Ensure immediate escalation of any significant complaints to concerned unit of the Bank.

5. Corporate Information

a. Organizational structure

PAMPANGA DEVELOPMENT BANK ORGANIZATIONAL CHART



FOOTNOTES:

/1. BOARD LEVEL COMMITTEES:

a. Executive Committee
b. Audit, Risk Management Committee
c. Corporate Governance Committee
d. Management Committee
e. Loans Committee
f. Information Technology Governance Committee
g. Compliance Committee

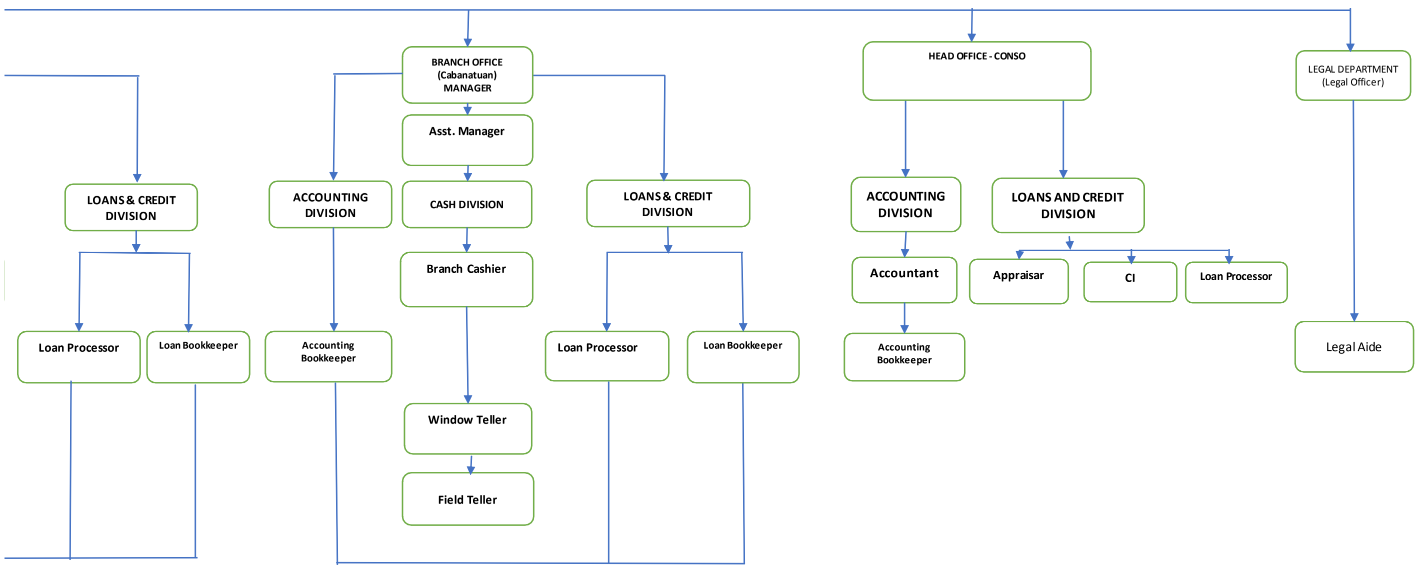
/2. President is also the Chief Executive Officer

/3. VICE-PRESIDENT is also the Chief Operating Officer

/4. IT Manager & Chief Security Officer -these position are currently being held by Mr. Alvin Caragdag
/3. OIC, Cabanatuan Branch, is also manning Human Resources Division.

/4. Cashier, Tarlac Branch also acts as the Window Teller

/5. Cashier, Cabanatuan Branch also acts as the Window Teller



ELECTED OFFICERS

POSITIONS	NAME OF OFFICERS
Chairman of the Board	Mdm. Lourdes R. Bustamante
President& Chief Executive Officer (CEO)	Mr. Francis R. Bustamante
Vice President& Chief Operating Officer (COO)	Mrs. Luz N. Feliciano

APPOINTED OFFICERS

POSITIONS	NAME OF OFFICERS
Corporate Treasurer	Mrs. Cheryl R. Corleto
Corporate Secretary	Atty. Johndy B. Roxas
Assistant Corporate Secretary	Dra. Lara Marie D. Bustamante
Chief Compliance Officer (COO)	Mr. Neptali C. Pabustan
Data Protection Officer (DPO)	Mr. Neptali C. Pabustan
Chief Security Officer (CSO)	Mr. Alvin M. Caragdag

b. List of Major Stockholders of the Bank

LIST OF MAJOR STOCKHOLDERS AND THEIR STOCKHOLDINGS
As of December 31, 2020

NAME OF MAJOR STOCKHOLDERS	NATIONALITY	PERCENTAGE OF STOCKHOLDINGS	VOTING STATUS
MR. RODOLFO V. JAO	Filipino	39.244529%	Voting Shares
SYSTEMS PLUS COLLEGE FOUNDATION, INC.	Filipino	18.456282%	Voting Shares
SYSTEMS PLUS COMPUTER COLLEGE OF KALOOKAN, INC.	Filipino	18.456282%	Voting Shares
SYSTEMS PLUS COMPUTER COLLEGE FOUNDATION, SAN FERNANDO	Filipino	18.456282%	Voting Shares
PUHUNAN, INC.	Filipino	1.173987%	Voting Shares
MRS. JOSEFINA T. DAVID	Filipino	1.040761%	Voting Shares

c. List of description of products and services offered

Products and Services

Features of Deposit Products
As of December 31, 2020

Deposit Products	Savings Deposit	Time Deposit
Type of Deposits	**Regular Savings Deposit**	**Time Deposit**
Target Market	Available to all	Available to all
Initial Placement/Deposit	Php500.00	Php5,000.00
Minimum Maintaining Balance	Php100.00	Php5,000.00

Minimum Balance to Earn Interest	Php1,000.00	Php5,000.00
Interest Rate ➢ Regular rate ➢ In case of pre-termination (applicable to term deposits)	.025% per annum	0.50% - 1.75% per annum 25% of TD rate if within the 1st half of the term; 50% if within the 2nd half of the term
Interest crediting ➢ Frequency ➢ Manner	Quarterly Computerized/Manual	Upon maturity Computerized/Manual
Minimum Term/Holding Period	None	30 days
Withdrawal Restrictions	Hold out deposits	Hold out deposits
Period of Dormancy	5 years	nil
Account Code	1	3
Proof of Deposit	Passbook	Certificate of Time Deposits

LOAN PRODUCTS

1. BANKERS LOAN PROGRAM

   The Banker loan program is designed to help all permanent Bank employees of all banks, within the area of Pampanga, Angeles, Tarlac, and Nueva Ecija. We offer them lower interest rate because we acknowledge the good reputation of a banker.

2. BARANGAY LOAN PROGRAM

   The Barangay loan program is designed to help Barangay officials, including the Secretary and Treasurer of different Municipalities and Cities within the area of Pampanga, Angeles, Tarlac, and Nueva Ecija. We offer them lower interest rate because there is a Memorandum of Agreement between the Bank and the Barangay Captain and Treasurer, that the latter will deduct the monthly amortization due from its officials and employees, and remit it to the bank every month until the loan is fully paid.

3. BUSINESS LOAN PROGRAM

   This program is designed to help those who want to expand their existing businesses.

4. PDB CAR LOAN PROGRAM

   The PDB Car Loan Program is designed primarily to assist prospective and qualified clients in acquiring their own car / vehicle at affordable interest rates with flexible payment options.

   The PDB Car Loan Program offers financing for both brand new car and used car with flexible payment terms.

5. EDUCATIONAL LOAN PROGRAM

The Amended Educational Loan Program (AELP) is designed to help parents, guardians and/or student by lessening the burden of paying costly school fees within short periods of time. This is done by making the duration in which to pay school fees longer.

6. LOAN-AGAINST DEPOSIT PROGRAM

The client must have unencumbered deposits with the Bank that would be held-out against the loan.

7. LOCAL GOVERNMERNT UNIT (LGU) LOAN PROGRAM

The LGU loan program is designed to help permanent employees of different Municipalities and Cities within the area of Pampanga, Angeles, Tarlac, and Nueva Ecija. We offer them lower interest rate because there is a Memorandum of Agreement between the Bank and the City/Municipality that the latter will deduct the monthly amortization due from its permanent employees and remit it to the bank within 10 days from its payroll date.

8. MEMORANDUM OF AGREEMENT (MOA) LOAN PROGRAM

We offer this kind of loan to different Cooperatives, Private schools, and other Private companies. We want to reach out to their permanent employees, that instead of borrowing from individuals or other banks, we enter into an Agreement with their respective employers for salary deduction, and in return, we charge them fast service and lower interest rate.

9. REAL ESTATE LOAN PROGRAM

This program is designed to help those who wish to avail a loan by offering his or her existing Title as collateral

10. SALARY LOAN PROGRAM

We offer Salary loan to permanent employees of different Institution/Companies/Cooperatives, wherein their respective Employer/Company does not want to enter into a Memorandum of Agreement (MOA) with us for salary deduction. In this case, they have to issue a Post Dated Checks payable to the bank as their collateral.

11. PDB SPECIAL HOUSING LOAN PROGRAM

In our desire to support the Bank's goals in trying to improve the Filipinos' quality of life by linking needs with resources for the betterment of all, the Bank approved the proposed *Special Housing Loan Program* that will help Filipinos in acquiring their own homes.

The Bank, by providing an array of financial and developmental resources to our fellow Filipinos, shall improve the quality of life and shall stimulate real estate development in the country in general and in Central Luzon in particular.

The approved *PDB Special Housing Loan Program* is designed primarily to help prospective clients in acquiring their own homes from *partner Real Estate Developers at preferred interest rates* and *long term payments scheme*.

d. Bank website

The Bank has already uploaded its website – *pampangadevbank.ph* last October 2020 to expand the outreach network of the Bank and to kick start its marketing strategies under the *"new normal"* as the pandemic continues.

e. List of banking units

OUR BRANCHES

SAN FERNANDO BRANCH
Dolores, MacArthur Highway
City of San Fernando, Pampanga 2000
Telephone Numbers:
(045) 409-7981 (Accounting)
(045) 961-2786 (Loans)
(045) 963-3931 (Head Office Manager)

ANGELES BRANCH
G/F Systems Plus College Foundation Building
Rizal Street, Angeles City 2009
Tel Numbers:
(045) 322-1882 (Cash Section)
(045) 322-1884 (Loans)
(045) 405-0611 (Accounting)

CABANATUAN BRANCH
Burgos Street, Cabanatuan City
(In-front of Public Market)
Tel Numbers:
(044) 951-2038 (Cash Section)
0917-813-5563 (Loans)

TARLAC BRANCH
Manongtong Bldg., M.H. Del Pilar Street
Sto. Cristo, Tarlac City
Tel Numbers:
(045) 982-2179 (Cash Section)
(045) 982-2207 (Loans)

I. Audited Financial Statements (AFS) with Auditor's Opinion

Romeo G. Torno & Co.

Certified Public Accountants

4th Block Dolores Homesite
City of San Fernando, Pampanga
Tel No. (045) 626-5581
email add: rgt_ops@yahoo.com

BOA Accreditation No. 4618
July 22, 2020- June 15, 2023

CERTIFICATION

In compliance with Bangko Sentral ng Pilipinas Circular No. 1074, Series of 2020, We, **Romeo G. Torno & Co.**, with office address at 4th Block Dolores Homesite, City of San Fernando, Pampanga, after having been sworn on oath in accordance with law voluntarily depose and say: That,

1. Our Firm is in good standing as an Audit Firm registered with the Professional Regulation Commission (PRC) and Board of Accountancy (BOA), and entitled to practice as such under the laws governing the practice of public accounting in the Philippines;
2. That we possess the Independence as defined in the Code of Professional Ethics for Certified Public Accountants as promulgated by the Board of Accountancy and approved by the Professional Regulation Commission;That we complied with all the required disclosure in the audited financial statements provided under the provisions of the Manual of Regulations for Banks (MORB)
3. That no termination or resignation of the external auditor in the course of the audit that may warrant explanation
4. That we have performed external audit of the financial statements of **PAMPANGA DEVELOPMENT BANK** with principal office address at McArthur Highway, City of San Fernando, Pampanga for the year ended December 31, 2020;
5. Our audit commenced on January 18, 2021 until April 12, 2021;
6. That we have submitted the Audited Financial Statements of **PAMPANGA DEVELOPMENT BANK** with my audit report dated April 12, 2021;
7. That we have complied with the provisions of the Bangko Sentral ng Pilipinas (BSP) Appendix to Section 174 on Financial Audit stating that confidentiality clause pertinent to read-only access to the BSPs Report of Examination;And disclosures requirements under the above mentioned Section and other information that may be required;
8. In the course of our audit of the bank, there was no material weakness or breach in the internal control and risk management systems noted during our audit;
9. That there is no significant doubt as to the ability of the **PAMPANGA DEVELOPMENT BANK** to continue as a going concern;
10. That we, the audit team, auditor-in-charge of the engagement and members of our immediate family do not have any direct or indirect financial interest with the Bank and our independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for Certified Public Accountants;
11. That, there are no actual or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the **PAMPANGA DEVELOPMENT BANK.**
12. That, there are no matters to report on corporate governance that may require urgent action by the Bangko Sentral ng Pilipinas (BSP); and

PDB
PAMPANGA DEVELOPMENT BANK

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13. That, there are no matters to report with regard to any material findings involving fraud, dishonesty, breach of laws or any potential or contingent losses

14. That there are no significant vulnerabilities to money laundering and combating to financing of terrorism.

15. That there are no matters to report regarding fraud, dishonesty , breach of laws, etc.

16. That there are no matters to report regarding material breach of laws or BSP Rules and regulation such as but not limited (a) Capital Adequacy Ratio (b) Loans and Other Risk Assets Review and Classification

17. That the Financial Audit Report (FAR) together with the Letter of Comments (LOC) was submitted to the Board of Directors addressed to the Chairman on April 12, 2021.

18. That the submitted LOC discloses our findings, comments and recommendations

19. That, there are no any findings to the effect that the consolidated assets of the Bank, on a going concern basis, are no longer adequate to cover the total claims of creditors.

It is however, understood that the accountability of the external auditor is based on matters within the normal coverage of an audit conducted in accordance with Philippine Standards on Auditing.

In truth whereof, I hereunto set my hand this _____ day of APR 2 7 2021 2021 at City of San Fernando, Pampanga

ROMEO G. TORNO
Affiant

Subscribed and sworn to before me this ____day of APR 2 7 2021 2021 by affiant who exhibited to me his Community Tax Certificate No. ________issued in _____ on _____________.

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Page No. [illegible]
Book No. XXXV
Series of 2021

CARLOTA DELA CRUZ-MANALO
Notary Public
Until December 31, 2021
Notarial Commission 23-20
IBP No. 137083 / 12-29-20 Pasig City
PTR No. PAM-0415307/1-5-21CSFP
Roll No. 37808
MCLE VI-0030722/1-08-21
2nd Floor Jomafer Building Dolores,
City of San Fernando, Pampanga

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors

PAMPANGA DEVELOPMENT BANK
McArthur Highway, City of San Fernando, Pampanga

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **PAMPANGA DEVELOPMENT BANK** which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statement present fairly, in all material respects, the financial position of the **PAMPANGA DEVELOPMENT 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 audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements Section in the report. We are independent of the Company 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 ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 9 of the financial statements, which describes the effects of Covid-19 pandemic in the Bank's loans and receivables in relative to past due accounts and allowance for credit losses. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable

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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 Company'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 Company or to cease operations, or as no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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July 22, 2020- June 15, 2023

- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statement of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

<u>Report on the Supplementary Information Required Under Revenue Regulation 15-2010 and 19-2011 of the Bureau of Internal Revenue</u>

Our audit was conducted for the purpose of forming an opinion on the basic (separate) financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

<u>Statements Required by Rule 68, Part I Section 4 Securities Regulation Code (SRC), as Amended on October 20, 2011</u>

We have audited the financial statements of **PAMPANGA DEVELOPMENT BANK** as at and for the period ended December 31, 2020, on which we have rendered the attached report dated April 12, 2021. The supplementary information shown in Note 30 the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2020, as required by Part I, Section 4 of Rule 68 of the Securities Regulation Code is presented for the purpose of filing with the Securities and Exchange Commission and is not a required part of the basic statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Part I, Section 4 of Rule 68 of the Securities Regulation Code.

