"YOU"

BEFORE ANYTHING ELSE

2021

ANNUAL REPORT

TABLE OF CONTENTS

CORPORATE POLICY

A. CORPORATE POLICY

I. Vision, Mission and Core Values

Vision:

As a partner in nation-building, to be recognized as among the leading rural banks of value to customers, shareholders and employees, continuously striving to create more valued products, achieve greater results and make a positive contribution to the life of every individual.

Mission:

- To encourage the people to practice the habit of savings and thrift and the judicious use of credit in the communities that it serve;
- To help eradicate usurious practices in the communities it serve;
- To provide quality service to the people of the communities it serve whether they are depositors or borrowers so that they can improve their economic standing;
- To enhance the knowledge, skills and community relations of the employees, so they can become good citizens and uplift their economic well-being;
- To encourage the people to be proactive in banking activities so as to spur economic activity in the community, as partners in nation-building.

Core Values:

- Respect
- Excellence
- Responsibility
- Teamwork
- Concern for People

II. About us

BRIEF HISTORY
OF PANGASINAN BANK (A RURAL BANK), INC.
Formerly Pangasinan Savings and Loan Bank

In the early part of 1976, a closely-knit circle of friends from San Fabian, Pangasinan informally gathered together and decided to organize the second thrift bank in Pangasinan. The group was composed of Dr. Gregorio T. de Guzman, Jr., a private medical practitioner, Atty. Conrado P. Gubatan, at that time Mayor or San Fabian, Mr. Daniel P. Calimlim, an insurance underwriter also engaged in the poultry business, and Mr. Mauro S. Abalos, an accountant and businessman. They invited Msgr. Oscar A. Aquino, who was then parish priest of San Fabian and a native of Mangaldan to join them. With the support of some relative, namely, Dr. Letecia L. Quinto and Mr. Alfredo B. Quinto, related by affinity to Dr. Gregorio T. de Guzman, Jr. and Dr. Loreto J. Gubatan, a dentist and brother of Atty. Conrado P. Gubatan, the group managed to deposit Five Hundred Thousand Pesos (P 500,000.00) with the Central Bank and this amount was the minimum paid-up capital required of a thrift bank at that time.

In August of 1976, the first staff of the bank led by Dr. and Mrs. Gregorio T. de Guzman, Jr. underwent a 15-day training at the Central Bank Training Institute. The basic training course was especially designed for employees of savings and loan associations, one of three categories of thrift banks.

With a fully trained staff, the Bank opened on October 3, 1976 on a rented building in Mangaldan, right at the center of business of the town. The Banks name back then was PANGASINAN SAVINGS AND LOAN ASSOCIATION, INC. The blessing was officiated by the late Msgr. Federico Limon, Archbishop of Lingayen-Dagupan with prospective depositors, hundreds of them, in attendance. The guest of honor was the late Mr. Manuel Santos, the Central Bank Director in charge of savings and loan associations.

At the end of 1976, after three months of operation, the Association has exceeded break even and realized a profit of P 137.00. Since then, the Corporation has been profiting except for the troublesome years that followed the assassination of Ninoy Aquino.

One year after the bank's establishment, due to profitable operation, the Central Bank granted rediscounting privileges and availment of cheap special time deposits (STD) for supervised and non-supervised credit. These privileges expanded the resources of the Bank although most of the time, the Bank did not need loans from the Central Bank due to the rapid increase of deposits from the general public. The Bank has been a pioneer in the financing of cotton industry which flourished in San Fabian and neighboring towns in the eighties. It was in fact one of the biggest financiers of cotton planting in the entire country.

After exactly two years of operation, on October 3, 1978, the Bank opened a Savings Agency, its first branch unit, in San Fabian (which was converted into a full branch in 1990). Then came a rapid succession of branches which were also approved by the Central Bank because of profitable operation and efficient management and strict adherence to all rules and regulations prescribed by the Central Bank. The Malasiqui branch was opened on April

22, 1979, followed by Binmaley branch on June 17, 1979 and the Alaminos Branch on March 3, 1980.

From December 31, 1977 to June 30, 1980, the Bank's stockholders gradually increased the paid-up capital of the Bank using their hard-earned savings, from P 500,000.00 to P 2 Million to comply with the minimum capital requirement prescribed by the Central Bank. When the Bank had attained the P 2 Million mark, it earned the right to change its corporate name to PANGASINAN SAVINGS AND LOAN BANK, INC. and its new name was registered with the Securities and Exchange Commission.

In 1981, the Central Bank required another round of capital build-up with P 5 Million as the target for savings and loan associations outside of Metro Manila. But due to the economic crisis that started in 1983, the stockholders were not able to comply immediately with the increase in capital. To remedy the situation, the stockholders channeled all available dividends from the undivided profits to stock dividends and the members of the Board of Directors infused back all their per diem and honoraria.

Despite the economic debacle during the martial law years, Pangasinan Savings and Loan Bank, Inc. maintained a consistent growth in resources and total deposits. In 1980, it was adjudged the First runner-up as Best Savings and Loan Association in the country by the Philippine League of Savings and Loan Associations, with the Central Bank acting as the judge of the contests.

In 1983, Pangasinan Savings and Loan Bank was accredited as a participating or originating bank by the National Home Mortgage Finance Corporation to grant PAG-IBIG housing loans, the only accredited bank in Pangasinan. It was given a continuous automatic revolving line of P 1.5 Million. Since then, Pangasinan Savings and Loan Bank Inc. has released about 150 housing loans amounting to about P 15 Million. On December 22, 1984, the National Home Mortgage Finance Corporation granted Pangasinan Savings and Loan Bank, Inc. a P 7.4 Million new credit line, one of the only 38 banks given accreditation.

From P 500,000, the Bank's resources had reached P 143 Million at the end of 1996. The original stockholders had managed to increase the Bank's capital to P 10 Million in 1992. But because the Central Bank in 1992 had required all thrift banks operating outside Metro Manila to have a P 20 Million capital, the original stockholders invited S & F Realty Corporation owned by Mr. & Mrs. Romualdo C. Siapno to infuse additional capital.

Finally, the P 20 Million capital requirement was complied with in 1996 only to be increased by the Central Bank (now the Bangko Sentral ng Pilipinas) to P 40 Million. The latest minimum capital requirement for thrift banks is P 52 Million at the end of 2000 and P 64 Million at the end of year 2001.

The present total capital accounts of Pangasinan Savings and Loan Bank, Inc. is P 44 Million, or P 20 Million short of the required capital. Knowing their limited capability, the present stockholders decided to downgrade the Bank's category to a rural bank. The group had also in mind the greater privileges now being enjoyed by rural banks like lower reserve requirements and easier branching requirements. The Bank will then be able to open branches in Rosario, La Union where it owns a prime lot and in other towns of Pangasinan, and will be eligible also to offer current accounts to its clients. The new name of the Bank as approved by the Bangko Sentral ng Pilipinas last January 2001 and by the Securities and

Exchange Commission in August 27, 2001 is now PANGASINAN BANK (A RURAL BANK), INC.

In August 2011, the capitalization of the Bank reached P50 million. Since the bank is over capitalized when it downgraded to rural bank, the bank decided to expand its operation to the north, and in March 26, 2007 the bank opened its first branch outside of Pangasinan located at Rosario, La Union.

EARLY YEARS:

1976- The bank was organized as the second thrift bank in Pangasinan with a minimum paid up capital of P500, 000.00 as a requirement for a thrift bank that time.

August of 1976- when the first staff of the bank led by Dr. and Mrs. Gregorio T. de Guzman, Jr. underwent a 15-day training at the Central Bank Training Institute.