The engagement partner on the audit resulting in this independent auditor's report is **ROMEO G. TORNO.**

Romeo G. Torno & Co.
Certified Public Accountants

4th Block Dolores Homesite
City of San Fernando, Pampanga
Tel No. (045) 626-5581
email add: rgt_ops@yahoo.com

BOA Accreditation No. 4618
July 22, 2020- June 15, 2023

BY:

ROMEO G. TORNO & CO., CPA's
BOA Accreditation No. 4618
July 22, 2020 – June 15, 2023
BIR Accreditation No. 04-002375-000-2021
March 15, 2021, valid until March 15, 2024

ROMEO G. TORNO, CPA
Managing Partner
CPA Certificate No. 0043083
Tax Identification No. 107-071-246
BIR Accreditation No. 04-002375-001-2021
March 15, 2021, valid until March 15, 2024
SEC No. 1678 – A
May 3, 2018 valid until May 2, 2021
PTR No. SF3543362
January 6, 2021
City of San Fernando, Pampanga

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July 22, 2020- June 15, 2023

To: PAMPANGA DEVELOPMENT BANK
McArthur Highway, City of San Fernando, Pampanga

From: **Romeo G. Torno and Co., CPA's**
External Auditor

Subject: **LETTER OF COMMENTS**

Date: April 12, 2021

In connection with our engagement as External Auditor of **PAMPANGA DEVELOPMENT BANK** for the year ending December 31, 2020, we are pleased to submit herewith our comments on the following issues, via:

Risk Management System

A. Capital Adequacy

	2020	2019	Changes	%
Capital	301,357,751	296,636,791	4,720,960	1.59%
CAR	71.04%	65.19%	5.85%	8.97%

Minimum Capitalization of Banks

The Bank is not complaint in the required capital of P 300.0 Million for thrift banks with head office up to 10 branches in all other areas outside the National Capital Region as stated in Section 121 of the BSP MORB.

Recommendation
We are recommending the Bank and its stockholders to infuse additional paid-up capital in order to meet the requirement as stated in the MORB.

B. Liquidity Risk

Ratio of total deposit liabilities over total assets of the Bank for the year 2020 and 2019 is 45.93% and 46.82% respectively. In addition, total loan portfolio over total deposit liabilities for the year 2020 and 2019 is 108.31% and 127.05%, respectively.

C. Strategic Risk

C.1 The return on average equity of the Bank for 2020 is 0.17% while 2.13% in 2019 and the return on average assets for 2020 and 2019 is 0.08% and 1.04%, respectively.

C.2 The Bank has Real and Other Properties Acquired (ROPA) are held for more than five (5) years as of December 31, 2020 under the account of Romeo Canlas.

Recommendation
Management should adopt strong marketing strategies to expedite disposal of these non-performing assets. Selling ROPAs would turn these Non-Performing Assets to Income generating assets resulting to better financial position and in compliance with Section 52 of RA 8791 .

C.3 The bank does not met the prescribed percentage which 25% of agri/agra as mandated by Republic Act 10000, or the Agri-Agra Reform Credit Act of 2009.

Recommendation
We are recommending that the bank will look for alternative compliance which is to invest to other banks to mitigate the deficiency in order to meet the set prescribed percentage.

D. Credit Risk

D.1 The Past due ratio has increased from 26.96% to 27.16% as of December 31, 2020 and 2019, which comprises of the Past Due Account and the Items under Litigation.

Recommendation
We are recommending the bank to continue on lowering their Past Due Ratio thru constant loan collection follow-ups and strict monitoring of the quality of their loan portfolio.

D.2 Based on the latest Report on Examination (ROE) of the BSP, it was mentioned that the Bank has insufficient allowance for credit losses (ACL) on Loans and receivables of P24M. According to the Bank, they only booked an initial provision of P5M as of December 31, 2020 and the difference is still unbooked due to monitoring of their income and amidst to Covid-19 pandemic.

Recommendation
The Bank should strictly comply what BSP mentioned in the ROE, and/or apply for a relief to be staggered the booking of unbooked ACL amounting to P19M over a maximum period of five (5) years in reference to BSP Memorandum No. M-2020-008.

E. Operational Risk

E.1 Net income of the bank for the year 2020 is P 0.50 million which is lower than the 2019 Net Income of P 5.8 million. The Interest income from loans and discounts decreased by P 15.2 million compared to last year. Deposit Liabilities decreased by P 2.9 million. The main sources of income of the bank are income from its Loans and Receivables and income from Investments.

Should you need additional information on any of our report, please do not hesitate to call us. Thank you very much for the opportunity to serve

Very truly yours,

Romeo G. Torno, CPA
External Auditor

April 12, 2021

Romeo G. Torno & Co.
Certified Public Accountants

4th Block Dolores Homesite
City of San Fernando, Pampanga
Tel No. (045) 626-5581
email add: rgt_ops@yahoo.com

BOA Accreditation No. 4618
July 22, 2020- June 15, 2023

STATEMENT OF REPRESENTATION

TO THE SECURITIES AND EXCHANGE COMMISSION:

In connection with our examinations of the financial statements of the **PAMPANGA DEVELOPMENT BANK** which are to be submitted to the Commission, we hereby represent the following:

1. That, our Firm is in the active practice of the accounting profession and duly registered with the Board of Accountancy (BOA) and Bangko Sentral ng Pilipinas (BSP) as accredited external auditor.

2. That the financial statements are presented in conformity with generally accepted accounting principles in the Philippines in all cases where we shall express an unqualified opinion; Except that in case of any departure from such principles, we shall indicate the nature of the departure, the effects thereof, and the reasons why compliance with the principles would result in a misleading statement, if such is a fact;

3. That our Firm shall fully meet the requirements of independence as provided under the Code of Professional Ethics for CPAs;

4. That in the conduct of the audit, we shall comply with the generally accepted auditing standards promulgated by the Board of Accountancy; in case of any departure from such standards or any limitation in the scope of our examination, we shall indicate the nature of the departure and the extent of the limitation, the reasons therefore and the effects thereof on the expression of our opinion or which may necessitate the negation of the expression of an opinion;

5. That we shall comply with the applicable rules and regulations of the Securities and Exchange Commission in the preparation and submission of financial statements; and

6. That relative to the expression of our opinion on the said financial statements, we shall not commit any acts discreditable to the profession as provided under Code of Professional Ethics for CPAs.

We make these representations as a CPA engaged in public practice and our individual capacity in the auditing Firm of **Romeo G. Torno and Co.**

Romeo G. Torno & Co.
Certified Public Accountants

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City of San Fernando, Pampanga
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BOA Accreditation No. 4618
July 22, 2020- June 15, 2023

SUPPLEMENTAL STATEMENT

The Board of Directors

PAMPANGA DEVELOPMENT BANK
McArthur Highway, City of San Fernando, Pampanga

We have examined the financial statements of **PAMPANGA DEVELOPMENT BANK** for the year ended December 31, 2020 on which we have rendered the attached report dated April 12, 2021.

In connection with our audit, we obtained a certification from the Bank's corporate secretary as to the number of stockholders and their corresponding shareholdings as at December 31, 2020 and conducted certain tests necessary to validate the related Bank's entries and balances.

In compliance with SRC Rule 68, we are stating that said Bank has a total number of twenty-eight (28) stockholders owning one hundred (100) or more shares each.

BY:

ROMEO G. TORNO & CO., CPA's
BOA Accreditation No. 4618
July 22, 2020 – June 15, 2023
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Tel. No. (045) 626-5581 Email add: rgt_ops@yahoo.com

PAMPANGA DEVELOPMENT BANK

McArthur Highway, City of San Fernando, Pampanga

Audited Financial Statements

December 31, 2020 and 2019

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PAMPANGA DEVELOPMENT BANK** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the year ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

ROMEO G. TORNO & CO., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed its opinion on the fairness of presentation upon completion of such audit.

Signature

Chairman of the Board: LOURDES R. BUSTAMANTE

Signature

President/Chief Executive Officer: RODOLFO V. JAO

Signature

Treasurer CHERYL R. CORLETO-ROXAS

Signed this 12th day of April 2021

Bureau of Internal Revenue
RDO 21 - South Pampanga
Collection Section
APR 29 2021
RECEIVED

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The management of **PAMPANGA DEVELOPMENT BANK** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2020 and 2019. Management is likewise responsible for all information and representation contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representation contained in all the other tax returns filed for the reporting period, including but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, and any all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2020 and 2019 and the accompanying Annual Income Tax Return are in accordance with the books and records of **PAMPANGA DEVELOPMENT BANK** are complete and correct in all material respects.

Management likewise affirms that:

a. The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulation and other issuances of the Department of Finance and the Bureau of Internal Revenue;

b. Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances.

c. PAMPANGA DEVELOPMENT BANK has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Signature

Chairman of the Board: LOURDES R. BUSTAMANTE

Signature

President / Chief Executive Officer: RODOLFO V. JAO

Signature

Treasurer CHERYL R. CORLETO-ROXAS

Bureau of Internal Revenue
RDO 21B - South Pampanga
Collection Section
APR 29 2021
RECEIVED

Signed this 12th day of April 2021

Gmail Head Office <headoffice@pampangadevbank.ph>

Tax Return Receipt Confirmation

1 message

ebirforms-noreply@bir.gov.ph <ebirforms-noreply@bir.gov.ph> Tue, Apr 13, 2021 at 6:48 PM
To: headoffice@pampangadevbank.ph

This confirms receipt of your submission with the following details subject to validation by BIR:
File name: 000661288000-1702RTv2018C-122020.xml
Date received by BIR: 13 April 2021
Time received by BIR: 05:26 PM
Penalties may be imposed for any violation of the provisions of the NIRC and issuances thereof.

FOR RETURNS WITH PAYMENT
Please print this e-mail together with the RETURN and proceed to pay through the Authorized Agent Bank / Collection Agent / GCASH or use other payment options.

This is a system-generated email. Please do not reply.

Bureau of Internal Revenue

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Bureau of Internal Revenue
RDO 21B - South Pampanga
Collection Section
APR 29 2021
RECEIVED

BIR Form No. 1702RTv2018

For BIR Use Only BCS/ Item:

Republic of the Philippines
Department of Finance
Bureau of Internal Revenue

BIR Form No. **1702-RT** January 2018(ENCS) Page 1

Annual Income Tax Return

Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate

Enter all required information in CAPITAL LETTERS. Mark applicable boxes with an "X". Two copies MUST be filled with the BIR and one held by the taxpayers.

1702-RT 01/18ENCS P1

1 For (●) Calendar ( ) Fiscal 2 Year Ended (MM/20YY) 12 - December 20 20	3 Amended Return? ( ) Yes (●) No	4 Short Period Return ( ) Yes (●) No	5 Alphanumeric Tax Code (ATC) IC 055–Minimum Corporate Income Tax (MCIT) (●) IC010 - CORPORATION IN GENERAL - JAN 1, 2009 (●)

Part I - Background Information

6 Tax Identification Number (TIN) 000 - 661 - 288 - 00000

7 RDO Code 21B

8 Registered Name *(Enter only 1 letter per box using CAPITAL LETTERS)*

PAMPANGA DEVELOPMENT BANK

9 Registered Address *(Indicate complete address. If the registered address is different from the current address, go to the RDO to update registered address by using BIR Form No. 1905)*

MAC ARTHUR HIWAY DOLORES, PAMPANGA

9A ZIP Code 2000

10 Date of Incorporation/Organization *(MM/DD/YYYY)* 11/21/1960

11 Contact Number 0459612786

12 Email Address headoffice@pampangadevbank.ph

13 Method of Deductions (●) Itemized Deductions [Section 34 (A-J), NIRC] ( ) Optional Standard Deduction (OSD) - 40% of Gross Income [Section 34(L), NIRC as amended]

Part II - Total Tax Payable *(Do NOT enter Centavos; 49 Centavos or Less drop down; 50 or more round up)*

14 Tax Due	202,180
15 Less: Total Tax Credits/Payments	402,735
16 Net Tax Payable (Overpayment) *(Item 14 Less Item 15)*	(200,555)
Add: Penalties	
17 Surcharge	0
18 Interest	0
19 Compromise	0
20 Total Penalties *(Sum of Items 17 to 19)*	0
21 TOTAL AMOUNT PAYABLE (Overpayment) *(Sum of Items 16 and 20)*	(200,555)

If Overpayment, mark one(1) box only *(Once the choice is made, the same is irrevocable)*

( ) To be refunded ( ) To be issued a Tax Credit Certificate (TCC) (●) To be carried over as a tax credit for next year/quarter

We declare under the penalties of perjury that this return, and all its attachments, have been made in good faith, verified by us, and to the best of our knowledge and belief, are true and correct, pursuant to the provisions of the National Internal Revenue Code, as amended, and the regulations issued under authority thereof. *(If signed by an Authorized Representative, indicate TIN and attach authorization letter)*

Signature over Printed Name of President/Principal Officer/Authorized Representative | Signature over Printed Name of Treasurer/Assistant Treasurer | 22 Number of Attachments 000

Title of Signatory | TIN | Title of Signatory | TIN

Part III - Details of Payment

Particulars	Drawee Bank/ Agency	Number	Date(MM/DD/YYYY)	Amount
23 Cash/Bank Debit Memo				0
24 Check				0
25 Tax Debit Memo				0
26 Others*(Specify Below)*				
				0

Machine Validation/Revenue Official Receipt Details [if not filed with an Authorized Agent Bank(AAB)]

Stamp of Receiving Office/AAB and Date of Receipt (RO's Signature/Bank Teller's Initial)

Bureau of Internal Revenue RDO 21C - South Pampanga Collection Section APR 29 2021 RECEIVED

BIR Form No. 1702RTv2018

BIR Form No. 1702-RT January 2018(ENCS) Page 2	Annual Income Tax Return Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate	1702-RT 01/18ENCS P2

Taxpayer Identification Number(TIN): 000 661 288 00000

Registered Name: PAMPANGA DEVELOPMENT BANK

Part IV - Computation of Tax *(DO NOT enter Centavos; 49 Centavos or Less drop down; 50 or more round up)*

27 Sales/Revenues/Receipts/Fees	32,761,118
28 Less:Sales Returns, Allowances and Discounts	0
29 Net Sales/Revenues/Receipts/Fees *(Item 27 Less Item 28)*	32,761,118
30 Less: Cost of Sales/Services	20,192,432
31 Gross Income from Operation *(Item 29 less Item 30)*	12,568,686
32 Add: Other Taxable Income Not Subjected to Final tax	909,947
33 Total Taxable Income *(Sum of Items 31 and 32)*	13,478,633
Less: Deductions Allowable under Existing Law	
34 Ordinary Allowable Itemized Deductions	13,513,588
35 Special Allowable Itemized Deductions	0
36 NOLCO *(Only for those taxable under Sec. 27(A to C); Sec. 28(A)(1)(A)(6)(b) of Tax code, as amended)*	0
37 Total Deductions *(Sums of Items 34 to 36)*	13,513,588
OR *[in case taxable under Sec 27(A) & 28(A)(1)]*	
38 Optional Standard Deduction (OSD) *(40% of Item 33)*	0
39 Net Taxable Income/(Loss) *If itemized: Item 33 Less Item 37; If OSD: Item 33 Less Item 38)*	(34,955)
40 Applicable Income Tax Rate	27.5 %
41 Income Tax Due other than Mininum Corporate Income Tax(MCIT) *(Item 39 x Item 40)*	0
42 MCIT Due *(2% of Item 33)*	202,180
43 Tax Due *(Normal Income Tax Due in Item 41 OR the MCIT Due in Item 42, whichever is higher)*	202,180
Less: Tax Credits/Payments(attach proof)	
44 Prior Year's Excess Credits Other Than MCIT	388,593
45 Income Tax Payment under MCIT from Previous Quarter/s	0
46 Income Tax Payment under Regular/Normal Rate from Previous Quarter/s	14,142
47 Excess MCIT Applied this Current Taxable Year	0
48 Creditable Tax Withheld from Previous Quarter/s per BIR Form No. 2307	0
49 Creditable Tax Withheld per BIR Form No. 2307 for the 4th Quarter	0
50 Foreign Tax Credits, if applicable	0
51 Tax Paid in Return Previously Filed, if this is an Amended Return	0
52 Special Tax Credits	0
Other Credits/Payments *(Specify)*	
53	0
54	0
55 Total Tax Credits/Payments *(Sum of Items 44 to 54)*	402,735
56 Net Tax Payable (Overpayment) *(Item 43 Less Item 55)*	(200,555)

Part V - Tax Relief Availment

57 Special Allowable Itemized Deductions *(Item 35 of Part IV x Applicable Income Tax Rate)*	0
58 Add:Special Tax Credits	0
59 Total Tax Relief Availment *(Sum of Items 57 & 58)*	0

BIR Form No. 1702RTv2018

BIR Form No.
1702-RT
January 2018(ENCS)
Page 4

Annual Income Tax Return

Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate

1702-RT 01/18ENCS P4

Taxpayer Identification Number(TIN)				Registered Name
000	661	288	00000	PAMPANGA DEVELOPMENT BANK

Schedule III - Computation of Net Operating Loss Carry Over (NOLCO)

1	Gross Income	13,478,633
2	Less: Ordinary Allowable Itemized Deductions	13,513,588
3	Net Operating Loss *(Item 1 Less Item 2) (To Schedule IIIA, Item 7A)*	(34,955)

Schedule IIIA - Computation of Available Net Operating Loss Carry Over (NOLCO) *(DO NOT enter Centavos; 49 Centavos or Less drop down; 50 or more round up)*

	Year Incurred	Net Operating Loss A) Amount	B) NOLCO Applied Previous Year/s
4	2020	34,955	0
5		0	0
6		0	0
7		0	0

Continuation of Schedule IIIA *(Item numbers continue from table above)*

	C) NOLCO Expired	D) NOLCO Applied Current Year	E) Net Operating Loss (Unapplied) [E = A Less (B + C + D)]
4	0	0	34,955
5	0	0	0
6	0	0	0
7	0	0	0
8	**Total NOLCO** *(Sum of Items 4D to 7D)*	0	

Schedule IV -Computation of Minimum corporate Income Tax(MCIT)

	Year	A) Normal Income Tax as Adjusted	B) MCIT	C) Excess MCIT over Normal Income Tax
1		0	0	0
2		0	0	0
3		0	0	0

Continuation of Schedule IV *(Item numbers continue from table above)*

	D) Excess MCIT Applied/Used in Previous Years	E) Expired Portion of Excess MCIT	F) Excess MCIT Applied this Current Taxable Year	G) Balance of Excess MCIT Allowable as Tax Credit for Succeeding Year/s [G = C Less (D + E + F)]
1	0	0	0	0
2	0	0	0	0
3	0	0	0	0
4	**Total Excess MCIT Applied** *(Sum of Items 1F to 3F)*		0	

Schedule V - Reconciliation of Net Income per Books Against Taxable Income *(Attach additional sheet/s, if necessary)*

1	Net Income/(Loss) per Books	(61,937)
	Add: Non-deductible Expenses/Taxable Other Income	
2	PROVISION FOR CREDIT LOSSES ON LOANS AND RECEIVABL	2,421,500
3	OTHERS	2,658,746
4	Total *(Sum of Items 1 to 3)*	5,018,309
	Less: A) Non-Taxable Income and Income Subjected to Final Tax	
5	INTEREST INCOME	3,850,581
6	LEASE PAYMENTS	1,202,683
	B) Special Deductions	
7		0
8		0
9	Total *(Sum of Items 5 to 8)*	5,053,264
10	**Net taxable Income (Loss)** *(Item 4 Less Item 9)*	(34,955)

BIR Form No.
1702-RT
January 2018(ENCS)
Page 3

Annual Income Tax Return

Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate

1702-RT 01/18ENCS P3

Taxpayer Identification Number(TIN)	Registered Name
000 661 288 00000	PAMPANGA DEVELOPMENT BANK

Part VI - Schedules *(DO NOT enter Centavos; 49 Centavos or Less drop down; 50 or more round up)*

Schedule I - Ordinary Allowable Itemized Deductions *(Attach additional sheet/s if necessary)*

1 Amortization	0
2 Bad Debts	0
3 Charitable and Other Contributions	2,500
4 Depletion	0
5 Depreciation	2,566,139
6 Entertainment, Amusement and Recreation	130,749
7 Fringe Benefits	0
8 Interest	0
9 Losses	0
10 Pension Trusts	0
11 Rental	1,202,683
12 Research and Development	0
13 Salaries, Wages and Allowances	0
14 SSS, GSIS, Philhealth, HDMF and Other Contributions	0
15 Taxes and Licenses	2,940,805
16 Transportation and Travel	583,667
17 Others(Deductions Subject to Withholding Tax and Other Expenses) *(Specify below; Add additional sheet(s), if necessary)*	
a Janitorial and Messengerial Services	1,276,969
b Professional Fees	538,050
c Security Services	0
d LITIGATION EXPENSES	1,026,478
e MISCELLANEOUS	648,351
f POWER, LIGHT & WATER	590,657
g POSTAGE, TELEPHONE, CABLES & TELEGRAM	564,316
h STATIONERIES & SUPPLIES USED	336,583
i OTHERS	1,105,641
18 Total Ordinary Allowable Itemized Deductions *(Sum of Items 1 to 17i)*	13,513,588

Schedule II - Special Allowable Itemized Deductions *(Attach additional sheet/s, if necessary)*

	Description	Legal Basis	Amount
1			0
2			0
3			0
4			0
5	**Total Special Allowable Itemized Deductions** *(Sum of Items 1 to 4)*		0

Romeo G. Torno & Co.

Certified Public Accountants

4th Block Dolores Homesite
City of San Fernando, Pampanga
Tel No. (045) 626-5581
email add: rgt_ops@yahoo.com

BOA Accreditation No. 4618
July 22, 2020- June 15, 2023

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

PAMPANGA DEVELOPMENT BANK
McArthur Highway, City of San Fernando, Pampanga

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **PAMPANGA DEVELOPMENT BANK** which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statement present fairly, in all material respects, the financial position of the **PAMPANGA DEVELOPMENT 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 audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements Section in the report. We are independent of the Company 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 ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 9 of the financial statements, which describes the effects of Covid-19 pandemic in the Bank's loans and receivables in relative to past due accounts and allowance for credit losses. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable

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BOA Accreditation No. 4618
July 22, 2020- June 15, 2023

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 Company'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 Company or to cease operations, or as no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statement of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

<u>Report on the Supplementary Information Required Under Revenue Regulation 15-2010 and 19-2011 of the Bureau of Internal Revenue</u>

Our audit was conducted for the purpose of forming an opinion on the basic (separate) financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

<u>Statements Required by Rule 68, Part I Section 4 Securities Regulation Code (SRC), as Amended on October 20, 2011</u>

We have audited the financial statements of **PAMPANGA DEVELOPMENT BANK** as at and for the period ended December 31, 2020, on which we have rendered the attached report dated April 12, 2021. The supplementary information shown in Note 30 the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2020, as required by Part I, Section 4 of Rule 68 of the Securities Regulation Code is presented for the purpose of filing with the Securities and Exchange Commission and is not a required part of the basic statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Part I, Section 4 of Rule 68 of the Securities Regulation Code.

The engagement partner on the audit resulting in this independent auditor's report is **ROMEO G. TORNO.**

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BY:

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BIR Accreditation No. 04-002375-000-2021
March 15, 2021, valid until March 15, 2024

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Managing Partner
CPA Certificate No. 0043083
Tax Identification No. 107-071-246
BIR Accreditation No. 04-002375-001-2021
March 15, 2021, valid until March 15, 2024
SEC No. 1678 – A
May 3, 2018 valid until May 2, 2021
PTR No. SF3543362
January 6, 2021
City of San Fernando, Pampanga

April 12, 2021

City of San Fernando, Pampanga

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STATEMENT OF REPRESENTATION

TO THE SECURITIES AND EXCHANGE COMMISSION:

In connection with our examinations of the financial statements of the **PAMPANGA DEVELOPMENT BANK** which are to be submitted to the Commission, we hereby represent the following:

1. That, our Firm is in the active practice of the accounting profession and duly registered with the Board of Accountancy (BOA) and Bangko Sentral ng Pilipinas (BSP) as accredited external auditor.

2. That the financial statements are presented in conformity with generally accepted accounting principles in the Philippines in all cases where we shall express an unqualified opinion; Except that in case of any departure from such principles, we shall indicate the nature of the departure, the effects thereof, and the reasons why compliance with the principles would result in a misleading statement, if such is a fact;

3. That our Firm shall fully meet the requirements of independence as provided under the Code of Professional Ethics for CPAs;

4. That in the conduct of the audit, we shall comply with the generally accepted auditing standards promulgated by the Board of Accountancy; in case of any departure from such standards or any limitation in the scope of our examination, we shall indicate the nature of the departure and the extent of the limitation, the reasons therefore and the effects thereof on the expression of our opinion or which may necessitate the negation of the expression of an opinion;

5. That we shall comply with the applicable rules and regulations of the Securities and Exchange Commission in the preparation and submission of financial statements; and

6. That relative to the expression of our opinion on the said financial statements, we shall not commit any acts discreditable to the profession as provided under Code of Professional Ethics for CPAs.

We make these representations as a CPA engaged in public practice and our individual capacity in the auditing Firm of **Romeo G. Torno and Co.**

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SUPPLEMENTAL STATEMENT

The Board of Directors

PAMPANGA DEVELOPMENT BANK
McArthur Highway, City of San Fernando, Pampanga

We have examined the financial statements of **PAMPANGA DEVELOPMENT BANK** for the year ended December 31, 2020 on which we have rendered the attached report dated April 12, 2021.

In connection with our audit, we obtained a certification from the Bank's corporate secretary as to the number of stockholders and their corresponding shareholdings as at December 31, 2020 and conducted certain tests necessary to validate the related Bank's entries and balances.

In compliance with SRC Rule 68, we are stating that said Bank has a total number of twenty-eight (28) stockholders owning one hundred (100) or more shares each.

BY:

ROMEO G. TORNO & CO., CPA's
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April 12, 2021

City of San Fernando, Pampanga

PAMPANGA DEVELOPMENT BANK

STATEMENTS OF FINANCIAL POSITION

	As at December 31	
	2020	2019
ASSETS		
Cash and Other Cash Items (Note 7.1)	₱ 3,376,042	₱ 6,038,339
Due from BSP and Other Banks (Note 7.2)	93,992,667	92,340,457
Debt Securities Measured at Amortized Costs (Note 8)	157,370,966	109,809,829
Loans & Receivable, Net (Note 9)	266,832,244	326,668,223
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 10)	29,321,836	28,326,168
Investment Properties, Net (Note 11)	40,857,144	22,733,445
Right of Use Asset, Net (Note 12)	8,183,335	9,143,495
Other Assets (Note 13)	4,327,048	4,647,840
Deferred Tax Asset (Note 25)	3,114,661	2,267,181
TOTAL ASSETS	₱ 607,375,943	₱ 601,974,977
LIABILITIES & SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 14)	₱ 278,944,791	₱ 281,840,016
Accrued Interest, Taxes and Other Expenses Payable (Note 15)	5,272,636	5,176,399
Other Liabilities (Note 16)	18,686,104	16,054,590
TOTAL LIABILITIES	302,903,531	303,071,005
SHAREHOLDERS' EQUITY		
Share Capital (Note 17)		
Common Stock	198,009,000	198,009,000
Preferred Stock	40,307,000	35,307,000
Retained Earnings	66,156,412	65,587,972
TOTAL SHAREHOLDERS' EQUITY	304,472,412	298,903,972
TOTAL LIABILITIES & EQUITY ACCOUNTS	₱ 607,375,943	₱ 601,974,977
BOOK VALUE PER SHARE	₱ 153.77	₱ 160.13

See accompanying Notes to Financial Statements.

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PAMPANGA DEVELOPMENT BANK

STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31	
	2020	2019
INTEREST INCOME		
Loans & Receivables (Note 9)	**₱ 28,910,537**	₱ 44,079,887
Due from Other Banks (Note 7.2)	**592,651**	976,952
Debt Securities Measured at Amortized Costs (Note 8)	**3,257,930**	1,735,186
TOTAL INTEREST INCOME	**32,761,118**	46,792,025
INTEREST EXPENSE		
Savings Deposits (Note 14)	**817,737**	745,747
Time Deposits (Note 14)	**2,717,522**	2,885,419
TOTAL INTEREST EXPENSE	**3,535,259**	3,631,166
NET INTEREST INCOME	**29,225,859**	43,160,859
PROVISION FOR CREDIT LOSSES	**2,421,500**	7,012,447
NET INTEREST INCOME AFTER PROVISION	**26,804,359**	36,148,412
OTHER INCOME (Note 18)	**4,760,528**	5,819,565
TOTAL INCOME BEFORE OPERATING EXPENSES	**31,564,887**	41,967,977
OTHER OPERATING EXPENSE		
Compensation & Fringe Benefits (Note 19)	**16,935,773**	20,845,019
Other Administrative Expenses (Note 21)	**8,769,552**	11,206,976
Depreciation & Amortization (Note 22)	**3,526,299**	2,136,754
Taxes & Licenses (Note 27)	**2,395,200**	2,896,651
TOTAL OTHER OPERATING EXPENSE	**31,626,824**	37,085,400
NET INCOME (LOSS) BEFORE INCOME TAX	**(61,937)**	4,882,577
INCOME TAX EXPENSE (BENEFIT) (Note 25)	**(566,549)**	(966,516)
NET INCOME AFTER INCOME TAX	**₱ 504,612**	₱ 5,849,093
EARNINGS PER SHARE	**₱ 0.25**	₱ 2.95

See accompanying Notes to Financial Statements.

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PAMPANGA DEVELOPMENT BANK

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2020 and 2019

	Share Capital (Note 17)	Preferred Stock (Note 17)	Surplus Free	Total Equity
Balance at January 1, 2020	**₱ 198,009,000**	**₱ 35,307,000**	**₱ 65,587,972**	**₱ 298,903,972**
Issuance of shares	**-**	**5,000,000**	**-**	**5,000,000**
Additional Capital Infusion	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**504,612**	**504,612**
Provisions and Adjustments	**-**	**-**	**63,828**	**63,828**
Balance at December 31, 2020	**₱ 198,009,000**	**₱ 40,307,000**	**₱ 66,156,412**	**₱ 304,472,412**
Balance at January 1, 2019	₱ 156,174,000	₱ 35,307,000	₱ 58,599,285	₱ 250,080,285
Issuance of shares	-	-	-	-
Additional Capital Infusion	41,835,000	-	-	41,835,000
Total comprehensive income for the year	-	-	5,849,093	5,849,093
Provisions and Adjustments	-	-	1,139,594	1,139,594
Balance at December 31, 2019	₱ 198,009,000	₱ 35,307,000	₱ 65,587,972	₱ 298,903,972

See accompanying Notes to Financial Statements.

PAMPANGA DEVELOPMENT BANK
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31	
	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Income (Loss) before tax	**₱ (61,937)**	₱ 4,882,577
Prior Period Adjustments (Note 17)	**63,828**	1,139,594
Provision for Credit Losses	**2,421,500**	7,012,447
Depreciation & Amortization (Note 22)	**3,526,299**	2,136,754
Gain from Sale/Derecognition of ROPA (Note 18)	**(1,434,732)**	(1,075,641)
Interest Income	**(32,761,118)**	(46,792,025)
Interest Expense		3,631,166
Changes in Working Capital:		
Loans & Receivable, Net (Note 9)	**57,414,479**	34,801,945
Other Assets (Note 13)	**320,791**	(286,847)
Deposit Liabilities (Note 14)	**(2,895,224)**	21,899,581
Accrued Other Expenses Payable (Note 15)	**(252,000)**	(95,706)
Other Liabilities (Note 16)	**3,156,015**	1,118,209
Interest Paid	**(3,187,022)**	(5,198,594)
Cash Generated from Operations	**29,846,138**	23,173,459
Interest Received	**32,761,118**	46,792,025
Income Tax Paid	**(280,932)**	(2,325,276)
Net Cash from Operating Activities	**62,326,324**	67,640,208
CASH FLOW FROM INVESTING ACTIVITIES		
Debt Securities Measured at Amortized Costs (Note 8)	**(47,561,137)**	(68,776,176)
Purchase of Bank Premises, FFE (Note 10)	**(3,568,250)**	(9,696,719)
Proceeds from Sale of Bank Premises, FFE	**6,442**	15,284
Acquisition of Investment Property (Note 11)	**(20,641,112)**	(19,079,281)
Proceeds from Sale of Investment Property	**3,952,146**	3,306,348
Net Cash used in Investing Activities	**(67,811,911)**	(94,230,544)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issuance of Shares – common (Note 17)	**-**	41,835,000
Proceeds from Issuance of Shares – preferred (Note 17)	**5,000,000**	-
Repayments of lease liabilities	**(524,501)**	(415,340)
Net Cash from Financing Activities	**4,475,499**	41,419,660
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**(1,010,088)**	14,829,325
Cash and Cash Equivalents - Beginning	**98,378,797**	83,549,472
Cash and Cash Equivalents - Ending	**₱ 97,368,709**	₱ 98,378,797

See accompanying Notes to Financial Statements

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PAMPANGA DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 & 2019

1. CORPORATE INFORMATION

PAMPANGA DEVELOPMENT BANK (the Bank) was registered with the Securities and Exchange Commission (SEC) on January 23, 1961. Its authorization share capital is ₱ 300,000,000 divided into 2,500,000 ordinary shares with par value of ₱ 100 per share and 500,000 preferred shares with par value of ₱ 100 per share.

The Bank's principal office is located in McArthur Highway, City of San Fernando, Pampanga and It has also branches located on the following areas:

Angeles City-Rizal St., Angeles City
Tarlac City – M.H. Del Pilar St., Tarlac City
Cabanatuan City-Burgos Ave. Brgy. Supermarket, Cabanatuan City

The Bank's Board of Directors (BOD) is composed of Nine (9) members and three (3) of them are independent directors.