October 3, 1976- when the bank first opened and was then was named PANGASINAN SAVINGS AND LOAN ASSOCIATION, INC.

GROWTH YEARS:

December 31, 1977- the Bank's stockholders gradually increased the paid-up capital of the Bank using their hard-earned savings, from P 500,000.00 to P 2 Million to comply with the minimum capital requirement prescribed by the Central Bank.

October 3, 1978- the Bank opened a Savings Agency, its first branch unit, in San Fabian.

April 22, 1979- opening of Malasiqui branch.

June 17, 1979- when Binmaley branch was opened.

March 3, 1980- when Alaminos branch was opened.
1980- it was adjudged the First runner-up as Best Savings and Loan Association in the country by the Philippine League of Savings and Loan Associations, with the Central Bank acting as the judge of the contests.

1981- the Central Bank required another round of capital build-up with P 5 Million as the target for savings and loan associations outside of Metro Manila.

1983- as economic crisis was going on, the stockholders were not able to comply immediately with the increase in capital. To remedy the situation, the stockholders channeled all available dividends from the undivided profits to stock dividends and the members of the Board of Directors infused back all their per diem and honoraria.

PSLB was accredited as a participating or originating bank by the National Home Mortgage Finance Corporation to grant PAG-IBIG housing loans, the only accredited bank in Pangasinan. It was given a continuous automatic revolving line of P 1.5 Million.

December 22, 1984- the NHMFC granted PSLB a P 7.4 Million new credit line, one of the only 38 banks given accreditation.

1996- the Bank's resources had reached P 143 Million from its original resources of P500, 000.00.

January 2001- the BSP approved the new name of the bank.

August 27, 2001- the new name of bank is now PANGASINAN BANK, (A RURAL BANK) INC. approved by BSP and SEC.

March 26, 2007- opening of the first branch outside Pangasinan which is located at Rosario, La Union

August 19, 2011-the total capitalization reached P50 million

2008- Pangasinan Bank released its first radio advertisement.

III. Bank's Business Model and Brand

Pangasinan Bank (A Rural Bank), Inc. is a six-unit bank with Head office located in the agricultural town of Mangaldan, a 1st class municipality in the province of Pangasinan. It has four branches in Pangasinan located in Alaminos, Binmaley, Malasiqui, and San Fabian, and one branch in Rosario, La Union. The Bank funds, comes mostly from deposits comprising of 80.87% of total resources. These are channeled to loans and due from BSP and other banks comprising 42.45% and 42.84% respectively of total resources. Lending activities are mostly for motor vehicle (79.90%), and real estate (5.51%) loans. Other loans are granted to agricultural (4.24%), agrarian (00.10%), trading and commercial (8.56%) sectors and the rest for salary and consumption (1.69%) loans.

The bank faces stiff competition as a number of non-bank financial institutions operate within the same areas of operations, and offer similar loan products without requiring the same documentary requirements (i.e. KYC and financial documents) and/or collaterals from borrowers. To date, the bank has gradually shifted to risk-based lending wherein credit decisions was based primarily on the capacity to pay of the borrowers.

FINANCIAL SUMMARY/

FINANCIAL HIGHLIGHTS

B. FINANCIAL HIGHLIGHTS

PANGASINAN BANK (A RURAL BANK), INC.
Rizal Avenue, Poblacion, Mangaldan, Pangasinan

STATEMENT OF FINANCIAL POSITION
As of December 31, 2021 and 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
ASSETS			
Cash and Cash Equivalents	2,5	3,082,880	3,021,940
Due from Bangko Sentral ng Pilipinas	2.6	10.581.544	10.644.144
Due from Other Banks	2,7	169,584,446	188,341,119
Loans and Receivables	2,8	177,648,283	150,570,329
Held-to-Maturity Financial Assets	2,9	28,238,271	27,903,571
Bank Premises, Furniture, Fixtures and Equipment	2,10	10,508,034	11,689,850
Investment Properties	2,11	12,726,951	14,752,754
Other Assets	2,12	13,673,527	11,819,856
TOTAL ASSETS		**426,043,936**	**418,743,563**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit Liabilities	2,13	345,928,667	338,324,877
Unearned Income	2,14	4,679,802	4,306,650
Other Liabilities	2,15	4,695,968	2,656,250
Income Tax Payable	2,16	359,743	90,509
Total Liabilities		355,664,181	345,378,286
EQUITY			
Paid-in Capital	2,17	50,000,000	50,000,000
Retained Earnings Reserve	2,17	11,069,563	10,437,798
Retained Earnings Free	2,17	8,176,844	11,705,142
Accumulated Other Comprehensive Income	2	1,133,349	1,222,337
Total Equity		70,379,756	73,365,277
TOTAL LIABILITIES AND EQUITY		**426,043,936**	**418,743,563**

This statement should be read in conjunction with the accompanying notes.

2 9 MAY 2022

PANGASINAN BANK (A RURAL BANK), INC.
Rizal Avenue, Poblacion, Mangaldan, Pangasinan

STATEMENT OF INCOME
For the years ended December 31, 2021 and 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
INTEREST INCOME	18		
Loans and receivables		27,512,600	23,886,057
Held-to-maturity Investments		411,878	721,784
Deposits with banks		1,025,366	2,611,060
		28,949,844	27,218,901
INTEREST EXPENSE	19		
Deposit Liabilities		2,266,671	3,171,818
		2,266,671	3,171,818
OTHER INCOME	20		
Miscellaneous		9,292,200	10,143,822
TOTAL OPERATING INCOME		35,975,373	34,190,904
OPERATING EXPENSES	21		
Employees' compensation and other benefits		14,502,666	13,089,420
Director's Fees		432,000	-
Taxes and Licenses		2,783,718	3,336,840
Other Administrative Expenses		11,129,927	10,381,000
Depreciation/Amortization		2,394,794	1,763,939
Provision for Credit Losses		-	1,097,762
		31,243,104	29,668,960
INCOME BEFORE TAX		4,732,269	4,521,944
PROVISION FOR INCOME TAX	16 & 22	(843,337)	(812,523)
PROFIT/(LOSS) FOR THE PERIOD		**3,888,931**	**3,709,420**
OTHER COMPREHENSIVE INCOME			
Unrealized market gain/(loss) on plan assets	2	(88,988)	594,494
TOTAL COMPREHENSIVE INCOME		**3,799,943**	**4,303,915**

This statement should be read in conjunction with the accompanying notes.

PANGASINAN BANK (A RURAL BANK), INC.
Rizal Avenue, Poblacion, Mangaldan, Pangasinan

STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2021 and 2020
(Amounts In Philippine Pesos)

	Paid-in Capital		Retained Earnings			Accumulated Other Comprehensive Income	Total
	Preferred	Common	Reserve	Free	Undivided Profits		Equity
Balance at 31 December, 2019	5,000,000	45,000,000	10,219,878	9,962,854	(2,761,900)	627,843	68,048,574
Reserve for contingencies and self-insurance			217,921	(188,398)			29,523
Adjustments (see AJE)				1,464,727			1,464,727
Deficiency tax 2017				(481,562)			(481,562)
Transfers				(2,761,900)	2,761,900		-
Unrealized market gain on retirement fund						594,494	594,494
Undivided Profits ending 12/31/2020					3,709,420		3,709,420
Balance at 31 December, 2020	5,000,000	45,000,000	10,437,798	7,995,721	3,709,420	1,222,337	73,365,277
Dividends				(3,650,000)			(3,650,000)
Reserve for contingencies and self-insurance			631,765	426,426			1,058,190
Adjustments (see AJE)				(455,948)			(455,948)
Deficiency tax 2017							-
Transfers				3,709,420	(3,709,420)		-
Unrealized market gain/loss on retirement fund						(88,988)	(88,988)
Remeasurement of defined benefit liabilities				(3,737,707)			(3,737,707)
Undivided Profits ending 12/31/2021					3,888,931		3,888,931
Balance at 31 December, 2021	5,000,000	45,000,000	11,069,563	4,287,913	3,888,931	1,133,349	70,379,756

This statement should be read in conjunction with the accompanying notes.