Approval of Submission
The accompanying financial statements of the Bank for the years ended December 31, 2020 and 2019 were authorized for issue by its Board of Directors on April 12, 2021.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

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

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

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

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

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

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Statement of Compliance
The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the following financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC) in response to the COVID- 19 pandemic: *(a) Staggered booking of allowance for credit losses over a maximum period of five (5) years and (b) exclusion of eligible loans from past due and non-performing classification until 31 December 2021.* The reliefs cover only current-year transactions and/or events and do not impact the comparative period.

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

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

3. ACCOUNTING STANDARDS AND INTERPRETATIONS

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

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

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

Effective beginning on or after January 1, 2021
- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform Phase 2*

Effective beginning on or after January 1, 2022
- *Annual Improvements to PFRS Standards 2018-2020 Cycle issued in August 2020*
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract*
- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds before Intended Use*
- Amendments to PFRS 3, *Reference to the Conceptual Framework*

- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent ' test for derecognition financial liabilities*
- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Financial Instruments

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

Initial Recognition and Subsequent Measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

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

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

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that used only data from observable markets, the difference is recognized as a gain or loss.
b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial Assets

Classification and Subsequent Measurement

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

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

Financial assets at amortized cost (debt instruments)

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

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

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

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

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

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

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

The Bank's investments are under this category.

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

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

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

The Bank has no financial assets under this category.

Financial Assets at fair value through profit or loss
This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term. Notwithstanding the criteria the debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if:

- The economic characteristics and risks are not closely related to the host
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss

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

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

The Bank has no financial assets under this category.

Impairment of Financial Assets

The Bank recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

For trade receivable and contract assets, the Bank applies a simplified approach in calculating ECLs. Therefore, the Bank does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime of ECLs at each reporting date. The Bank has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Bank considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others:

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

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(iii) it is probable that the borrower will enter bankruptcy or other financial reorganization;
(iv) the disappearance of an active market for that financial asset because of financial difficulties; or,
(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank.

Considering that the Bank is regulated by the Bangko Sentral ng Pilipinas (BSP) which requires a distinct provisioning as well as default provision pursuant to Circular 855, 941 and 1011, then in case of conflict between the standard (PFRS) and special law (which is enacted by BSP such as MORB), then the latter will prevail.

The Bank recognizes impairment loss based on the category of financial assets as follows:

Carried at Amortized Cost – Loans and Receivables and Debt Securities Measured at Amortized Cost (formerly Held-to-Maturity Financial Assets)

For assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivable or debt securities carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan or debt securities has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.
The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible subject to BSP guidelines, it may be written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management, the BOD and the BSP, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are presented as part of Other Income in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses.

Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower or of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial Liabilities

A financial liability is any liability that is:
a. A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or
b. A contract that will or may be settled in the entity's own equity instruments and is:
i. A non-derivative for which the entity is or may be obliged to deliver a favorable number of the entity's own equity instruments; or
ii. A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortized cost, except for:

- ***Financial liabilities at fair value through profit or loss:*** this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also prèsented in profit or loss.

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of the financial asset did not qualify for derecognition, a financial liability is recognized for the consideration received for the transfer. In subsequent period, the Bank recognizes any expense incurred on the financial liability, when continuing involvement approach applies.

Derecognition

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

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Balance Sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there's an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amount in the balance sheet.

Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank subsequently measures all equity instruments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments as FVPL are included in the 'Net trading income' line in the statement of profit or loss.

The Bank has no equity instrument under this category.

Financial Assets

This category includes cash and cash equivalents, loans receivable, investments and portion of other assets pertaining to rental deposits.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks that are highly liquid and readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are valued at face amount. Cash denominated in foreign currency is translated in peso using the closing rate as of the financial date. If a bank or financial institution holding the funds of the Bank is in bankruptcy or financial difficulty, cash should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount

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

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

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

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

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

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

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

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

Sec. 304 of the Manual of Regulations for Banks (MORB) states that past due accounts of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at contractual due date.

Sec. 304 states that 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 interest for more than 90 days have been capitalized, refinanced or delayed by agreement. Restructured loans shall be considered performing only, if prior to restructuring, the loans were categorized as performing. Non-performing loans and other receivables shall remain classified as such until a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or b) written off.

The allowance for credit losses is the estimated amount of losses in the Bank's portfolio, based on evaluation of the quality of loans and prior loan loss experience (Appendix 15 of the MORB). Any amount set aside with respect to losses on loans and advances in addition to those losses that have been specifically identified or potential losses are indicatively present in the portfolio of loans and advances, are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period. The allowance is increased by provisions charged to expense and reduced by reasonable write-offs and reversals as determined by the Bank.

The outstanding balance as of December 31, 2020 was tested for impairment. The result of the test is unfavorable since the allowance for probable losses booked is lower than the Bank's self-developed internal credit risk rating system.

Sales Contract Receivable
Sales Contract Receivable (SCR) shall be recorded based on the present value of the installments receivables discounted at the imputed rate of interest. Discount shall be accrued over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PFRS 15 "Revenue". Provided, that SCR shall be subject to impairment provisions of PFRS 9.

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

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

Debt Securities Measured at Amortized Cost (formerly Held-to-Maturity Financial Assets)
HTM Financial assets are renamed as 'Debt Securities Measured at Amortized Cost' as required under Annex A of BSP Circular 1011. These are financial assets other than those that are designated at fair value through profit or loss, which meet both of the following conditions:

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

The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in accordance with PFRS 9 and BSP Circular 1011, as shown in Note 6. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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As at December 31, 2020, the Bank has Debt Securities at Amortized Cost under this category.

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

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

When major improvement is performed, its cost is recognized in the carrying amount of the premises, furniture, fixtures, and equipment as a replacement if the recognition criteria are satisfied. For financial reporting purposes, depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

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

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Amortization of leasehold improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter. Land is not depreciated.

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

Leasehold Improvements	5-30 years
Buildings	25 years
Furniture and fixtures	1-10 years
Transportation equipment	5 years
Other Office Equipment	1-5 years
Information Technology Equipment	1 year

Fully depreciated assets are retained in the accounts at ₱ 1 net value until they are no longer in use and no further charge for depreciation is made with respect to those assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the account and any resulting gain or loss are reflected in the income for the period. Any disposal or deletion of property and equipment from the Bank's book of accounts should be approved by the management.

Impairment of Premises, Furniture, Fixtures & Equipment
An assessment is made at the balance sheet date to determine whether there is any indication that an asset may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists and when the carrying value of an asset exceeds its estimated recoverable amount, the asset is written down to its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value of money and the risk specific to the asset. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets or investments, the recoverable amount represents the net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against operations in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization for premises, furniture, fixtures, and equipment) had no impairment loss was recognized for the asset in prior years. A reversal for impairment loss is credited to current operations.

Right-of-use Assets
The Bank recognizes right-of-use assets using prospective application for the remaining lease term (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at remaining cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The remaining cost of right-of-use assets includes the amount of lease liabilities recognized. Right-of-use assets are depreciated on a straight-line basis over the lease term, as follows:

	Years
Building	23 - 25

Investment Properties
Initially, investment properties are measured at cost including certain transaction costs. Investment properties acquired through a non-monetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measured. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on the derecognition shall be recorded as gain on sale of investment properties in the Statement of Income in the year of disposal.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period when the costs are incurred.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets of 10 years or shorter from the date of acquisition. Land is not depreciated.

However, under Sec.382c of the BSP MORB, land and building classified as Real and Other Properties Acquired (ROPA) shall be accounted for as Investment Properties under PAS 40.

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

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

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

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

Other Assets
Other assets account represents residual accounts which were not classified as a separate line item in the manual of accounts as provided in Circular 512 as amended by Circular 520 issued by the Bangko Sentral ng Pilipinas.

Impairment of Non-Financial Assets
The Bank assesses at each reporting date if there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and value in use. When the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 and time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognized in the Income Statement in the expense categories.

The assessment is made at each reporting date. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount net of depreciation that would have been determined, had no impairment loss have been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

<u>Financial Liabilities</u>

Financial liabilities include deposit liabilities, bills payable and other accrued expenses and are recognized when the Bank becomes party to the contractual agreement of the instrument. Financial liabilities are initially recognized at their fair value and subsequently measured at amortized cost less settlement payments. The following compose the financial liabilities of the Bank.

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

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

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

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

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

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

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

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

A contract liability is the obligation to transfer goods or services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Bank transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Bank performs its obligations under the contract.

Contract liabilities also include payments received by the Bank from the customers for which revenue recognition has not yet commenced.

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

Revenue within the scope of PFRS 15:

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

Service charges are recognized earned or accrued where there is reasonable degree as to its collectability

Revenue outside the scope of PFRS 15:

Interest Income

Interest on Loans
Interest Income on loans and discount with advanced interest are recognized periodically using the effective interest method of amortization. On the other hand, interest income on loans and discount with no advanced interest are recognized on accrual basis. The accrual basis of recognition of interest income, however, ceases when the loans and discount is already past due.

The Bank shall only charge interest based in the outstanding balance of a loan at the beginning of an interest period. For a loan where the principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

Interest Income on Bank Deposits and Debt Securities Measured at Amortized Cost
Interest on bank deposits and debt securities at amortized cost are recognized using the accrual method.

Rental income
Rental income arising on leased premises is accounted for on a straight-line basis over the lease terms on ongoing leases.

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

Expense Recognition
Expenses are recognize when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Operating Expenses
Operating expenses are constitute costs of administering the business and are expensed as incurred.

Taxes and Licenses
This includes all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permits fees and are recognized when incurred.

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

b. Retirement Benefits
Republic Act (RA) No. 7641 (New Retirement Law) which took effect on January 7, 1993 requires the Bank to provide minimum retirement benefit to qualified retiring employees. Minimum retirement benefit is equivalent to at least one half month salary for every year of service. An employee upon reaching sixty years of age and who has served at least five years may retire and be entitled to retirement benefits. The compulsory retirement age is sixty five (65) years of age.

c. Retirement Cost
The Bank has a non-contributory define benefit retirement plan. The retirement cost of the Bank is determined using the projected unit cost method. Under this method, the current service cost is the present value of retirement obligation in the future with respect to services rendered in the current year.

Lease Recognition – Effective January 1, 2019
The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease liabilities
The Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Bank uses its incremental borrowing rate because the interest rate implicit in the lease is not readily determinable. After the initial recognition, the amount of lease liabilities is increased to reflect the accretion of interest (included in 'Interest expense on lease liabilities) and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

Bank as a lessee
The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Bank as a lessor
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Lease Recognition – Effective Prior to January 1, 2019
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other lease are classified as operating leases.

i. Operating Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A re-assessment is made after the inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether the fulfillment is dependent on specified asset; or
d. There is a substantial change to the asset.

Where re-assessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the re-assessment for scenarios a, c or d and at the date of renewal or extension period for scenario b.

- The Bank as a Lessor. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in the statement of comprehensive income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

- The Bank as a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of comprehensive income on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where there another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Income Taxes
Current tax
Current tax assets and current tax liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

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

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

Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

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

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

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

Equity

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

Subscribed common stock is recognized at subscribed amount net of subscription receivable. Subscriptions receivable pertains to uncollected portion of subscribed stocks. The Bank accounted for the subscription receivable as a contra equity account.

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

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

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

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

Related Party Relationships and Transactions
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

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

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

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

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

Among the salient features of the CREATE Act are the following:
1. Reduction of Corporate Income Tax rate from 30% to 20% for domestic corporations with taxable income not exceeding ₱5M and total assets not exceeding ₱100M excluding land on which the entity's office, plant and equipment are situated effective July 1, 2020 to June 30, 2023
2. Reduction of Corporate Income Tax rate of domestic and foreign corporations from 30% to 25% if the above mentioned threshold is not met effective July 1, 2020 to June 30, 2023
3. Reduction of Minimum Corporate Income Tax (MCIT) rate from 2% to 1% effective July 1, 2020 to June 30, 2023
4. Repeal of Improperly Accumulated Earnings Tax (IAET)
5. Clarification on types of reorganizations covered by tax free exchanges

The current and deferred taxes continued to be computed and measured using the applicable income tax rates as of December 31, 2020 since the CREATE bill was not considered as substantively enacted as of December 31, 2020 even though some of the provisions have retrospective effect to July 1, 2020 (there will be difference between the provision for current income tax per 2020 FS and the amount of income tax due per 2020 income tax return).

With the above provisions of the CREATE Act, the Income Tax Rate (ITR) and Minimum Corporate Income Tax (MCIT) of the Bank are reduced to 25% and 1% respectively from July 1, 2020 to December 31, 2020. As of reporting date, however, the Bank still computed its Corporate Income Tax at 30% for the full year of 2020. Adjustments for the reduced Corporate Income Tax rate provided by the CREATE Act for the period of July 1, 2020 to December 31, 2020 shall be made accordingly subject to the implementing rules and regulations of the CREATE Act.

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

a. Leases
Effective on or after January 1, 2019

Determination of the lease term for lease contracts with renewal and termination options (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 judgement 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).

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 adjustments (such as the stand-alone credit rating, or to reflect the terms and conditions of the lease).

Effective before January 1, 2019
Operating lease
Bank as lessor
The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased and so accounts for the contracts as operating leases.

b. Classification of financial instruments
The Bank exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

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

c.1. The currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
c.2. The currency in which funds from financing activities are generated; and
c.3. The currency in which receipts from operating activities are usually retained.

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

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

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

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

For unsecured loans and credit accommodations:

Number of days Unpaid/with missed payments	Classification	Minimum ACL	Stage
31 - 90 days	Substandard (Underperforming)	10%	2
91 - 120 days	Substandard (Non Performing)	25%	3
121 - 180- days	Doubtful	50%	3
180 days and over	Loss	100%	3

For secured loans and other credit accommodations:

Number of days Unpaid/with missed payments	Classification	Minimum ACL	Stage
31 - 90 days*	Substandard (Underperforming)	10%	2
91 - 180 days	Substandard (Non-Performing)	10%	3
181 - 365- days	Substandard (Non-Performing)	25%	3
Over 1 year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3
*When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%			

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

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

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3*
Substandard – Unsecured	25%	2 or 3*
Doubtful	50%	3
Loss	100%	3

The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).

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

Loans and other credit accommodations under litigation which have been classified as "pass" prior to litigation process is classified as 'substandard" and provided with 25% ACL.

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

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

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

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

For unsecured loans and other credit accommodations:

Number of days Unpaid/with missed payments	Classification	Minimum ACL	Stage
1-30 days	Especially Mentioned	2%	2
31-60 days/1st restructuring	Substandard	25%	2 or 3
61-90 days	Doubtful	50%	3
91 days and over/ 2nd restructuring	Loss	100%	3

For secured loans and other credit accommodations:

No. of Days Unpaid/With Missed Payments	Classification	Allowance for Credit Losses (ACL)		STAGE
		Other types of collateral	Secured by real estate	
31 - 90 days	Substandard (Underperforming)	10%	10%	2
91 - 120 days	Substandard (Non-performing)	25%	15%	3
121 - 360 days	Doubtful	50%	25%	3
361 days - 5 years	Loss	100%	50%	3
Over 5 years	Loss	100%	100%	3

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

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

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

Other Risk Assets
Other risk assets such as accounts receivable are also given allowance after considering the nature of the transaction and the degree of collectibles of the accounts.
Provisions for losses (expense account) on the above cited risk assets are determined by the required allowance at the end of the year less the beginning allowance for a particular year adjusted by write-off and recovery, if any.

b. Useful lives of Premises, Furniture, Fixtures & Equipment
The estimated useful lives of the Bank's premises, furniture, fixtures, and equipment are based on the period over which the assets are expected to be available for use, and on the collective assessment of the industry practice, internal technical evaluation and experience with similar assets. The estimates are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits in the use of the premises, furniture, fixtures and equipment. A reduction in the estimated useful lives of the property and equipment would increase the expenses and decrease the non-current assets Depreciation is computed using the straight line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed using straight line method over the estimated useful lives of the assets or the term of the lease contract whichever comes shorter.

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

d. Residual Value of Depreciable Assets
The residual value of an asset is the estimated amount that an entity would obtain from the disposal of the asset, after deducting the estimated costs of disposal. The management's estimate on the residual values of its assets is based on a conservative approach where residual values assigned to each asset are nil.

e. Estimate Used in Determining Fair Value of Financial Assets
Reasonable estimate of the management on the fair value of the financial instrument is the responsibility of the management when reference costs and/or values is not quoted in the stock market.

An entity shall asses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial asset is impaired. The threshold and materiality level in PAS 36 and 39 to impair a financial asset is provided on a non-quantitative basis thus, the use of judgments in objectively examining the financial asset is required. In such case, the top management of the Bank shall be responsible for the reasonable judgment pertaining to the valuation of this financial instrument.

f. Contingencies
The adoption of accounting for contingencies in the PAS 37 requires management's prudent judgment and expectation on the outcome of particular contingencies. The relevance of this item becomes paramount significant when it will materially affect the financial standing of the Bank.

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

together with future tax planning strategies. Management believes that it can generate sufficient future taxable profits to allow all of its deferred tax assets to be utilized deferred tax assets amounted to ₱ 3,114,661 and ₱ 2,267,181 as at December 31, 2020 and 2019, respectively (See Note 25).

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit Risk

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

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

2020				
Industry	**Loans Receivable***	**Due from BSP and Other Banks**	**Debt Securities Measured at Amortized Cost**	**Total**
Agriculture, Forestry and Fishing	**₱34,602,394**	**₱ -**	**₱ -**	**₱34,602,394**
Mining and quarrying	**20,000,000**	**-**	**-**	**20,000,000**
Wholesale and Retail Trade Vehicles	**59,896,323**	**-**	**-**	**59,896,323**
Real Estate Activities	**90,183,161**	**-**	**-**	**90,183,161**
Education	**37,734,416**	**-**	**-**	**37,734,416**
Activities of Household	**59,718,556**	**-**	**-**	**59,718,556**
Financial Institutions	**-**	**70,068,232**	**-**	**70,068,232**
Government	**-**	**23,924,435**	**157,370,966**	**181,295,401**
Total	**₱302,134,850**	**₱93,992,667**	**₱157,370,966**	**₱553,498,483**

* *Amount is gross of ACL and net of unamortized discounts*

2019				
Industry	Loans Receivable*	Due from BSP and Other Banks	Debt Securities Measured at Amortized Cost	Total
Agriculture, Forestry and Fishing	₱43,581,207	₱ -	₱ -	₱43,581,207
Mining and quarrying	19,834,749	-	-	19,834,749
Wholesale and Retail Trade Vehicles	65,867,420	-	-	65,867,420
Real Estate Activities	107,458,519	-	-	107,458,519
Education	43,178,403	-	-	43,178,403
Activities of Household	78,164,577	-	-	78,164,577
Financial Institutions	-	67,413,359	-	67,413,359
Government	-	24,927,098	109,809,829	134,736,927
Total	₱358,084,875	₱92,340,457	₱109,809,829	₱560,235,161

** Amount is gross of ACL and net of unamortized discounts*

Credit quality per class of financial assets

The tables below show the credit quality per class of financial assets as at December 31, 2020 and 2019:

2020				
Financial Assets	**Neither Past Due nor impaired**	**Past due but not impaired**	**Past due and impaired**	**Total**
Due from BSP	**₱9,749,785**	**₱ -**	**₱ -**	**₱9,749,785**
Due from other banks	**84,242,882**	**-**	**-**	**84,242,882**
Debt Securities Measured at Amortized Cost	**157,370,966**	**-**	**-**	**157,370,966**
Loans & Receivables*	**233,789,903**	**59,220,944**	**9,124,003**	**302,134,850**
Sales Contract Receivables**	**-**	**2,325,445**	**-**	**2,325,445**
	₱485,153,536	**₱61,546,389**	**₱9,124,003**	**555,823,928**

** Amount is gross of ACL and net of unamortized discounts*
*** Net of ACL and SCR discounts*

2019				
Financial Assets	Neither Past Due nor impaired	Past due but not impaired	Past due and impaired	Total
Due from BSP	₱24,927,098	₱ -	₱ -	₱24,927,098
Due from other banks	67,413,359	-	-	67,413,359
Debt Securities Measured at Amortized Cost	109,809,829	-	-	109,809,829
Loans & Receivables*	244,810,444	16,387,454	96,886,977	358,084,875
Sales Contract Receivables**	-	3,313,162	-	3,313,162
	₱446,960,730	₱19,700,616	₱96,886,977	₱563,548,323

** Amount is gross of ACL and net of unamortized discounts*
*** Net of ACL and SCR discounts*

Aging analysis of past due but not impaired loans and receivables

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

	2020			
	31 to 60 Days	**61 to 90 Days**	**91 days to 180 days**	**Total**
Receivable from customers:				
Loans receivable	**₱155,614,781**	**₱4,618,111**	**₱141,901,958**	**₱302,134,850**
	₱155,614,781	**₱4,618,111**	**₱141,901,958**	**₱302,134,850**

	2019			
	31 to 60 Days	61 to 90 Days	91 days to 180 days	Total
Receivable from customers:				
Loans receivable	₱169,735,138	₱8,691,139	₱ 10,032,710	₱188,458,987
	₱169,735,138	₱8,691,139	₱ 10,032,710	₱188,458,987

Market Risk

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

Interest rate risk

The Bank's loan receivables earn effective interest rates ranging from 3.56% to 46.39% for 2020 and 7.23% to 46.39% for 2019, respectively. The shortest term of loan is three (3) months while the longest term is fifteen (15) years. The Bank's interest rate on its deposit liabilities is 0.25% to 1.75% in 2020 and 0.50% to 2.25% in 2019 .

However, the Bank earns interest rates ranging from 0.975% to 6.250% in 2020 and from 3.135% to 4.625% in 2019 from its investment in bonds and treasury bills and ranging from 0.10% to 2.50% in 2020 and from 0.10% to 2.75% in 2019 on its savings and time deposits with other Banks.

Fair Value Interest Rate Risk

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

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

Cash Flow Interest Rate Risk

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

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs. It may result from either inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of contractual obligation; or inability to generate cash inflows as anticipated.

The Bank monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Bank maintains a level of cash deemed sufficient to finance operations and to mitigate the effects of fluctuations in cash flows and a balance between continuity of funding and flexibility through the use of short-term debt and advances from related parties and an arrangement for a stand-by credit line facilities with any reputable bank and in case of emergency. Interest rate and maturity matching analysis is used to quantify monitoring of liquidity position.

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

	2020					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities						
Deposit liabilities	₱169,489,246	₱6,923,445	₱7,662,351	₱20,828,449	₱74,041,300	₱278,944,791
Other Liabilities:						
Accrued expenses	-	1,958,668	-	-	-	1,958,668
Accrued interest payable	-	3,313,968	-	-	-	3,313,968
Accounts payable	-	-	1,146,895	263,086	8,813,032	10,223,013
Total Financial Liabilities	169,489,246	12,196,081	8,809,246	21,091,535	82,854,332	294,440,440
Financial Assets						
Cash and other cash items	3,376,042	-	-	-	-	3,376,042
Due from BSP	9,749,785	-	-	-	-	9,749,785
Due from other banks	84,242,882	-	-	-	-	84,242,882
Loans and receivable*	-	155,614,781	4,618,111	14,076,777	127,825,181	302,134,850
Sales Contract Receivable**	-	18,690	-	158,429	2,148,326	2,325,445
Debt Securities Measured at Amortized Cost	3,022,437	49,863,741	11,189,534	38,765,877	54,529,377	157,370,966
Total Financial Assets	100,391,146	205,497,212	15,807,645	53,001,083	184,502,884	559,199,970
Liquidity Position (Gap)	₱69,098,100	₱(193,301,131)	₱(6,998,399)	₱(31,909,548)	₱(101,648,552)	₱(264,759,530)

** Amount is gross of ACL and net of unamortized discounts*
*** Net of ACL and SCR discounts*

	2019					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Liabilities						
Deposit liabilities	₱168,599,301	₱8,349,448	₱10,162,231	₱10,404,289	₱84,324,747	₱281,840,016
Other Liabilities:						
Accrued expenses	-	2,210,668	-	-	-	2,210,668
Accrued interest payable	-	2,965,731	-	-	-	2,965,731
Accounts payable	-	-	2,366,372	415,340	9,272,975	12,054,687
Total Financial Liabilities	168,599,301	13,525,847	12,528,603	10,819,629	93,597,722	299,071,102
Financial Assets						
Cash and other cash items	6,038,339	-	-	-	-	6,038,339
Due from BSP	24,927,098	-	-	-	-	24,927,098
Due from other banks	67,413,359	-	-	-	-	67,413,359
Loans and receivable*	-	178,426,277	10,032,710	31,400,454	138,225,434	358,084,875
Sales Contract Receivable**	-	620,628	-	343,763	2,348,771	3,313,162
Debt Securities Measured at Amortized Cost	1,040,700	30,989,672	18,252,529	15,015,393	44,511,535	109,809,829
Total Financial Assets	99,419,496	210,036,577	28,285,239	46,759,610	185,085,740	569,586,662
Liquidity Position (Gap)	₱69,179,805	₱(196,510,730)	₱(15,756,636)	₱(35,939,981)	₱(91,488,018)	₱(270,515,560)

** Amount is gross of ACL and net of unamortized discounts*
*** Net of ACL and SCR discounts*

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Operational Risks

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

Minimum Liquidity Ratio (MLR)

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

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

As of December 31, 2020, in Memorandum No. M2020-020 - reduction in the minimum liquidity ratio in response to Covid-19 is hereby reduced from 20 percent (20%) down to 16 percent (16%).

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

PART 1. MINIMUM LIQUIDITY RATIO (MLR)		
A. Stock of Liquid Assets		**₱254,739,675**
B. Qualifying Liabilities		**257,560,111**
Minimum Liquidity Ratio		**99%**
PART II. STOCK OF LIQUID ASSETS		
Cash on Hand		3,376,042
Bank Reserves in the BSP		9,749,785
Debt Securities representing claims on or guaranteed by the Philippine National Government and the BSP		157,370,966
Deposits in Other Banks		84,242,882
Total		**₱254,739,675**
PART III. QUALIFYING LIABILITIES		
A. Qualifying Liabilities		
1 Retail current and regular savings deposits with outstanding balance per account of ₱500,000 and below (50%)	68,106,378	34,053,189
2. Obligations arising from operational expenses	2,257,183	
3. Total on Balance Sheet Liabilities	293,870,483	
4. Deduct: Sum of A1 to A2	70,363,561	
B. Other on-balance sheet liabilities (Item A.3 less A.4)		223,506,922
C. Irrevocable obligations under off-balance sheet items		-
D. Total (Sum of Adjusted Amount of Item A(1), A(2), B and C)		**₱257,560,111**

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7. CASH AND CASH EQUIVALENTS

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

	2020	2019
7.1. Cash and Other Cash items		
Cash on Hand and in Vault	**₱3,213,885**	₱4,213,408
Cash and Other Cash Items	**162,157**	1,824,931
Total cash and other cash items	***3,376,042***	*6,038,339*
7.2. Due from BSP and other Banks		
Due from Bangko Sentral ng Pilipinas	**9,749,785**	24,927,098
Due from Other Banks	**84,242,882**	67,413,359
Total due from BSP and other banks	***93,992,667***	*92,340,457*
Total Cash and Cash Equivalent	**₱97,368,709**	₱98,378,796

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

Due from other banks generally earns interest at prevailing bank deposit rates. Total interest income earned amounted to ₱ 592,651 and ₱ 976,952 for the years ended December 31, 2020 and 2019, respectively. Deposit with the BSP is non-interest bearing.

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

The Due from Other Banks account represents deposits with other local banks which are being used for its daily operations. Breakdown of this account follows:

Name of Banks	2020	%	2019	%
China Banking Corporation	**₱ 6,820,526**	**7%**	₱ -	-%
Banco De Oro	**1,887,175**	**2%**	7,840,274	12 %
Unionbank of the Philippines	**13,148,279**	**16%**	21,869,655	32 %
Robinsons Bank	**5,504,302**	**7%**	237,972	1 %
Land Bank of the Philippines	**14,174,650**	**17%**	1,572,987	2 %
UBP Prime Savings	**7,704,930**	**9%**	6,481,599	10 %
Bank of the Philippine Islands	**6,015,281**	**7%**	2,620,343	4 %
Bank of Commerce	**12,462,249**	**15%**	10,320,511	15 %
Security Banking Corporation	**11,425,490**	**14%**	16,470,018	24 %
Producers Bank	**5,100,000**	**6%**	-	-%
Total	**₱ 84,242,882**	**100%**	₱67,413,359	100%

Under Sec.362g of the Manual of Regulations for Banks, loans and other credit accommodations as well as deposits and usual guarantees by a bank to any other bank whether locally or abroad shall be subject to the Single Borrower's Limit of 25% of the Net worth as herein prescribed or ₱100

Million whichever is higher. Provided that the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

As of December 31, 2020, in Memorandum No. M2020-011 an additional regulatory for BSP-Supervised Financial Institutions (BSFI's) affected by measures to manage the corona virus disease 2019 (Covid-19) situation and its health and safety risks, increasing the single borrower's limit (SBL) from 25% to 30% for a period of six (6) months from March 19, 2020. At the end of the year ended December 31, 2020, the Bank's SBL was registered at ₱ 76,118,103 and as per BSP Manual of Regulations, bank are exempted on the ceiling of single borrower's limit (SBL) on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for clearing operation.

As of December 31, 2020 and 2019, none of the Banks has exceeded the prescribed limit or ₱ 100 million under Circular No. 734 Series of 2011.

8. DEBT SECURITIES MEASURED AT AMORTIZED COST

This account consists of:

	2020	2019
Land Bank of the Philippines	**₱157,370,966**	₱109,496,086
Total	**₱157,370,966**	₱109,809,829

The above LBP represents long-term retail treasury bills amounting to ₱147,841,589 and agrarian reform bonds amounting to ₱9,116,021 with unamortized discount/premium of ₱413,356 as additional compliance under, BSP MORB Section 331. Debt securities measured at amortized cost earn annual interest rates ranging from 0.006% to 6.250% for year 2020.

In 2019, the Bank has long-term retail treasury bills amounting to ₱104,048,249 and agrarian reform bonds amounting to ₱5,447,837 with unamortized discount/premium of ₱313,743. Debt securities measured at amortized cost earn annual interest rates ranging 4.625% for year 2019.

Debt Securities Measured at Amortized Cost earned interest income for the years ended December 31, 2020 and 2019 amounted to ₱ 3,257,930 and ₱ 1,735,186, respectively.

9. LOANS AND RECEIVABLES

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

	2020	**%**	2019	%
Current Loans	**₱ 218,012,330**	**72%**	₱ 246,112,383	68%
Past Due Loans	**2,856,032**	**1%**	16,387,454	5%
Non-performing	**73,268,337**	**24%**	88,428,541	25%
Items in Litigation	**9,124,003**	**3%**	8,458,436	2%
Total	**303,260,702**	**100%**	359,386,814	100%
Less: Unamortized Discounts	**1,125,852**		1,301,939	
Total, net of discount	**302,134,850**		358,084,875	

(forward)

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Less: Allowance for Credit Losses		
Specific	**34,811,528**	31,913,291
General	**2,816,523**	2,816,523
Total Carrying Amount	**264,506,799**	323,355,061
Add: Sales Contract Receivables (Note 9.1)	**2,325,445**	3,313,162
Total Loans and Receivables-net	**₱ 266,832,244**	₱ 326,668,223

The total allowance for credit losses of ₱ 37,628,051 which composed of specific and general loan loss provisions as stated above is in compliance with the BSP Manual of Regulations (Sec. 143 Appendix 15) or Circular No. 1011.

On March 25, 2020, Republic Act No. 11469 - Bayanihan to Heal as One Act ('Bayanihan 1 Act') was enacted. Bayanihan 1 Act direct to all covered institutions, public and private to implement a minimum of thirty (30) days grace period for the payment of all loans , including but not limited to salary, personal, housing and motor vehicle loans, as well as credit card payments, falling due with in the period of Enhanced Community Quarantine without incurring interest, penalties, fees and other charges, persons with multiple loans shall likewise be given the minimum thirty (30) day grace period for every loan. Subsequently, on September 11, 2020, Republic Act No. 11494 - Bayanihan to Recover as One Act ('Bayanihan 2 Act') was enacted. Bayanihan 2 Act, provide a one (1) time sixty (60) days grace period for the payment of all existing, current and outstanding loans falling due within the period of community quarantine on or before December 31, 2020 without incurring interest, penalties, fees and other charges, persons with multiple loans shall likewise be given the minimum thirty (30) day grace period for every loan.

The Bank availed of the BSP Regulatory Relief Package under BSP Memorandum M-2020-008, particularly on the exclusion from the computation of past due ratio of the loan borrowers in affected areas which should have been classified as past due under Section 304-303Q of the MORB from March 8, 2020 including loans becoming past due six (6) months thereafter.

As of December 17, 2020, the Bank requested to BSP to avail the staggered booking of allowance for credit losses computed under Sec. 143 (credit classification and provisioning) of the MORB over a maximum period of five (5) years for all types of credits extended individuals and businesses limited to those which are directly affected by COVID-19 or under ECQ starting March 8, 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922. Notwithstanding, the Bank is still waiting for the approval of the said request as of December 31, 2020.

As of December 31, 2020, the Bank defers the unbooked provision for credit losses amounting to ₱19.0 million due to monitoring of their income and amidst to Covid-19 pandemic.