PANGASINAN BANK (A RURAL BANK), INC.
Rizal Avenue, Poblacion, Mangaldan, Pangasinan

STATEMENT OF CASH FLOWS
For the years ended December 31, 2021 and 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT BEFORE TAX		4,732,269	4,521,944
Adjustments to reconcile net income/retained earnings			
to net cash provided by operating activities:			
Depreciation/Amortization	10	2,394,794	1,763,939
Provision for Credit Losses	8	-	1,097,762
Adjustments (see SCE)		(4,282,643)	1,389,262
Changes in operating assets and liabilities			
Decrease (Increase) in:			
Loans and Receivables	8	(27,077,954)	4,744,128
Unearned Interest and Discounts	7	-	(19,169)
Other Asset	12	(1,853,671)	(4,608,123)
Increase (Decrease) in:			
Deposit Liabilities	13	7,603,790	22,349,956
Other Liabilities	15	2,039,718	(1,144,436)
Unearned Income	14	373,153	939,982
Cash generated from operations		(16,070,545)	31,035,244
Income Taxes	16	(574,104)	(688,057)
NET CASH FROM OPERATING ACTIVITIES		(16,644,649)	30,347,187
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) Decrease in:			
Held-to-Maturity Financial Assets	9	(334,699)	(60,338)
Investment Properties	11	2,226,654	(6,623,294)
Disposal, Acc. Depreciation, Adjustments	10	(145,633)	22,501
Bank Premises, Furniture and Equipment	10	(210,007)	(1,494,110)
NET CASH FROM INVESTING ACTIVITIES		1,536,315	(8,155,240)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Dividends		(3,650,000)	-
Capital Infusion			-
NET CASH FROM FINANCING ACTIVITIES		(3,650,000)	-
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS		(18,758,334)	22,191,947
CASH BALANCE AT BEGINNING OF YEAR			
Cash and Cash Equivalents	5	3,021,940	2,815,238
Due from Bangko Sentral ng Pilipinas	6	10,644,144	10,201,495
Due from Other Banks	7	188,341,119	166,798,525
		202,007,203	179,815,257
CASH BALANCE AT END OF YEAR			
Cash and Cash Equivalents	5	3,082,880	3,021,940
Due from Bangko Sentral ng Pilipinas	6	10,581,544	10,644,144
Due from Other Banks	7	169,584,446	188,341,119
		183,248,870	202,007,203

This statement should be read in conjunction with the accompanying notes.

FINANCIAL CONDITION AND RESULTS OF OPERATION

C. FINANCIAL CONDITION AND RESULTS OF OPERATION

PANGASINAN BANK, INC.
BALANCE SHEET
For the Period Ended - December 31, 2021

ACCOUNT NAME	Dec. 31, 2021	December 31 2020	2019	2018
Cash & Other Cash Items	3.083	3.021	2.815	3.108
Due from Bangko Sentral ng Pilipinas	10.582	10.644	10.201	10.252
Due from Other Banks	169.584	188.341	166.799	169.991
LIQUID ASSETS	**183.249**	**202.006**	**179.815**	**183.351**
Debt Securities Measured at Amortized	28.238	27.904	27.843	26.552
TOTAL SECURITIES, (NET)	**28.238**	**27.904**	**27.843**	**26.552**
Loans, Discounts and Advances (Net)	172.094	145.281	151.697	154.230
Sales Contract Receivable (Net)	5.554	5.289	4.697	5.759
Bank Premises, Furniture, Fixtures & Equipment	10.508	11.690	11.798	11.939
ROPA (Net)	12.727	14.753	8.129	9.282
Deferred Tax Asset				
Other Assets (Net)	15.095	15.997	12.610	9.746
TOTAL ASSETS	**427.465**	**422.920**	**396.589**	**400.859**
Savings Deposits	345.929	338.325	315.975	315.434
TOTAL DEPOSITS	**345.929**	**338.325**	**315.975**	**315.434**
Accrued Payables	1.192	1.354	1.168	1.203
Unearned Income	4.679	4.307	3.367	3.663
Provisions & Other Post Retirement	0.928	5.399	6.219	5.910
Other Liabilities	0.999	0.937	1.168	1.504
TOTAL LIABILITIES	**353.727**	**350.322**	**327.897**	**327.714**
Paid-In Capital	50.000	50.000	50.000	50.000
Retained Earnings	19.461	18.240	20.743	19.445
Unidivided Profits	4.277	4.358	(2.051)	3.700
TOTAL CAPITAL	**73.738**	**72.598**	**68.692**	**73.145**
TOTAL LIABILITIES AND CAPITAL	**427.465**	**422.920**	**396.589**	**400.859**

Prepared by:	Checked by:	Approved by:
Sebastina F. Nepacina	Evelyn C. Vergara	Edmund V. Fernandez
Chief Accountant	Compliance Officer	General Manager

PANGASINAN BANK, INC.
INCOME STATEMENT
For the Period Ended - December 31, 2021

ACCOUNT NAME	Dec. 31, 2021	December 31		
		2020	2019	2018
Interest Income	28.950	27.219	30.496	25.082
Interest Expense	2.267	3.172	3.074	3.102
Net Interest Income	**26.683**	**24.047**	**27.422**	**21.980**
Provision for Probable Losses	–	–	**9.2160**	**1.4760**
Fees and Commissions	0.110	0.184	1.380	2.313
Other Income	0.906	1.992	3.227	1.159
Total Non-Interest Income	**1.016**	**2.176**	**4.607**	**3.472**
Non-Interest Expense				
Compensation/Fringe Benefits	14.935	13.089	14.133	11.898
Taxes and Licenses	2.784	3.337	3.444	3.050
Depreciation Expense	2.395	1.764	1.673	3.415
Other Administrative Expense	11.129	11.479	10.239	7.655
Total Non-Interest Expense	**31.243**	**29.669**	**29.489**	**26.018**
Gain from Sale/Derecognition of NFA	7.910	7.967	4.649	5.790
Net Income Before Tax	**4.366**	**4.521**	**(2.027)**	**3.748**
Provision for Income Tax	0.09	0.163	0.024	0.048
Net Income	**4.277**	**4.358**	**(2.051)**	**3.700**

Prepared by:
Sebastina F. Nepacina
Chief Accountant

Checked by:
Evelyn C. Vergara
Compliance Officer

Approved by:
Edmund V. Fernandez
General Manager

Financial Performance for the year 2021.

	% of Increase (Decrease)	2021	2020
FOR THE YEAR (In Million Pesos)			
TOTAL INCOME	1.37%	37.876	37.363
TOTAL EXPENSES	1.79%	33.598	33.005
NET INCOME	-1.83%	4.278	4.358
AT YEAR END (In Thousand Pesos)			
RESOURCES	1.07%	427.759	423.247
LOANS	15.84%	181.599	156.764
DEPOSITS	2.25%	345.929	338.325
CAPITAL FUNDS	1.57%	73.738	72.599
LIQUID ASSETS (Cash and Other Cash Items, Due From BSP, Due from Other Banks)	-9.28%	183.249	202.007
RATIOS			
EARNINGS PER SHARE	-1.95%	8.55	8.72
PAST DUE RATIO	-33.09%	11.22%	16.77%
CAPITAL ADEQUACY RATIO (CAR)	-7.23%	17.06%	18.39%

Total Income slightly increased by 1.37% or P 37.876 Million compared to prior year's P 37.363 Million. The administration department contributed the highest gross income of P 9.316 Million coming from sale of foreclosed properties.

Total Expenses slightly increased by 1.79% or P 33.598 Million compared to P 33.005 Million the year before. The increase was brought about by the fees and commissions paid to car dealers and sales agents and the booking of depreciation expense on foreclosed properties with buildings. It is worth noting that as in 2020, the bank did not book Loan Loss provisions, enhancing the bottomline.

Net Income decreased by 1.83% or P 4.278 Million compared to the preceding year's P 4.358 Million. Mangaldan operations, Alaminos, Binmaley, Malasiqui, Rosario and San Fabian contributed a combined total of P 5.297 Million in net earnings while Admin contributed a net loss of P 1.020 Million to account for the 2021 figure.

Total Assets/ Resources increased by 1.07% or P 427.759 Million compared to the earlier year's P 423.247 Million. It was due to the growth in deposits and the expansion in loans.

Total Loans significantly increased by 15.84% or P 181.599 Million compared to the previous year's P 156.764 Million. The management took advantage of the increased demand in motor vehicle loans due to the government imposed restrictions on public transportation. The bank catered mostly to Overseas Filipino Workers (OFW's).

Total Deposits increased by 2.25% or P 345.929 Million compared to last year's P 338.325 Million brought about by the growth in deposits coming from Mangaldan, San Fabian, Malasiqui and Rosario with a combined total of P 7.606 Million.

Capital Funds increased by 1.57% or P 73.738 Million compared to prior year's P 72.599 Million mainly contributed by the net income for the year of P 4.278 Million.

Liquid Assets decreased by 9.28% or P 183.249 Million compared to 202.007 Million the year before. The decrease was the result of the Bank's aggressive auto loan lending.

Earnings per Share slightly decreased by 1.95% or P 8.55. per share compared to last year's P 8.72/share due to corollary effect of the lower Net Income.

Past Due Ratio decreased by 33.09% or at 11.22% by year-end compared to previous year's 16.77%. The decrease was brought about by the collection of past due accounts and the reclassification of restructured loans back to current status because of good payment records.

Capital Adequacy Ratio decreased by 7.23% or 17.06% compared to 18.39% the year before. However, it remains substantial because the set standard or industry level is at 10%. This indicates the bank's adequacy and strength in its capital structure.

Based on the above performance, almost all indicators improved except for Net Income, Liquid Assets, Earnings Per Share and Capital Adequacy Ratio.

Our goal for next year is to improve on all the indicators and surpass this year's performance.

Thank you.

Anne Q. de Guzman

RISK MANAGEMENT FRAMEWORK

D. RISK MANAGEMENT FRAMEWORK ADOPTED

RISK MANAGEMENT is a system that needs to be put in place in a business, in order to understand and calculate the risks being taken in exchange for earnings or revenue. It considers and determines the probability of a negative event; of a crisis; of an NPL; of a default and of a loss. It helps the Board and the Management to formulate risk-sensitive decisions. It must not become a barrier towards delivering exceptional services to its clients. Neither shall it be viewed as an additional surface for red tape or a front to appease the regulators.

I. *RISK MANAGEMENT OBJECTIVES & PROCESSES*

1. **IDENTIFY**: to search for and locate the various risks before they become problems.
2. **ASSESS/MEASURE:** evaluate its impact or consequence and the probability of the risks happening or taking place
3. **MONITOR:** observe/study/keep an eye on the risk marker/risk indicator as well as the risk limits set and the mitigation plans set in place
4. **CONTROL**: check for and make correction for deviations versus the internal control systems and the risk mitigating plans
5. **REPORT:** Supply or furnish information and feedback on the various risk activities, current/existing risks and emerging risks.

   In addition to the above, there is a need to:
   - a.) Define and disseminate risk orientation/familiarization training and policies set in writing
   - b.) Develop the risk management system and its control foundations
   - c.) Institutionalize the risk management process. To make it as the code of practice/a habit, a fixture in the company.

II. FOUR *GUIDING QUESTIONS IN RISK MANAGEMENT:*

R – Return. Are we gaining an appropriate return for the risk we are taking?
I – Immunization. Do we have the necessary controls in place, to lessen the risk losses?
S – Systems. Do we have the actual system to measure and manage the various risks we face?
K – Knowledge. Do we have the right people, sufficient skills, suitable culture, and proper values for an effective risk management?

RISK as DEFINED:

It is the uncertainty of whether events expected or otherwise, will have an adverse impact on the bank's capital or earnings. It is an inevitable part of the business of Banking.

The Bank Risk Spectrum:

The wide range of risks faced by a Bank is generally grouped into:
- a.) **Credit risk –** estimated to be 54% of the risk range:
- b.) **Operations risk -** approximately 27% of the risk band;
- **c.) Market risk -** composing the remainder of the 19% portion.

Market and Credit risks are faced and experienced primarily in the hope of ample rewards or good returns. A portion of the bank's capital addresses the potential losses resulting from these risks.

Operational risk is taken unintentionally and it is a cost of doing business.

III*. VARIOUS RISKS THAT BANKS FACE:*

1. **Market Risk –** the risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the bank's overall portfolio-whether On or Off Balance sheet.
   It is influenced by:

   a.) **Interest Rate Risk –** the bank's financial condition is exposed to adverse movements in interest rate. It means that changes in interest rate will reduce the current or future earnings and/or the economic value of capital of a Financial Institution

   b.) **Foreign Exchange Risk –** possibility that movements in exchange rates may adversely affect the value of the company's holdings, thus, its financial condition.

   Areas of market risk may include the following:
   a.) Risk of decline in value of trading accounts and investments due to fluctuations in market prices
   b.) Risk that issuer may not be able to meet its obligations promptly
   c.) Risk of decline in value of investments due to investment decisions which fail to take into account:
   - marketability of investment instrument. If bank cannot wait to hold on to the investment until maturity, there must be many buyers in the market willing to pay at a price that is close to bank's acquisition cost so that bank will not incur a loss
   - diversification of investment outlets
   - maturity and rate of return
   - type of issuer (to ensure payment on maturity)
   - BSP regulations on limits and ceilings

2. **Credit Risk –** the risk to earnings or capital from the likelihood that a borrower or counterparty will fail to perform/make well on an obligation. It is the most recognizable risk in relation to the banking business.

   Credit risk events which will burden on a bank's bottom-line:
   - the need for loan loss provisioning
   - a dramatic increase in NPLs
   - a rapid rise in ROPA

   Areas of credit risk may include the following:

   1. Risk of poor or non-collection of loans

- borrower does not have the capacity to pay as shown by financial statements, income tax returns, statements of assets and liabilities, credit investigation, or such other credit basis.
- borrower belongs to a distressed industry
- borrower's loan grant is beyond his approved credit limit
- corporate borrower has doubtful paying capacity because its capitalization is minimal in relation to loan or project to be financed
- borrower's co-makers, endorsers, sureties and/or guarantors in case of unsecured loans, do not possess good credit standing and are not financially capable of fulfilling their commitments to the bank in case borrower fails to do so.
- borrower's loan is in excess of loan value of his submitted collaterals.
- borrower's loan repayment plan does not jibe with his cash flows
- borrower's loan was approved and released without proper approval or beyond the lending authority of officers or with incomplete signatories on loan documents or with incomplete documentation or with collateral deficiency such as unregistered REM and chattel mortgage.
- borrower was able to renew his loan without 20% reduction in his principal obligation or without submitting updated financial statements/income tax returns.