Movements in the allowance for credit losses related to loans and receivables follow:

	2020	2019
Balance at beginning of year	**₱ 34,729,814**	₱ 32,638,326
Provisions	**2,421,500**	6,930,526
Adjustments	**476,737**	(4,839,038)
Balance at end year	**₱ 37,628,051**	₱ 34,729,814

Classification of outstanding loans *(Amount is net of Unamortized Discounts):*

As to Maturity:

	2020	%	2019	%
Due within one (1) year	₱ 8,110,022	3%	₱ 11,195,018	3%
Due beyond one (1) year	294,024,828	97%	346,889,857	97%
Total Loan Portfolio	₱ 302,134,850	100%	₱ 358,084,875	100%

As to Status:

	2020	%	2019	%
Current Loans	₱ 233,789,903	77%	₱ 244,810,444	68%
Past Due Loans	1,223,874	1%	16,387,454	5%
Non-performing	57,997,070	19%	88,428,541	25%
Items in Litigation	9,124,003	3%	8,458,436	2%
Total Loan Portfolio	₱ 302,134,850	100%	₱ 358,084,875	100%

As to Security:

	2020	%	2019	%
Real Estate Mortgage	₱ 178,062,976	59%	₱ 249,457,823	70%
Other Collateral	75,164,641	25%	50,106,600	14%
Unsecured	48,907,233	16%	58,520,452	16%
Total Loan Portfolio	₱ 302,134,850	100%	₱ 358,084,875	100%

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

	2020	%	2019	%
Agriculture, Forestry and Fishing	₱ 34,602,394	11%	₱ 43,581,207	12%
Mining and Quarrying	20,000,000	7%	19,834,749	6%
Wholesale and Retail Trade	59,896,323	20%	65,867,420	18%
Real Estate Activities	90,183,161	30%	107,458,519	30%
Education	37,734,416	12%	43,178,403	12%
Household Consumption	59,718,556	20%	78,164,577	22%
Total Loan Portfolio	₱ 302,134,850	100%	₱ 358,084,875	100%

The BSP considers that loan concentration exists when total loan exposure to a particular economic sector exceeds 30% of the total loan portfolio except for the real estate loans. As of December 31, 2020, no credit concentration exists in the portfolio of the Bank.

The past due loan ratio as of 2020 is 28% which is lower by 4% as compared to last year's ratio of 32%.

Interest income for the years ended December 31, 2020 and 2019 amounted to ₱ 27,977,101 and ₱ 43,304,339, respectively.

As of December 31, 2020, breakdown of loans as to Performing and Non-Performing per product line as required by Circular 1074 of appendix 55 to Section 174 as follows: *(Amount is gross of ACL and net of unamortized discounts)*

Loan Portfolio per Product Line	Current	Performing	Non-Performing	Items in Litigation	Total
Agrarian Reform and Other Agricultural Reform Loans					
Agrarian Reform Loans	₱16,634,439	₱-	₱-	₱-	₱16,634,439
Other Agricultural Credit Loans	14,063,404	-	3,539,133	365,418	17,967,955
Microfinance Loans	1,702,979	249,766	2,087,324	111,638	4,151,707
Small and Medium Enterprises Loans					
Small Enterprises	32,571,122	616,562	16,390,007	2,740,958	52,318,649
Medium Enterprises	-	-	-	3,425,967	3,425,967
Loans to Individuals for Housing Purposes	57,734,416	-	-	-	57,734,416
Loans to Individuals for Personal Purposes	77,490,881	-	12,692,280	-	90,183,161
Loans to Individuals for Other Purposes	33,592,662	357,546	23,288,327	2,480,021	59,718,556
Total	**₱ 233,789,903**	**₱1,223,874**	**₱57,997,071**	**₱9,124,002**	**₱302,134,850**

9.1 SALES CONTRACT RECEIVABLES

This account consists of:

	2020	2019
Performing	**₱ 2,755,491**	₱ 3,338,993
Non- performing	**679,827**	1,439,486
Total	**3,435,318**	4,778,479
Less: Allowance for Credit Losses	**369,530**	369,530
SCR Discounts	**740,343**	1,095,787
Sales Contract Receivable-net	**₱ 2,325,445**	₱ 3,313,162

The movements on SCR follow:

	2020	2019
Balance at beginning of year	**₱ 3,313,162**	₱ 2,714,384
Additions	**-**	871,164
Provision for credit losses	**-**	-
Discounts	**355,444**	(177,161)
Payments	**(1,343,161)**	(95,225)
Balance at end of year	**₱ 2,325,445**	₱3,313,162

Interest income for the years ended December 31, 2020 and 2019 amounted to ₱ 933,436 and ₱ 775,548, respectively.

10. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

	Land	Building	Furniture, Fixtures and Equipment	Information Technology Equipment	Transportation Equipment	Other Office Equipment	Leasehold Improvements	Building under Construction	Total
December 31, 2020									
Cost	₱11,036,160	₱24,361,004	₱6,889,136	₱6,433,251	₱4,346,759	₱1,973,093	₱2,977,137	₱-	₱58,016,540
Accumulated Depreciation and Amortization	-	11,772,507	4,528,940	6,366,991	3,591,313	1,913,311	521,642	-	28,694,704
Net carrying amount	₱ 11,036,160	₱12,588,496	₱2,360,196	₱66,260	₱755,446	₱59,782	₱2,455,495	₱-	₱29,321,836
December 31, 2019									
Cost	₱11,036,160	₱ 22,620,910	₱6,133,191	₱ 6,316,626	₱3,466,908	₱1,927,354	₱2,947,141	₱ -	₱54,448,290
Accumulated Depreciation and Amortization	-	10,819,204	3,596,213	6,164,967	3,311,311	1,860,113	370,314	-	26,122,122
Net carrying amount	₱ 11,036,160	₱ 11,801,706	₱ 2,536,978	₱ 151,659	₱ 155,597	₱ 67,241	₱2,576,827	₱-	₱28,326,168

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

2020

	Land	Building	Furniture, Fixtures and Equipment	Information Technology Equipment	Transportation Equipment	Other Office Equipment	Leasehold Improvements	Building under Construction	Total
Cost									
Balance at beginning of year	₱11,036,160	₱22,620,910	₱6,133,191	₱6,316,626	₱3,466,908	₱1,927,354	₱2,947,141	₱-	₱54,448,290
Additions	-	1,740,094	755,945	116,625	879,851	45,739	29,996	-	3,568,250
Balance at end of year	₱11,036,160	₱24,361,004	₱6,889,136	₱6,433,251	₱4,346,759	₱1,973,093	₱2,977,137	₱-	₱58,016,540
Accumulated Depreciation and Amortization									
Balance at beginning of year	₱-	10,819,204	3,596,213	6,164,967	3,311,311	1,860,113	370,314	-	26,122,122
Depreciation and amortization	-	953,303	926,284	202,024	280,002	53,198	151,328	-	2,566,139
Reclassification	-	-	6,443	-	-	-	-	-	6,443
Balance at end of year	-	11,772,507	4,528,940	6,366,991	3,591,313	1,913,311	521,642	-	28,694,704
Net Book Value	₱ 11,036,160	12,588,497	2,360,196	66,260	755,446	59,872	2,455,495	-	29,321,836

2019

	Land	Building	Furniture, Fixtures and Equipment	Information Technology Equipment	Transportation Equipment	Other Office Equipment	Leasehold Improvements	Building under Construction	Total
Cost									
Balance at beginning of year	₱11,036,160	₱11,941,467	₱3,559,598	₱6,404,226	₱3,466,908	₱2,045,568	₱2,901,508	₱4,041,667	₱ 45,397,102
Additions	-	6,637,776	2,752,374	194,776	-	66,160	45,633	-	9,696,719
Disposals	-	-	(178,781)	(282,376)	-	(184,374)	-	-	(645,531)
Reclassification	-	4,041,667	-	-	-	-	-	(4,041,667)	-
Balance at end of year	₱11,036,160	₱22,620,910	₱6,133,191	₱6,316,626	₱3,466,908	₱1,927,354	₱2,947,141	₱-	₱54,448,290
Accumulated Depreciation and Amortization									
Balance at beginning of year	-	10,319,011	3,475,262	6,332,119	3,177,951	2,020,571	250,861	-	25,575,775
Depreciation and amortization	-	484,916	299,732	115224	133,360	23,909	119,453	-	1,176,594
Disposal	-	-	(178,781)	(282,376)	-	(184,367)	-	-	(645,524)
Reclassification	-	15,277	-	-	-	-	-	-	15,277
Balance at end of year	-	10,819,204	3,596,213	6,164,967	3,311,311	1,860,113	370,314	-	26,122,122
Net Book Value	₱11,036,160	₱11,801,706	₱ 2,536,978	₱151,659	₱155,597	₱67,241	₱2,576,828	₱-	₱28,326,168

The value of the Bank premises, furniture, fixtures and equipment of ₱ 29,321,836, net of accumulated depreciation, as of December 31, 2020 is 10% of the Bank's total net worth. This is lower than the 50% maximum ratio required under BSP regulation (MORB Section 109).

Depreciation of these accounts amounting to ₱2,556,139 and ₱1,176,594 in 2020 and 2019, respectively, are shown as separate components of operating expenses in the Statements of Comprehensive Income.

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

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

11. INVESTMENT PROPERTIES

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

This account is consist of:

	2020	2019
Land	**₱ 35,830,139**	₱ 21,955,718
Building	**5,936,805**	1,330,913
Other Properties Acquired	**213,299**	1,093,150
Total	**41,980,243**	24,379,781
Less: Accumulated Depreciation	**270,577**	270,577
Net Amount	**41,709,666**	24,109,204
Less: Allowance for Credit Losses	**852,522**	1,375,759
Net Carrying Amount	**₱ 40,857,144**	₱ 22,733,445

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

	2020	2019
Balance at beginning	**₱22,733,445**	₱5,884,872
Disposal	**(2,517,413)**	(2,230,708)
Acquisition	**20,641,112**	19,079,281
Allowance for Credit Losses	**-**	-
Depreciation	**-**	-
Balance at end of year net of accumulated depreciation and allowance for credit losses	**₱40,857,144**	₱22,733,445

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

12. RIGHT OF USE ASSET

The bank is currently leasing its branch building. With the exception of short term leases and leases of low-value underlying assets, the lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The bank classifies its right-of-use assets in a consistent manner as Bank Premises, Furniture, Fixtures and Equipment.

This account consist of:

	Building	Total
Cost		
Balance at beginning of year	₱10,103,655	₱10,103,655
Addition	-	-
Balance at end of year	10,103,655	10,103,655
Accumulated Depreciation		
Balance at beginning of year	960,160	960,160
Addition	960,160	960,160
Balance at end of year	1,920,320	1,920,320
Net Book Value	**₱8,183,335**	**₱8,183,335**

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13. OTHER ASSETS

This account is consists of:

	2020	2019
Financial Assets		
Accounts Receivables	**₱ 3,432,223**	₱2,835,078
Accrued Interest Income	**547,545**	1,136,013
Non-Financial Assets		
Prepaid Income Tax	**121,803**	388,593
Prepaid Expenses	**623,896**	653,216
Petty Cash Fund	**7,000**	7,000
Stationery and Supplies on Hand	**304,549**	291,408
Miscellaneous Assets	**334,547**	334,547
Other Investments	**1,436,000**	1,436,000
Total	**6,807,563**	7,081,855
Less: Allowance for Credit Losses	**2,480,515**	2,434,015
Net Other Assets	**₱ 4,327,048**	₱4,647,840

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

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

	2020	2019
Balance at beginning of year	**₱ 2,434,015**	₱ 2,352,095
Additions	**46,500**	81,920
Balance at end of year	**₱ 2,480,515**	₱ 2,434,015

14. DEPOSIT LIABILITIES

This account is consists of:

	2020	%	2019	%
Saving Deposit	**₱ 159,224,460**	**57%**	₱ 157,609,690	56%
Time Deposit	**119,720,331**	**43%**	124,230,326	44%
Total Deposit Liabilities	**₱ 278,944,791**	**100%**	₱ 281,840,016	100%

Savings Deposits are composed of regular savings accounts which are withdrawable upon demand and those with special terms and withdrawable at certain period of time. Total deposits for the year decreased by ₱ 2,895,225 or 1% over the figures of 2019.

On July 27, 2020, the BSP issued Circular No. 1092 which took effect on July 31, 2020 as amended by Circular No. 1082 dated March 31, 2020 Reduction in Reserve Requirements of 4% for savings and time deposits. The required reserve as of December 31, 2020 amounting to ₱ 8,368,344 or 3% of the total deposit liabilities. This amount is in the form of deposit with Bangko Sentral ng Pilipinas which has a balance of ₱ 9,749,785 as at December 31, 2020.

Interest expense for the years ended December 31, 2020 and 2019 amounted to ₱ 3,535,259 and ₱ 3,631,166, respectively.

15. ACCRUED INTEREST, TAXES AND OTHER EXPENSES PAYABLE

This account is consist of:

	2020	2019
Accrued Interest Payable	₱ 3,313,968	₱ 2,965,731
Accrued Other Expenses Payable	1,958,668	2,210,668
Total	**₱ 5,272,636**	₱ 5,176,399

Accrued interest payable represents the recognition of interest already due on deposit liabilities of the Bank as of December 31, 2020 and subsequently paid in the next accounting period. Accrued other expenses payable are expenses payable on the following year.

16. OTHER LIABILITIES

This account consists of:

	2020	2019
Accounts Payable	₱ 1,059,200	₱ 2,366,371
Lease Liability (see Note 23)	9,163,814	9,688,315
Withholding Tax Payable	131,600	169,580
Due to Treasurer of the Philippines	65,317	65,317
SSS, Medicare and Pag-ibig Contribution Payable	98,890	115,416
Dividends Payable	34,824	34,824
Unearned Income	6,558,514	1,951,010
Pension and Other Post Retirement Benefits Obligation	1,442,802	1,442,802
Miscellaneous Liabilities	26,964	20,531
Sundry Credits	74,419	200,424
Total	**₱ 18,686,104**	₱ 16,054,590

Accounts Payable represents various liabilities incurred by the Bank for its own account and the third parties arising from short term indebtedness/obligations still outstanding at the cut-off/ reporting date.

Withholding tax payable represents tax withheld on interest expense on deposits, on compensation and other transactions on which the bank is obliged to withhold as a withholding agent of the government.

SSS, Medicare and Pag-ibig Contribution are employee's contributions which are to be remitted by the Bank on January 2021.

Miscellaneous Payable represents various banks liabilities and/or credit accounts temporarily lodged to said account, pending management resolution and/or settlement thereof.

Pension and Other Post Retirement Benefits Obligation represents liability recognized by the bank for the benefit of its officers and employees upon reaching their retirement age.

Due to Treasurer of the Philippines are deposit account balances which are dormant for ten (10) years or longer which are due for transfer to the Treasurer of the Philippines due to absence of claimant.

Dividends Payable are due to preferred shares.

Unearned Income represents capitalized interest and other deferred credits.

17. EQUITY ACCOUNTS

Preference Share Capital

The preference share capital of the Bank is given priority in the distribution of the assets of the corporation in case of liquidation. As to dividends, preferred shares are entitled to receive dividends on the said shares to the extent agreed upon before any dividends at all are paid to ordinary shareholders. Preferred shares are non-cumulative and non-participating. As to voting rights, preference shareholders are not entitled to vote in the normal course of business and decision making of the bank except as those provided in Sec X of the Corporation Code of the Philippines.

Authorized preference share capital as of December 31, 2020 amounted to ₱ 50,00,000 divided into 500,000 shares with par value of ₱100 each. Total subscribed and paid-up preference shares amounting to ₱40,307,000 or 403,070 shares.

Ordinary Shares

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

Authorized ordinary share capital as of December 31, 2020 amounted to ₱ 250,000,000 or 2,500,000 shares with a par value of ₱ 100 each. Total subscribed and paid-up ordinary shares amounted to ₱ 198,009,000 or 1,980,000 shares.

Under Section 121: *Minimum Required Capital,* Thrift Banks with 1-10 branches in all other areas outside NCR are required to comply with the minimum capital of ₱ 300 Million within five (5) years. A capital build up program is also required to be submitted to the BSP within one (1) year from date of the circulars effectively.