- Deficiencies associated with operations risks such as
  - lack of or inadequate review of loan portfolio to assess quality and adequacy of loan loss provisioning
  - absence of early warning system to detect/recognize symptoms/indicators of problem accounts
  - absence of or inadequate loan supervision – monitoring of maturing or matured loans, periodic, visitation of the borrower or borrower's place of business; updating of credit information
  - absence of reminders to borrowers to pay maturing and past due obligations
  - ineffective monitoring of insufficient post-dated checks to cover monthly amortizations of borrowers
  - poor monitoring of status and value of collateral
  - lack of equipment support to keep track of collectibles and actual collections
  - absence of collateral valuation and review, collection, credit review, and loan loss provisioning
  - lack of periodic review to determine if existing policies are still compatible with the changing market conditions

2. Risk of excessive credit to a single borrower/group of borrower vis-à-vis the single borrower's limit (SBL).

3. Risk of concentration of credit to a single industry

- grant of loans by type/industry i.e., consumer loans, real estate loans, is not diversified and exceeds the 30% benchmark

4. Risk of overexposure to DOSRI and self-dealing practices
   - disregard of aggregate and individual ceilings prescribed by Bangko Sentral ng Pilipinas
   - Indiscriminate granting of loans to corporations and individuals identified with DOSRI, although not falling within the technical description of DOSRI

3. **Operations Risk –** the risk to earnings or capital arising from problems with service or product delivery.

   Its occurrence is influenced by the following factors:
   - internal control
   - information system
   - employee integrity
   - operating processes

   Sub-categories of Operations Risk are:

   1. Transaction risk – risk of loss due to some failures in processing of transactions or problems in the delivery of bank services. This may consist of:
      a.) Documentation risk – risk of loss arising from incomplete or incorrect documentation of the transaction.
      b.) Exceeding limits – risk of loss arising as a result of limits being exceeded and the need to reduce the excess.
      c.) Fraud – risk of loss arising from either internal or external fraud within the organization.
      d.) Security risk – risk of loss from all manner of security breaches including allowing competitors access to confidential information
      e.) Key personnel risk – risk of loss due to having only one person with vital risk management skills or knowledge
      f.) Processing risk – risk of loss due to failings or errors in manual processes usually associated with the quality of back – office staff.
      g.) Systems error – risk of loss due to a failure in any of the systems used within the bank.
      h.) Management information risk – risk of loss arising from management making decisions based on inaccurate or incomplete information.
      i.) Information technology system failure – risk of loss arising from a failure in the computer systems

   Areas of operations risk may include the following:
   a. organization that is not appropriate to the size and activities of the bank or not flexible to meet changes in business conditions
   b. duties and responsibilities of the board of directors, senior management, the officers and staff that are not clear and properly delineated
   c. reporting lines that are not clear
   d. responsibilities that are not segregated nor distinguished as to those committing the organization to a transaction, recording it, settling it, and controlling it
   e. appointed officers who are not qualified to manage the bank
   f. ineffective supervision of the bank's affairs
   g. BOD and senior management who are not generally informed of the bank's business environment and the legal and regulatory framework controlling the

bank's activities or who do not devote enough time and attention in overseeing the bank

h. Lack of or inadequate risk management system
i. Non-compliance with minimum internal control standards particularly on
   - maintenance of proper accounting records and adoption of written accounting policies and procedures
   - independent balancing
   - division of duties and responsibilities
   - joint custody
   - signing authorities
   - dual control
   - number control
   - rotation of duties
   - independence of the internal auditor
   - direct verification
j. Absence of internal audit personnel/department to make certain that controls to protect assets are maintained, or in the absence of controls, to propose adequate and effective control system and procedures
k. Management reports that are not timely, inaccurate and incomplete as to information
l. Lack of management reports to the board and senior management on the financial condition and performance of the bank which will be helpful in the formulation of policies and plans
m. Absence of feedback mechanism on adherence to set policies, standards and procedures on major activities of the bank
n. Lack of downward and upward flow of communication within the bank
o. Non-utilization of external and internal audit reports as well as BSP recommendations on examination findings to improve performance

4. **Liquidity Risk –** the risk to earnings or capital arising from the Bank's inability to make a timely payment/meet any of its currently maturing financial obligations to customers or counter parties in any currency.

   Such risk may arise as a result of:

   a. Mismatches in cash flows
   b. Borrowing short and lending long
   c. No provision for reserves (primary reserves to meet anticipated cash needs while secondary reserves to meet contingent or extraordinary cash needs/withdrawals)
   d. Absence of contingency plan to cover unexpected fund withdrawals during financial stress
   e. Absence of or non-compliance with maturity gap limits
   f. High incidence of past due loans which put pressure on bank's liquidity position (timely loan collections, assure a steady source of funds/cash flows)

5. **Compliance Risk –** is the risk to earnings or capital arising from violations of or non-conformance to laws, rules, and regulations, prescribed practices or ethical standards. It exposes the Bank to fines, penalties, damages, and the voiding of contracts.

6. **Legal Risk –** is the risk to earnings or capital that may arise as a result of unenforceable contracts, lawsuits, or adverse judgment.

   Areas of legal risk may include:
   a. Contracts that are not legally enforceable due to failure to carefully review all provisions therein.
   b. Protracted legal/court case

7. **Reputational Risk –** is the risk to earnings or capital arising from the possibility that negative publicity regarding an entity's business practices (whether true or not) will cause a decline in the customer base, cost of litigation or revenue reductions.

8. **Personnel Risk –** is the risk to earnings or capital arising from inadequate training, inexperience, or illegal activities of a risk-taking personnel. It highlights the human side of risk-taking and the important role and adequacy of institutional guidelines/manuals, codes of conduct, personnel policies and training and development programs.

9. **Strategic risk –** risk to earnings or capital arising from adverse business decisions or the improper implementation of these business decisions.

IV. FACTORS/*EVENTS THAT CHALLENGE RISK MANAGEMENT*

1. Those that are brought about by Market Place or Economic change
2. Change that are due to Technology Improvements or due to Process Change
3. Change that come about because of New Strategies introduced
4. Change because of Competition bringing in
   - new products
   - new channels
5. Change within the company itself due to:
   - product change
   - new leadership or shift in organizational structure
6. Change to comply with new Regulation or Legislative enactments.

LIMITS SETTING:

Marketing Risk:

A. REM Normal Rates

Loans 3M or Less: 16% interest p.a. + 3% one-time Service Charge for the term indicated in the Promissory Note.
Loans more than 3M: 12% interest p.a + 3% one-time Service Charge for the term indicated in the Promissory Note.

➢ Special Rates:
  floor: 9.5% interest + 2% SC (one-time or continuing)
  ceiling 15% interest + 4% SC

Considerations:
a. Class "A" or prime loan clients

b. Prior/existing clients with proven track record of paying capacity or established proper loan account handling
c. Very marketable; attractive; highly-priced loan collateral
d. Readiness/willingness to submit the required/requested supporting documents/evidences

B. AUTO LOAN RATES and COLLATERAL

A. Regular Rate for Brand New Unit – 80% maximum loanable amount

	Walk-in w/o Insurance And Chattel Fee	Walk-in with Insurance And Chattel Fee	Walk-in with Dealer
12 months	10%	19%	20%
18 months	13%	22%	23%
24 months	16%	25%	26%
36 months	21%	30%	31%
48 months	29%	38%	39%
60 months	37%	46%	47%

B. Financing of Luxury Vehicle/Motorbike- 80% maximum loanable amount

12 months	10%
18 months	12%
24 months	16%
36 months	21%

C. Financing of Secondhand Unit from Dealers

	2017-2021 model 70% max. loanable amt.	2014-2016model 50% max. loanable amt	Recondition Truck 12-24mos.-70% max. loanable 25-36mos.-60%max. loanable
12 months	18%	20%	18%
18 months	24%	26%	26%
24 months	32%	34%	33%
36 months	44%		43%

D. Chattel Mortgage – 70% maximum loanable amount based on approved appraisal value (First owned, 5 yrs. old, at least 4 years old at the time of loan).

12 months	16%
18 months	22%
24 months	29%
36 months	43%

E. Dealer Generated "ALL-IN" Loans

36 months	36%
48 months	44%
60 months	52%

REM COLLATERAL

Accept only:
1. Collaterals covered by Transfer Certificate of Title(TCT) or Original Certificate of Title (OCT).
2. Commercial Lot (with or without building)
3. Residential Lots or Residential house and lot- situated in the Poblacion area only (first lot) or along National or Provincial Highway of any town in Pangasinan and La Union.
4. Gated Subdivision Lots.
5. Agricultural lots situated along provincial road or national highways.

Not to Accept:
1. Fishponds
2. Lots situated in Mountainous or Hilly areas(bundok)
3. Secondary lots even if with right of way
4. Lots situated in low lying/flood prone areas

*** On a case to case basis, the bank may accept collateral situated in a Mountainous or Hilly areas (bundok) subject to Board approval for any amount.

Loan Factors:

a. Residential
   (Loan factor, is normally 70% x 60% or 42%)

b. Agricultural
   (Loan factor, is normally 70% x 50% or 35%)

c. Commercial/residential
   (Urban and rural areas: on a case-to-case basis and or a very special/noteworthy situation the loan factor could be upgraded to 70% x 70% or 49% (floor limit) or 70% x 80% or 56% (ceiling)

d. if Sec. 4, Rule 74 appears on face of TCT or mentioned in Deed of Sale covering Tax Declarations, the corresponding Heir's Bond must be required; or if annotated for more than 2yrs, shall be cancelled.

Lot with Improvement –

- if building is made of light or even semi-concrete materials and distinctly already old, do not assign a value
- other improvements not included above; loan factor shall be 50% of appraised value.
- insurance coverage against fire of the building improvement/s must be implemented properly

Note:

Lots which are irregularly shaped/triangular, trapezoidal; or with numerous points or those with more than 10 boundary points as per technical description appearing on the TCT shall not be acceptable.

AGE LIMIT

- Main, Primary borrower should not be more than 60 years old upon application.
- If loan account still exists after reaching 60 years old. limit; require qualified co-maker/co-borrower whose financial/paying capacity is at least equal/similar to the primary borrowers, and preferably greater than or higher than those of the borrowers.

ELIGIBLE BORROWERS:

1. Must have no NFIS or CISA findings. If with NFIS or CISA findings, there should be:
   a. Managers recommendation
   b. Approval by the Credit Committee or Board of Directors whichever is applicable.
   c. Must have settled his/her account at least one (1) year prior to application.
2. Must have the capacity to pay or if none, the co-borrower must have the capacity to pay the obligation.
3. Must be the owner of the land/collateral.
4. Borrowers with Special Power of Attorney (SPA) with Red Ribbon from foreign consuls.

PROPER PROCEDURE AFTER LOAN RELEASE:

1) Follow-up visit to Loan clients'/Loan collateral (within 1 month from loan release):

Under Section 304 of the Manual of Regulations for Banks (MORB), it states that: The proceeds of a loan shall be utilized only for the purpose/s stated in the loan contract/(PN); otherwise, the Bank may terminate the loan and demand immediate repayment of the loan obligation.

2) Sending of Confirmation Letter to Auto Loan Clients

The present/permanent address written on the loan Application Form shall be used. Returned letters due to unlocated address or person shall immediately be subject to actual visit for verification and confirmation.

Monitoring of Delinquent Loan

- Loans delinquent for 60 days in auto loan and 90 days in REM shall already be submitted to the Remedial Officer and ROPA Dept. for the initiation of restructuring or foreclosure proceedings (collection notices, follow-up letters and attorney's demand letter must be ready by then).
- Loans past due for less than 90 days may be restructured only once.
- Collection Letters and Update of BRR

  1st Letter-Reminder Letter – to be sent through e-mail, messenger, text message with screenshot at least 15 days before due date

  2nd Letter-1st Collection Letter- to be sent through mail (post office) or delivered personally to the client and properly acknowledged at least 7 days after due date.

  3rd Letter-Demand Letter- to be sent through mail with return card (post office) or delivered personally to the client and properly acknowledged at least 30 days from due date.

4th Letter-Attorney's Demand Letter- to be sent through mail with return card (post office) at least 45 days after due date for Auto Loans, and 60 days from due date of REM Loans.

- Update of BRR is required for past due loans 60 days after due date for Auto Loans and 90 days after due date of REM Loans.

- Review of the ROPA listing and also the current list of PDLs, would provide a certain degree of assistance in the decision of the grant of loan. Numerous ROPA items or numerous foreclosures or the greater number of clients with PDLs can show a pattern or the paying-habits of the inhabitants in a certain location.
  Particular kinds or types of industry financed, which indicate problematic loan handling, could also provide a sort of indication, which businesses are strong and which are already waning/sunset industry.

INVESTMENTS in IBODI

Cash outlay for investment in Bonds and Other Debt Instruments must be for the purpose of complying with regulations concerning:

- Liquidity
- Mandated reserve requirement
- Agrarian-Agricultural requirement
- SME requirement
- Investment (secured)

RELATIVE CONSIDERATIONS:

A. Authorized Investment Instruments
   1. Government Securities such as treasury bill, notes, and bonds;
   2. Certificate of Time Deposit (CTD) from Universal and Commercial Banks.

B. Limitation on Investment Transactions
   - The Bank's funds should not, in general, be invested in securities or CTDs maturing more than 1 year from date of purchase/placement. Except, as herein provided in the diversification provision of the policy.

   - Limit of CTD placement
     a. Universal Banks - up to 20 Million Pesos (for top five universal banks)
        - between 12 M up to 15M Pesos (for all other Universal banks)
        - unlimited deposits for government banks namely: DBP and LBP

     b. Commercial Banks – up to 10 Million Pesos
     c. Thrift Banks – between 3 Million Pesos to 5 Million Pesos except Malayan and Producers Bank.
     d. For Malayan & Producers Bank up to 10 Million Pesos

C. Diversification of the Bank's investment portfolio by type of investment instrument and term to maturity.

a. The bank should match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow need, the Bank's funds should not, in general, be invested in securities maturing more than 1 year from date of the purchase. However, longer maturities of more than 1 year but not to exceed five (5) years is allowed if maturities of the investments are made to coincide as nearly as practical with the expected use of the funds.
b. Reserve funds may be invested in securities exceeding 1 year, if maturities of the investments are made to coincide as nearly as practical with the expected use of the funds.

D. Authorized Financial Dealers and Institutions must provide sufficient information to adequately evaluate the institution's financial capacity and credit worthiness by the Board. The Board conduct an annual review of the financial condition and registrations of financial institutions.
E. Investment assets shall be secured through third-party custody and safekeeping procedures. Any officer/employee of the bank authorized to engage in investment transactions shall be bonded in an amount established by the Board.

DEPOSIT TAKING ACTIVITIES

In complying with the Know-your-Client (KYC) policy, the bank must endeavor to require all its clients opening a deposit account to provide/submit accepted/valid IDs, including two (2) copies of their latest picture.