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

	2020		2019	
Common stock	**Shares**	**Amount**	Shares	Amount
Common stock - 100 par value 2,500,000 authorized shares	**2,500,000**	**₱ 250,000,000**	2,500,000	₱ 250,000,000
Issued & Outstanding at the beginning of the year	**1,980,090**	**₱198,009,000**	1,561,740	156,174,000
Additional Infusion	**-**	**-**	418,350	41,835,000
Common stock at the end of the year	**1,980,090**	**₱198,009,000**	1,980,090	₱198,009,000

	2020		2019	
Preferred stock	**Shares**	**Amount**	Shares	Amount
Preferred stock - 100 par value 500,000 authorized shares	**500,000**	**₱ 50,000,000**	500,000	₱ 50,000,000
Issued & Outstanding at the beginning of the year	**353,070**	**35,307,000**	353,070	35,307,000
Additional Infusion	**50,000**	**5,000,000**	-	-
Preferred stock at the end of the year	**403,070**	**₱ 40,307,000**	353,070	₱ 35,307,000

The reconciliation of retained earnings free during the period is as follows:

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Surplus - Free

	2020	2019
Balance, Beginning	₱65,587,972	₱58,599,285
Net Income	504,612	5,849,093
Provision and Adjustments*	63,828	1,139,594
Balance, Ending	₱66,156,412	₱65,587,972

**Breakdown of Provision and Adjustments*

	2020	2019
Prior Period Income	₱ -	₱ -
Income Tax Expense not closed prior year	63,828	1,158,085
Others	-	(18,491)
Total	**₱ 63,828**	₱ 1,139,594

Capital Management

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

The Bank manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

Regulatory Qualifying Capital

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

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

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excludes:

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

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

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

Under Section 121 of the MORB, which states that Thrift Bank with head offices in areas outside the National Capital Region and with up to 10 branches are required to comply with the minimum capital requirement of ₱ 300.00 million. As at December 31, 2020 and 2019, the Bank is not compliant with the minimum capitalization requirement set by the BSP.

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

	2020	2019
Tier 1 capital	**₱261,050,751**	₱261,329,791
Tier 2 capital	**43,123,523**	38,123,523
Total qualifying capital	**344,481,274**	344,760,314
Risk weighted assets	**₱484,911,297**	₱513,451,870
Tier 1 Capital Ratio	**62.15%**	57.77%
Tier 2 Capital Ratio	**8.89%**	7.42%
Total CAR	**71.04%**	65.19%

The Bank's CAR as at December 31, 2020 and 2019 was computed as follows:

	2020	2019
A. Calculation of Qualifying Capital		
A.1 Tier 1 Capital		
Core Tier 1 Capital		
Paid-Up Capital - Ordinary	**₱ 198,009,000**	₱ 198,009,000
Retained Earnings	**66,156,412**	65,587,972
Deductions from Core Tier 1 Capital		
Deferred Tax Asset, Net of Deferred Tax Liability	**3,114,661**	2,267,181
Total Tier 1 Capital	**261,050,751**	261,329,791
A.2 Tier 2 Capital		
Upper Tier 2 Capital		
Paid-up perpetual and cumulative preferred share	**40,307,000**	35,307,000
General Loan Loss Provision	**2,816,523**	2,816,523
Total Upper Tier 2 Capital	**43,123,523**	38,123,523
Total Qualifying Capital	**₱344,481,274**	₱334,760,314

The Bank has not met the required capital of ₱ 300 Million for thrift banks with head office and branches outside the National Capital Region as stated in Section 121 of the BSP MORB as of December 31, 2020 the Bank has a deficiency required capital of ₱61,684,000.

On August 2, 2016, the BSP approved the submitted Capital Build-up Program by the Bank.

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Financial Performance

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

	2020	2019
A. Return on Average Equity	**0.17%**	2.13%
B. Return on Average Assets	**0.08%**	1.04%
C. Net Interest Margin	**5.77%**	8.95%
D. Debt to Equity Ratio	**0.99:1**	1.01:1

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

A. RETURN ON AVERAGE EQUITY (ROE)

Formula: ROE = Net Income after Tax / Average Capital

		2020	2019
Net Income		**₱ 504,612**	₱ 5,849,093
Average Equity			
	2020	**304,472,412**	
	2019	**298,903,972**	
	2019		298,903,972
	2018		250,080,286
Total		**603,376,384**	548,984,258
Average Equity		**₱ 301,688,192**	₱ 274,492,129
Return on Average Equity		**0.17%**	2.13%

B. RETURN ON AVERAGE ASSETS (ROA)

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

		2020	2019
Net Income		**₱ 504,612**	₱ 5,849,093
Average Assets			
	2020	**607,375,943**	
	2019	**601,974,977**	
	2019		601,974,977
	2018		523,132,932
Total		**1,209,350,920**	1,125,107,909
Average Assets		**₱ 604,675,459**	₱ 503,972,307
Return on Average Assets		**0.08%**	1.04%

C. NET INTEREST MARGIN

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

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

		2020	2019
Net Interest Income		**₱ 29,225,859**	₱ 43,160,859
Average Interest Earnings Assets			
	2020	**508,446,092**	
	2019	**503,891,412**	
	2019		503,891,412
	2018		460,999,409
Total		**₱ 1,012,337,504**	₱ 964,890,821
Average Interest Earnings Assets		**₱ 506,168,752**	₱ 482,445,410
Net Interest Margin		**5.77%**	8.95%

D. DEBT TO EQUITY RATIO

Formula: Debt to Equity = Total Liabilities / Total Equity

	2020	2019
Total Liabilities	**₱ 302,903,531**	₱ 303,071,005
Total Equity	**₱ 304,472,412**	₱ 298,903,972
Debt to Equity	**0.99:1**	1.01:1

18. <u>OTHER INCOME</u>

This account consists of the following:

	2020	2019
Fees and Commission Income	**₱ 1,259,986**	₱ 1,627,326
Recovery on Charged Off-Assets	**382,247**	430,202
Gains/Losses from Sale/Derecognition of ROPA	**1,434,732**	1,075,641
Other Income	**1,683,563**	2,686,396
Total	**₱4,760,528**	₱ 5,819,565

19. COMPENSATION AND FRINGE BENEFITS

This account is consists of:

	2020	2019
Salaries and Wages	**₱12,743,652**	₱15,387,815
Director's and Committee Fees	**994,000**	1,491,778
SSS, Philhealth and Employees Compensation Premium and Pag-ibig Fund Contribution	**770,406**	724,153
Medical, Dental and Hospitalization	**1,655,132**	965,466
Contribution to Retirement Fund	**772,583**	2,275,807
Total	**₱16,935,773**	₱20,845,019

20. RETIREMENT PLAN

The Bank adopted a retirement plan in recognition of the contribution of employees to the success of its operations, and to reward their loyalty and long years of service rendered. This retirement plan was established and was effective on January 1, 2013. The plan shall be non-contributory. The Bank shall contribute on behalf of each participant an amount actuarially determined to provide his benefits under the plan.

The plan was computed under the Accrued Benefit Valuation Method-Projected Unit Credit Method, the current service cost is the present value of retirement benefits payable in the future in respect of services in the current period. The past service liability is the present value of the units of benefits payable in the future in respect of services rendered prior to valuation date.

On November 2014, Bureau of Internal Revenue (BIR) approved the submitted retirement plan by the bank with Ref # ERP-143-2014 dated November 24, 2014.

The amount of Retirement Liability as of December 31, 2020 and 2019 amounting to ₱1,442,802. Contributions to the plan were treated as outright expense (see Note 16).

21. OTHER OPERATING EXPENSES

This account consists of the following:

	2020	2019
Security, Clerical, Messengerial & Janitorial Services	**₱1,276,969**	₱1,447,878
Litigation Expenses	**1,026,478**	880,308
Insurance Expenses	**850,412**	825,287
Miscellaneous	**648,351**	441,147
Power, Light & Water	**590,657**	893,910
Travelling Expenses	**583,667**	2,013,770
Postage, Telephone, Cables & Telegram	**564,316**	685,079
Documentary Stamp Used	**545,605**	168,209
Management and Other Professional Fees	**538,050**	643,729
Interest Expense - Leasing Arrangement	**524,501**	707,256
Stationeries & Supplies Used	**336,583**	427,259

(forward)

Repairs and Maintenance	**276,978**	379,996
Fuel & Lubricants	**226,915**	535,356
Supervision Fees	**164,014**	175,322
Information Technology Expense	**152,889**	90,441
Representation and Entertainment	**130,749**	467,920
Membership Fees & Dues	**94,078**	105,358
Fees and Commissions Expense	**37,595**	20,865
Advertising & Publicity	**33,125**	203,746
Periodicals and Magazines	**11,439**	22,540
Donations and Charitable Contributions	**2,500**	25,698
Fines and Penalties	**-**	45,903
Total	**₱8,615,871**	₱11,206,976

22. DEPRECIATION AND AMORTIZATION

This account is consists of:

	2020	2019
Depreciation Expense - Bank Premises	**₱ 953,303**	₱ 484,916
Depreciation Expense - Furniture and Fixtures	**926,284**	299,732
Depreciation Expense - IT Equipment	**202,024**	115,224
Depreciation Expense - Other Office Equipment	**53,198**	23,909
Depreciation Expense - Transportation Equipment	**280,002**	133,360
Depreciation Expense - Leasing Arrangement	**960,160**	960,160
Amortization Expense - Leasehold Improvements	**151,328**	119,453
Total	**₱3,526,299**	₱ 2,136,754

23. LONG-TERM LEASES

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

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

	MINIMUM LEASE PAYMENTS						
	WITHIN 1 YEAR	2-5 YEARS	6-10 YEARS	11-15 YEARS	16-20 YEARS	20 YEARS AND BEYOND	TOTAL
December 31, 2020							
Lease Payments	₱350,781	₱(44,834)	₱771,320	₱2,196,501	₱4,613,846	₱1,276,200	₱9,163,814
Finance Charges	641,467	2,479,925	3,024,001	2,574,099	1,498,557	89,334	10,307,383
Net Present Value	**₱992,248**	**₱2,435,091**	**₱3,795,321**	**₱4,770,600**	**₱6,112,403**	**₱1,365,534**	**₱19,471,197**

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

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The Bank leases where its branch is located at Rizal Street, Angeles City, a portion of the ground floor of a commercial concrete building. The contract lease is for thirty (30) years commencing on January 1, 2012 and expiring on December 31, 2042 with a monthly rental of ₱30,000 and with an escalation of ten (10)% percent every two (2) years.

Also, leases its branch is located at M.H. del Pilar St., Brgy. Sto. Cristo, Tarlac City. The Lease agreement is for five (5) years commencing on August 30, 2016 and shall expire at the midnight of August 29, 2021 with a monthly rental of ₱47,837 and shall be increased at the rate of five (5%) percent every year based on the last monthly rental paid.

24. COMMITMENTS AND CONTINGENCIES

This account consists of:

a.) The Bank is a plaintiff to various cases arising from the collection suits pending in courts for claims against delinquent borrowers of the bank. The final decision of which cannot be determined at present. The amount of loans and receivables under litigation amounted to ₱ 9,124,003 as of December 31, 2020.

b.) The Bank has no pending legal cases arising from its normal operation that will put the bank as defendant as a result of violation of transactions against its clients/ depositors.

c.)The Bank had no outstanding issuances of bank guarantee and other similar credit instruments that will put the Bank into obligation in case of non-compliance by the buyer.

d.) As of December 31, 2020, The Bank has contingent accounts amounted to ₱ 6,699,680.

25. INCOME TAXES

Under Philippine tax laws, the Bank is subject to percentage and other taxes presented as 'Taxes and licenses' in the statements of income as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp taxes.

Income taxes also include RCIT, as discussed below and final taxes paid at the rate of 20%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

Republic Act No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 30%, and deductible interest expense shall be reduced by 33% of interest income subjected to final tax. Current tax regulations also provide for MCIT of 2% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Further, current tax regulations set a limit for entertainment, amusement and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1% of net revenue for sellers of services. The Bank recorded EAR expenses amounted to ₱ 130,749 and ₱ 467,920, in 2020 and 2019, respectively. EAR expenses are presented in the statements of income.

The Bank's provision for income tax for the year was computed as follows:

Income Tax Expense consists of:

	2020	2019
Current	**₱159,902**	₱ 1,300,664
Deferred	**(726,450)**	(2,267,180)
Tax Expense (Benefit) reported in Statements of Comprehensive Income	**₱(566,548)**	₱(966,516)

The current and deferred tax is computed as follows: *(Amount is converted to statutory income tax rate of 30%).*

Current Tax

	2020	2019
Statutory income tax :	**₱ (18,581)**	₱1,464,773
Income tax effects of:		
Provision for Credit Losses on Loans and Receivables	**726,450**	2,103,735
Contribution for Retirement	**-**	(501,564)
Interest income subject to final tax	**(1,155,174)**	(813,641)
Interest expense reduced by 33% income subject to final tax	**476,509**	335,627
Accounts Written-off	**-**	(1,451,711)
Lease Payments	**(360,805)**	(336,779)
Portion of Lease on Interest expense and Right of Use Asset	**491,503**	500,224
Current Tax Expense	**₱159,902**	₱1,300,664

Computation of Income Tax:

	2020
Income before tax per books	**₱ (61,937)**
Add: Non-deductible Expenses/Taxable Other Income	
Provision for Credit Losses on Loans and Receivables	**2,421,500**
Interest expense reduced by 33% income subject to final tax	**1,588,365**
Portion of Lease on Interest expense and Right of Use Asset	**1,638,342**
Total	**5,586,270**
Less: Non-taxable Income and Income Subjected to Final Tax	
Lease Payments	**1,202,683**
Interest Income Subject to Final Tax	**3,850,581**
Net Taxable Income	**533,006**
Tax Rate	**30%**
Normal Corporate Income Tax	**159,902**
Minimum Corporate Income Tax*	**280,932**
Income Tax Due	**280,932**
Less: Payments/Tax Credits	**388,593**
Payments for the three (3) quarters	**14,142**
Income Tax Still Due/(Overpayment)	**₱ (121,803)**

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**Below is the computation of Minimum Corporate Income Tax (MCIT) for the year ended December 31, 2020.*

	2020
Revenue	₱32,761,118
Cost of Services	19,624,470
Gross Income	13,136,648
Add: Other Income	4,760,528
Less: Interest Income Subjected to Final Tax	3,850,581
Total Gross Income	14,046,594
MCIT Rate	2%
Minimum Corporate Income Tax	**₱280,932**

In computing the MCIT of the Bank, cost of services compromises of interest expense & direct operating expenses.

Deferred Tax Assets

As at December 31, 2020 and 2019, net deferred tax assets are as follows:

	2020	2019
Deferred Tax Asset - Beginning	₱5,010,230	₱ -
MCIT for the year	121,030	
Lease Liability	-	2,906,495
Provision for expected credit losses	726,450	2,103,735
	5,857,710	5,010,230
Deferred Tax Liability - Beginning	2,743,049	-
Right of Use Asset	-	2,743,049
	2,743,049	2,743,049
Net Deferred Tax Assets	₱3,114,661	₱2,267,181

Deferred taxes are recognized only to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

As of December 31, 2020, the amount of MCIT, is as follows:

Inception Year	Expiry Year	Amount	Applied/Expired	Unapplied
2020	2023	₱121,030	₱-	₱121,030
TOTAL		₱121,030	₱-	₱121,030

26. RELATED PARTY TRANSACTIONS

Regulatory Reporting

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party making financial and operating desicions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

A. Key management personnel, close family members of key management personnel

B. Which are controlled, significantly influenced by or for which significant voting power is held;
C. By key management personnel or their close family members;
D. Post-employment benefit plans for the benefit of the Bank's employees

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Remunerations of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the senior management to constitute key management personnel for purposes of PAS 24.

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

	2020	2019
Short-term employee benefits	**₱15,280,641**	₱ 18,569,212
Post-employment benefits	**1,655,132**	2,275,807
Total	**₱16,935,773**	₱20,845,019

Regulatory Reporting

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

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. As at December 31, 2019 and 2018, the Bank is in compliance with the regulatory requirements.