LIST OF ACCEPTABLE IDENTIFICATION DOCUMENTS AND OTHER REQUIREMENTS FROM PROSPECTIVE DEPOSITORS

1. DOCUMENTARY REQUIREMENTS

A. PERSONAL ACCOUNT

A.1 Individual Account / Basic Deposit Account (BDA)
- Presentation of at least 1 valid ID
- Two (2) latest 1x1 or 2x2 picture

A.2 Joint Accounts
- Presentation of at least 1 valid ID for each depositor
- Two (2) latest 1x1 or 2x2 picture for each depositor

A.3 Guardianship/Estate Accounts
- At least one (1) valid ID of Guardian/Representative/Administrator
- Two (2) latest 1x1 or 2x2 picture of
- Birth Certificate (for In-Trust-For account)
- Death Certificate of deceased person
- Court order or testamentary will authenticated by its legal department

B. COMMERCIAL/CORPORATE ACCOUNT

B.1 Single Proprietorship
- Presentation of at least 1 valid ID
- Two (2) latest 1x1 or 2x2 picture of depositor
- Business/Mayor's Permit
- DTI/BIR Certificate of Registration

- Current and notarized Special Power of Attorney (SPA).

B.2 Partnership Account

- At least 1 photo and signature bearing ID of authorized signatory/ies
- Two (2) latest 1x1 or 2x2 picture of authorized signatory/ies
- Certified True Copy of Articles of Co-Partnership
- Partnership Agreement
- Duly notarized Partnership Resolution/Authorization designating the Bank as depository bank and the authorized signatories

B.3 Corporate Account-Domestic Corp.

- Presentation of at least 1 valid ID of authorized signatory/ies
- Two (2) latest 1x1 or 2x2 picture of authorized signatory/ies
- Certified True Copy of Articles of Incorporation
- Corporate By Laws with SEC Certificate of Filing.
- DTI/SEC Certificate of Registration
- Board Resolution certified by its Secretary stating the ff:
    - Authority to open an account or transact business with the bank; and
    - Officers authorized to sign checks and other instruments, their limits and combinations

B.4 Treasury-In-Trust

- At least one (1) valid ID of Authorized Signatory/ies
- Two (2) latest 1x1 or 2x2 picture of Authorized Signatory/ies
- Proposed Articles of Incorporation and By-Laws which include the temporary appointment of Treasurer-in-Trust
- Letter from Treasurer-in-Trust addressed to Bank
- Treasurer's Affidavit

B.5 Fiduciary Account

- At least one (1) valid ID of Authorized Signatory/ies
- Two (2) latest 1x1 or 2x2 picture of Authorized Signatory/ies
- Trust agreement indicating the trustee appointed or any court order designating the guardian, trustee or administrator

B.6 Associations, Club, Foundation, Cooperatives and Other Unincorporated Groups

- At least one (1) valid ID of Authorized Signatory/ies
- Two (2) latest 1x1 or 2x2 picture of Authorized Signatory/ies
- Articles of Incorporation and By-Laws of Cooperative, Association or Unincorporated Organization
- Certificate of Registration (COR) with SEC and/or COR with the concern affiliation
- Board Resolution or notarized minutes of meeting of general membership and/or governing body certified by its Secretary stating the following:
    - Authority to open an account or transact business with the bank; and
    - Officers authorized to sign checks and other instruments, their limit and combinations.

2. Valid Identification Documents

A) Customer and the authorized signatory/ies of a corporate juridical entity who engage in a financial transaction with the bank for the first time shall be required to present the original and submit a clear copy of at least one (1) valid photo-bearing ID document issued by the authority.

The following are accepted valid ID by the bank:

1. Passport including those issued by foreign governments
2. Driver's License
3. PRC ID
4. NBI Clearance
5. Police Clearance
6. Postal ID
7. Voter's ID
8. Tax Identification Number
9. Barangay Certification
10. GSIS e-card
11. SSS Card
12. Senior Citizen Card
13. OWW ID
14. OFW ID
15. Seaman's Book
16. Alien Certification of Registration/Immigrant Certificate of Registration
17. Government Office and GOCC (e.g. AFP, HDMF IDs)
18. Certification from the NCWDP
19. DSWD Certification
20. IBP IDF
21. MARINA ID
22. Company IDs issued by private entities or institutions registered with or supervised or supervised or regulated either by the BSP, SEC or IC

B. Students who are beneficiaries of remittances/fund transfers and who are not yet voting age, may be allowed to present the original and submit a clear copy of one (1) valid photo-bearing school ID duly signed by the principal or head of the school

C. Where the customer or authorized signatory is a non-Philippine resident, similar ID's duly issued by the foreign government where the customer is a resident or a citizen may be presented.

D. The bank shall require their customers or authorized signatory to submit a clear copy of at least two (2) valid ID's at the commencement of business relationship. They shall require their clients to submit an updated photo and other relevant information on the basis of risk and materiality.

E. The bank may classify identification documents based on its reliability and ability to validate the information indicated in the identification document with that provided by the customer.

F. Whenever it deems necessary, the bank may accept other IDs not enumerated above provided that it shall not be the sole means of identification.

G. In case the identification documents mentioned above or other identification documents acceptable to the covered institution do not bear any photo of the customer or authorized signatory, or the photo bearing ID or copy thereof does not clearly show the face of the customer or authorized signatory, the bank may utilize its own technology to take photo of the customer or authorized signatory.

IMPORTANCE OF DOING:

Customer Identification/Know your Client (KYC)

The Bank maintains a system of verifying the true identity of its customers and, in case of corporate and juridical entities, a system of verifying their legal existence and organizational structure. The system of identification is embodied in its Manual for Record-Keeping of Deposit.

Customer Acceptance

Ensures that the financially or socially disadvantage are not denied access to financial services while at same time prevent suspicious individuals or entities from opening an account.

Sending Thank You Letter

As our computerized savings deposit system is capable of generating “Thank You” letters for all newly opened accounts, the same must be strictly mailed to check properly on the indicated address of the depositor/client.

“Thank You” letters that are returned to the Bank/returned undelivered by the Post Office must be properly investigated and “flagged” to corresponding deposit account, to trigger formal verification with particular bank client concerned. To properly ascertain the validity of the correct address, the clients must be required to submit the latest copy/copies of billing statements from various utility companies (electric, telephone, water, cable/cellphone/credit card) that is in the name of the client.

Customer Risk Rating Methodology

The bank uses a risk rating methodology to calculate a customer risk rating score (slow, medium or high score) based on the verified information received during the opening of the account. The risk score shall determine if reduced due diligence (RDD), average due diligence (ADD) or enhance due diligence (EDD) shall be applied based on the following parameters.

Covered and Suspicious Transaction Reporting

All covered and suspicious transactions (CTR/STR) shall be prepared by the Frontline employee, verified by the Bank’s Compliance Officer and electronically reported by the Chief Accounting Head, in accordance with the reporting procedure, to the AMLC within five (5) working days, unless the AMLC prescribes a different period not exceeding fifteen (15) working days from occurrence thereof.

Updating of Depositor Records

As a matter of policy, depositor records shall be updated every five (5) years, except when there is imminent need to update the record immediately.

V. *AUTHORITIES and RESPONSIBILITIES*

I. The Board of Directors must define the policy structure and lay down the risk management framework. Towards this end, it must:

- approve the policies for the various key risks;
- set-up the risk management foundation
- identify who shall be responsible for carrying out the policies,
- originate controls to comply with the policies

Additionally, the BOD must establish and guide the Bank's strategic direction and the tolerance towards risks. It must periodically review, discuss, and approve needed changes to address the overall objectives in relation to the acceptable level of liquidity and market risks.