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

2020	**DOSRI Loans**	**Related Party Loans Inclusive of DOSRI**
A.1. Outstanding Balance	**₱35,589,904**	**₱35,589,904**
A.2. Total Loan Portfolio	**302,134,850**	**302,134,850**
B. Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1./A.2.)	**11.78%**	**11.78%**
C. Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans		
Unsecured	**-**	**-**
Total DOSRI/RP Loan	**₱35,589,904**	**₱35,589,904**
	0.00%	**0.00%**
D. Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans		
Past Due	**-**	**-**
Total DOSRI/RP Loan	**₱35,589,904**	**₱35,589,904**
	0.00%	**0.00%**
E. Percentage of Non Performing DOSRI/RP to Total DOSRI/RP Loans		
Non Performing	**-**	
Total DOSRI/RP Loan	**₱35,589,904**	**₱35,589,904**
	0.00%	**6.78%**

2019	DOSRI Loans	Related Party Loans Inclusive of DOSRI
A.1. Outstanding Balance	₱43,548,122	₱43,548,122
A.2. Total Loan Portfolio	358,084,875	358,084,875
B. Percentage of DOSRI/Related Party to Total Loan Portfolio (A.1./A.2.)	12.16%	12.16%
C. Percentage of unsecured DOSRI/RP to Total DOSRI/RP Loans		
Unsecured	-	-
Total DOSRI/RP Loan	₱43,548,122	₱43,548,122
	0.00%	0.00%
D. Percentage of Past Due DOSRI/RP to Total DOSRI/RP Loans		
Past Due	-	-
Total DOSRI/RP Loan	₱43,548,122	₱43,548,122
	0.00%	0.00%
E. Percentage of Non Performing DOSRI/RP to Total DOSRI/RP Loans		
Non Performing	-	
Total DOSRI/RP Loan	₱43,548,122	₱43,548,122
	0.00%	6.78%

27. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATION NO. 15-2010

Percentage Taxes (Gross Receipt Tax)

Under Section 121 of the National Internal Revenue Code, there shall be tax on gross receipts derived from all sources within the Philippines by all banks and non-bank financial intermediaries in accordance with the following rates:

a) On interest commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipt are derived:

Maturity period of five (5) years or less 5%
Maturity period is more than five (5) years.. 1%

b) On dividends..0%
c) On royalties, rentals of property, real or personal, profit from exchange and all other items treated as gross income under Section 32 of the NIRC.................................7%

d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments 7%

Documentary Stamp

Pursuant to revenue regulation No. 13-2004 dated December 23, 2004 " Implementing provisions of Republic Act No.9243, an act rationalizing the provisions of the documentary stamp tax of the Internal Revenue Code of 1997 (as amended), below are some of the circular affecting the operation of bank and non-bank financial intermediaries:

Section 51 of Republic Act No 10963: New Rate of DST on Original Issuance of Shares of Stock

There shall be one peso (₱2.00) on each two hundred pesos (₱ 200.00) or fractional part thereof of the par value of such shares of stock. Provided that in case of original issue of shares of stocks without par value, the amount of documentary stamp herein prescribed shall be based upon the

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actual consideration for the issuance of such shares of stocks. Provided further that in the case of stock dividends, or the actual value represented by each share.

Section 55 of Republic Act No 10963: New Rate of DST on all Debt Instruments (Documents, Loan Agreements, Instruments and Papers)

One peso and fifty centavos (₱1.50) on each two hundred pesos (₱ 200.00) or any fractional part thereof of the issue price of any such debt instrument. If the debt instrument has a maturity date of less than one (1) year, the DST due shall be computed based on the number of days the instrument is outstanding as a fraction of 365 days.

Taxes and Licenses

a. Local	
Business Permit	**₱510,415**
Others	**251,797**
b. National	
Percentage Tax	**1,630,988**
Annual Registration - BIR	**2,000**
Total -Taxes and Licenses	**₱ 2,395,200**

Withholding taxes in 2020 are categorized into:

Paid:	**2020**
Final withholding tax on interest expense	**₱496,022**
Withholding taxes on compensation and benefits	**408,920**
Expanded withholding tax	**311,628**
Total	**₱1,216,570**

Tax Assessments and Cases

As at December 31, 2020, the Bank has no outstanding assessment notice from the BIR or cases in court or bodies outside the BIR.

Revenue Regulation (RR) No 19-2011

The Bank reported the following schedules and information on taxable income and deductible expenses to be taken in 2020:

Sale of Services

The Bank's taxable sale of services amounted to ₱28,910,537 and income subject to final income tax and are exempt from tax amounted to ₱3,850,581 for the year ended December 31, 2020.

Cost of Services

	2020
Details of the Bank's tax deductible cost of services accounts are as follows:	
Direct Charges - Salaries and Wages and Other Benefits	**₱16,935,773**
Direct Charges - Insurance (PDIC)	**577,790**
Direct Charges – Supervision Fee	**164,014**
Direct Charges - Interest Expense	**3,535,259**
Interest expense	
Less: Limit (33% of interest income subj. to final tax)	**(1,588,365)**
Total	**₱19,624,471**

Itemized Deductions

Details of the Banks itemized deductions are as follows:	2020
Depreciation Expense	₱ 2,566,139
Taxes and licenses	2,395,200
Security, Clerical, Messengerial & Janitorial Services	1,276,969
Rent	1,202,683
Litigation Expenses	1,026,478
Miscellaneous	648,351
Power, Light & Water	590,657
Travelling Expenses	583,667
Postage, Telephone, Cables & Telegram	564,316
Documentary Stamp Used	545,605
Management and Other Professional Fees	538,050
Stationeries & Supplies Used	336,583
Repairs and Maintenance	276,978
Insurance Expenses	272,622
Fuel & Lubricants	226,915
Information Technology Expense	152,889
Representation and Entertainment	130,749
Membership Fees & Dues	94,078
Fees and Commissions Expense	37,595
Advertising & Publicity	33,125
Periodicals and Magazines	11,439
Donations and Charitable Contributions	2,500
Total	**₱ 13,513,588**

Total Deductible Expense	₱33,138,059
Expense Reported in Audited Financial Statements	(37,583,583)
Difference*	₱ (4,445,524)
**Reconciliation of Difference:*	
Interest Limit	₱ 1,588,365
Provision for Credit losses	2,421,500
Non-Deductible related to Leases	1,638,342
Lease Payments	(1,202,683)
Total	₱4,445,524

28. OTHERS

1. Anti-Money Laundering Act (AMLA)
The Bank had completely satisfied the reporting requirements as required by the Bangko Sentral ng Pilipinas (BSP) and RA 9160 as amended by RA 9194 otherwise known as the Anti-Money Laundering Act.
2. As of December 31, 2020, all of the Bank's directors had undergone the requirements for corporate governance as confirmed by the Monetary Board as mandated by MORB Section 911.
3. Report Liabilities that the report is fully covered with insurance and compliant with PDIC.

29. AGGREGATE AMOUNT OF SECURED LIABILITIES AND ASSETS PLEDGED

As of December 31, 2020, the Bank has no secured liabilities and assets pledged.

30. LIST OF EFFECTIVE STANDARDS AND INTERPRETATION

In compliance with the requirements of Part 1 Section 4(J) of SRC Rule 68, as amended, as of December 31, 2020 and 2019, below is the list of all the effective standards and interpretations under PFRS that are either "Adopted", "Not Adopted" or "Not Applicable".

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2020**		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✔		
PFRSs Practice Statement Management Commentary				✔
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✔		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✔		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✔		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✔		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✔
	Amendments to PFRS 1: Government Loans			✔
PFRS 2	Share-based Payment	✔		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✔		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✔		
PFRS 3 (Revised)	Business Combinations			✔
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✔
	Amendments to PFRS 3: Scope Exceptions for Joint Ventures			✔
PFRS 4	Insurance Contracts			✔
	Amendments to PFRS 9 and PFRS 4: Financial Guarantee Contracts			✔
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✔

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✔
	Amendments to PFRS 5: Changes in methods of disposal			✔
PFRS 6	Exploration for and Evaluation of Mineral Resources			✔
PFRS 7	Financial Instruments: Disclosures	✔		
	Amendments to PFRS 7: Transition	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✔		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✔		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✔		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✔		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✔		
	Servicing Contracts			✔
	Applicability of the Amendments to PFRS 7 to condensed interim financial statements			✔
PFRS 8	Operating Segments			✔
PFRS 9	Financial Instruments: Recognition and Measurement	✔		
	Amendments to PFRS 9: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✔		
	Amendments to PFRS 9: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✔
	Amendments to PFRS 9: The Fair Value Option	✔		
	Amendments to PFRS 9 and PFRS 4: Financial Guarantee Contracts	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PFRS 9 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
	Amendments to Philippine Interpretation IFRIC–9 and PFRS 9: Embedded Derivatives	✔		
	Amendment to PFRS 9: Eligible Hedged Items	✔		
PFRS 10*	Consolidated Financial Statements			✔
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✔
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✔
PFRS 11*	Joint Arrangements			✔
	Amendments to PFRS 11: Accounting for Acquisition of Interests in Joint Operations		✔	
PFRS 12*	Disclosure of Interests in Other Entities with transition guidance	✔		
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✔
	Clarification of the Scope of the Standard			✔
PFRS 13*	Fair Value Measurement	✔		
PFRS 14*	Regulatory Deferral Accounts			✔
PFRS 15*	Revenue from Contracts with Customers	✔		
	Clarifications to PFRS 15	✔		
PFRS 16	Leases	✔		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✔		
	Amendment to PAS 1: Capital Disclosures	✔		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✔		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✔		
	Amendments to PAS 1: Disclosure Initiative		✔	
PAS 2	Inventories			✔
PAS 7	Statement of Cash Flows	✔		
	Amendments to PAS 7: Disclosures Initiative	✔		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✔		
PAS 10	Events after the Balance Sheet Date	✔		
PAS 11	Construction Contracts			✔

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	✔		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✔		
PAS 16	Property, Plant and Equipment	✔		
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation			✔
	Clarification of Acceptable Methods of Depreciation and Amortization	✔		
PAS 18	Revenue	✔		
PAS 19 (Amended)	Employee Benefits	✔		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✔		
	Plan Amendment, Curtailment or Settlement	✔		
	Defined Benefit Plans: Employee Contributions			✔
	Discount Rate: Regional Market Issue			✔
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✔
PAS 21	The Effects of Changes in Foreign Exchange Rates			✔
	Amendment: Net Investment in a Foreign Operation			✔
PAS 23 (Revised)	Annual Improvements: Borrowing Costs	✔		
PAS 24 (Revised)	Related Party Disclosures	✔		
	Key Management Personnel	✔		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✔		
PAS 27 (Amended)	Consolidated and Separate Financial Statements			✔
	Separate Financial Statements			✔
	Amendments to PAS 27: Equity Method on Separate Financial Statements			✔
PAS 28 (Amended)*	Investment in Associates	✔		
	Investments in Associates and Joint Ventures	✔		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and Its Associate or Joint Ventures			✔
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation exception			✔

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
PAS 29	Financial Reporting in Hyperinflationary Economies			✔
PAS 31	Interests in Joint Ventures			✔
PAS 32	Financial Instruments: Disclosure and Presentation	✔		
PAS 33	Earnings per Share	✔		
PAS 34	Interim Financial Reporting			✔
	Amendments to PAS 34: Disclosure of Information elsewhere in the Interim Financial Report			✔
PAS 36	Impairment of Assets	✔		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✔		
PAS 38	Intangible Assets	✔		
	Amendments to PAS 38 Revaluation Method-Proportionate Restatement of Accumulated Amortization			✔
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✔
PAS 40	Investment Property	✔		
PAS 41	Agriculture			✔
	Amendments to PAS 41: Bearer Plants			✔
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✔
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✔
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✔		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✔
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✔
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✔
IFRIC 8	*Scope of PFRS 2*			✔
IFRIC 9	Reassessment of Embedded Derivatives			✔
	Amendments to Philippine Interpretation IFRIC–9 and PFRS 9: Embedded Derivatives			✔
IFRIC 10	*Interim Financial Reporting and Impairment*			✔

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2020		Adopted	Not Adopted	Not Applicable
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✔
IFRIC 12	Service Concession Arrangements			✔
IFRIC 13	Customer Loyalty Programmes			✔
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✔
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✔
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✔
IFRIC 17	Distributions of Non-cash Assets to Owners	✔		
IFRIC 18	Transfers of Assets from Customers			✔
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✔
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✔
IFRIC 21	Levies			✔
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✔
IFRIC 23	Uncertainty over Income Tax Treatments	✔		
SIC-7	Introduction of the Euro			✔
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✔
SIC-12	Consolidation - Special Purpose Entities			✔
	Amendment to SIC - 12: Scope of SIC 12			✔
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✔
SIC-15	Operating Leases - Incentives			✔
SIC-21	Income Taxes – Recovery of Revalued Non-Depreciable Assets			✔
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✔
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✔
SIC-29	Service Concession Arrangements: Disclosures.			✔
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✔
SIC-32	Intangible Assets - Web Site Costs			✔

PAMPANGA DEVELOPMENT BANK

FINANCIAL HIGHLIGHTS

As of December 31, 2020 and 2019

	2020	2019	Increase (Decrease)
FOR THE YEAR			
TOTAL INCOME	**37,521,646**	52,611,590	(15,089,945)
TOTAL EXPENSES	**37,017,035**	46,762,497	(9,745,463)
NET INCOME	**504,611**	5,849,093	(5,344,482)
EARNINGS PER SHARE			
Ordinary Shares	**0.25**	2.95	(2.70)
RETURN ON AVERAGE EQUITY	**0.17%**	2.13%	(1.96%)
RETURN ON AVERAGE ASSETS	**0.08%**	1.04%	(0.96%)
NET INTEREST MARGIN	**5.77%**	8.95%	(3.18%)
AT YEAR END			
TOTAL ASSETS	**607,375,943**	601,974,977	5,400,967
LOANS AND RECEIVABLES (NET)	**266,832,244**	326,668,223	(59,835,979)
LIQUID ASSETS	**521,571,920**	534,856,849	(13,284,930)
FIXED ASSETS	**29,321,836**	28,326,169	995,668
DEPOSIT LIABILITIES	**278,944,791**	281,840,016	(2,895,224)
OTHER LIABILITIES	**18,686,104**	16,054,590	2,631,514
EQUITY ACCOUNTS	**304,472,412**	298,903,972	5,568,440
BOOK VALUE PER SHARE			
Ordinary Shares	**153.77**	150.95	2.82
CAPITAL ADEQUACY RATIO	**71.04%**	65.19%	5.85%
PAST DUE RATIO	**28.11%**	31.50%	(3.39%)
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES	**186.98%**	189.77%	(2.79%)
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES & OTHER LIABILITIES	**175.24%**	179.55%	(4.31%)
DEBT TO EQUITY RATIO	**0.99:1**	1.01:1	(0.02:1)
RATIO OF TOTAL FIXED ASSETS OVER EQUITY ACCOUNTS	**9.63%**	9.48%	0.15%

(See Notes to Financial Statements)

THE IMPACT OF CORONAVIRUS DISEASE 2019 (COVID-19) ON THE FINANCIAL STATEMENTS

On January 30, 2020, the Department of Health (DOH) reported the first case of COVID-19 infection in the country and by March 9, 2020, President Rodrigo Roa Duterte formally declared a state of public health emergency due to an increasing number of COVID-19 local transmissions. Two days after, by March 11, 2020, the World Health Organization (WHO) officially declared COVID-19 as a pandemic.

In a move to contain the spread of the COVID-19 virus, President Duterte issued Presidential Proclamation No. 929 on March 16, 2020, declaring a state of calamity throughout the country and imposing an Enhanced Community Quarantine (ECQ) throughout the island of Luzon, in effect placing the island of Luzon on lockdown until May 15, 2020. During this lockdown period, non-essential businesses were temporarily closed, curfews were implemented and travel restrictions were enforced.

In consideration of the need to revive the economy while at the same time protecting public health, the quarantine category in Luzon was gradually eased by the Inter Agency Task Force (IATF) to Modified Enhanced Community Quarantine (MECQ) until May 31, 2020 and General Community Quarantine (GCQ) starting June 1, 2020.

The aforementioned quarantine measures implemented by the national government through the IATF and localized lockdowns implemented by various local government units significantly impacted the Bank's business operations from March 17, 2020 to May 15, 2020, the Bank implemented some changes on its operation to cope up with the unexpected COVID-19 pandemic:

a. Changes in working hours

b. Skeletal workforce

c. Implementation of IATF health and safety protocols to ensure the safety of its employees and its clients

d. Installation of protective barriers, air purifiers, foot bath, and signage on social distancing

e. The Bank also provided transportation to its employees

f. Implementation of the "Bayanihan to Heal as One Act" and "Bayanihan to Recover as One Act"

g. Availment of the BSP Regulatory Relief Package BSP Memorandum M-2020-008 particulary:

> a. Allow staggered booking of allowance for credit losses for loans extended to affected borrowers for a maximum of five (5) years, subject to approval of the BSP;
>
> b. Exclusion from the computation of past due ratio of the loan borrowers in affected areas which should have been classified as past due under Section 304-303Q of the MORB from March 8, 2020 until December 31, 2021.

The impact of COVID-19 on the Bank's business and operations continue to evolve. The Bank will continue to monitor the situation as of December 31, 2020.

II. ***Compliance with Appendix 63c of the MORB-Disclosure in the Annual Reports and Published Statement of Condition***

A. Capital structure and capital adequacy:

1 Tier 1 capital and a breakdown of its components

Capital Stock		
Common Stock	198,009,000	
Share Capital	40,307,000	238,316,000
Retained Earnings	66,092,584	
Provisions and Adjustments	63,828	66,156,412
Tier 1 Capital		304,472,412

2 Tier 2 capital and a breakdown of its components

General Loan Loss Provision	2,816,523

3 Deductions from Tier 1 (50%) and Tier 2 (50%) capital	-
4 Total qualifying capital	344,481,274
5 Capital requirements for credit risk	411,226,204
6 Capital requirements for market risk	-
7 Capital requirements for operational risk	73,685,093
8 Capital Adequacy Ratio	71.04%