It must set the limits, which indicates its maximum tolerance for each major risk**.** The limits structure is vital for interest rate risk; credit risk; liquidity and operational risks. Relatedly, there must be exposure measurement mechanism in place to properly quantify the limit structure so established.

The BOD must also ensure that technical and human resources are allocated towards risk management. There must be a personnel available who possess technical skills to evaluate and control risks. There must be continuous training of personnel and that the internal audit function is properly manned by a staff with competent background.

It must monitor risks, ascertaining that the levels of risk is maintained within the tolerance limits which is properly supported by adequate capital base.

The BOD shall exercise its oversight function in risk management by seeing to it that:

- set policies are being followed;
- set limits are being properly considered
- controls are in place

There must be timely reporting and clear presentation when there are noted breaches to the established limits so that thoughtful, well-informed, and properly coordinated risk management decisions are formulated and timely actions are undertaken in a timely manner.

II - Senior Management for its part must develop and implement the risk management policies, procedures, and practices. There must be periodic review of the Bank's risk management policies and procedures to make sure that they remain appropriate and reliable. It must make certain that the lines of authority and responsibilities are being strictly followed.

It is the "implementor"; it shall be responsible for carrying out the risk management decisions, under a system of delegated authorities. In carrying out this mandated authority, it shall be subject to close monitoring and control that the BOD has set up.

Other related functions of senior management in risk handling are the following:

- maintenance of appropriate limits structure as well as the presence of adequate measurement systems;
- to oversee the implementation and proper upkeep of management information system (MIS);
- the establishment of an effective internal controls;
- Make sure that adequate resources are available.

CORPORATE GOVERNANCE

E. CORPORATE GOVERNANCE

I. Selection Process for the Board and Senior Management

The director who shall be elected at the annual meeting of the stockholders shall hold office for a term of one (1) year and until their successors shall have been duly elected and qualified.

II. Board's Overall Responsibility

In general, the Board shall have full charge of all the properties, interest, business and transactions of the Corporation, with full power and authority, to manage, direct and supervise the same, which powers shall include, but shall not limited to the following:

a. To elect or appoint all officers and employees of the Corporation; to fix their salaries, wages, and other conditions of employment, and to discipline or remove them; but every executive officer of the Corporation and such other officers as the Board may authorize shall have the power to suspend any subordinate officer or employee under his supervision, the suspension to continue until the Board shall have acted upon the case.

b. To appoint agents, correspondents and depositories, and to designate the points where they are to be situated, subject to the pertinent provisions of existing laws and rules and regulations.

c. Subject to the authority of the Monetary Board of the Bangko Sentral ng Pilipinas, to authorize the establishment of branches at such places as will serve the interest of the public and that of the Corporation.

d. To pass upon all applications for credit accommodations as well as important contracts and agreement, subject to the pertinent provisions of existing laws, rules and regulations governing rural banks.

e. To fix rates of interest on loans as well as deposits in conformity with existing rules and regulations.

f. To delegate to the Chairman of the Board, Vice-Chairman, President, or any officer or to any committee any of its delegable powers whenever deemed necessary for the best interest of the Corporation.

g. To prescribed from time to time, the powers and duties and fix the compensation of the officer, agents, and employees of the Corporation in the management of its properties and affairs, where such powers and duties are not prescribed by law or by the By-Laws.

III. Description of the Role and Contribution of Executive, Non-Executive and Independent Directors, and of the Chairman of the Board.

a. **THE CHAIRMAN**. The Chairman of the Board shall preside at all meetings of the Board of Directors, in his absence or inability to do so, the meeting shall be presided over by the Vice Chairman, or other Officers to whom this power may have been delegated by the Chairman. The Chairman of the Board shall have such other powers as may be prescribed by the Board.

b. **THE VICE CHAIRMAN**. The Vice Chairman shall have such powers and perform such duties as the Board of Directors may from time to time prescribe and as may be delegated to him by the Chairman. In the absence of the Chairman, the Vice Chairman shall act in his stead and shall perform any and all such powers and duties pertaining to the office.

c. **THE PRESIDENT**. The President who shall be elected from among the Directors, shall be the Chief Executive officer of the Corporation. Aside from those which may have been assigned to him by the Board, his powers and duties shall include the following:

- To direct the implementation of the policies of the Board, and report to it and the stockholders on all matters concerning the affairs of the Corporation that may require action by them at their respective meetings.

- To take active supervision and control over the property, interest, business and affairs of the Corporation, and subject to the approval of the Board, he may appoint, suspend or remove any appointive officer or employee whenever in his judgment it may become necessary to do so.

- To supervise, control and direct subordinate officers, agents and employees in the discharge of their duties.

- To see to it that all officers, agents, employees, and other personnel comply with the pertinent laws, as well as the applicable rules and regulations of the Bangko Sentral ng Pilipinas and all other regulatory/supervisory bodies.

- To present to the Board of Directors at any regular or special meeting or at such other times as it may require, a report on the state of the business of the Corporation.

- To attend meetings of the Board, and render such assistance or advice as it may concerning the estate of the business of the Corporation.

- To be responsible for the efficient management of the affairs of the Corporation, to maintain harmonious relations between management and the employees, see to it that the public in general, and the clients of the corporation in particular, are rendered prompt, courteous and efficient service, and to develop and maintain sound public relations.

- The President may delegate to any officer any of his powers and duties whenever in his judgment such delegation is expedient and practicable.

d. **THE VICE PRESIDENT**. The Board of Directors may elect one or more Vice Presidents who may not be members of the Board, whose powers and duties, in general, shall be determined by the Board. In the absence or inability of the President, the Board shall designate the Vice President, who should be a member of the board of directors, to perform and discharge the powers and duties of the office of the President. If the Vice Presidents are not members of the Board, the Board shall designate who among the Board members shall act in place of the President.

e. **THE TREASURER**. The Treasurer shall have the care and custody of the funds, securities and properties of the Corporation. He shall deposit all money and valuable effects in the name and to the credit of the Corporation in such banks, or trust companies, or with such bankers or other depositories as the Board may from time to time designate, and any funds so deposited shall be withdrawable only by checks or other instruments signed by duly authorized officers of the Corporation as hereinafter provided. He shall render to the Board of Directors and the President whenever required, an account of the financial condition of the Corporation and of all his transactions as Treasurer. He shall perform such other duties as the Board of Directors may from time to time assign to him or are incident to his office. In the absence of the Treasurer, or his inability to act, his duties shall be performed by such person as may be designated by the Board of Directors.

f. **THE SECRETARY**. The Secretary who must be a citizen and resident of the Philippines, shall have the following powers and duties:

- He shall keep accurate minutes of all meetings of the stockholder and of the Board, and shall attend to the giving of all notices required by these By-Laws to be given.

- He shall be custodian of the corporate seal, stock certificate books, stock and transfer book, records, documents and papers of the Corporation, prepare ballots for the annual elections and keep a complete and up-to-date list of the stockholders and their addresses.

- He shall perform such other duties as may be assigned to him from time to time by the Board of Directors of the President, and such other duties incidental to his office.

- He shall also sign prepare such reports and statements as are required by the Board and or the President.

- During the absence or inability of the Secretary, the Board shall select the persons to act in his stead.

g. **GENERAL MANAGER/CHIEF OPERATING OFFICER**. (The position in place instead of Comptroller, as amended on 01-25-11 and confirmed on 02-13-11). The General Manager/Chief Operating officer shall be the operating head of the bank with the power to transact the general business of the bank. He is responsible for the efficient and accurate execution of what the board of directors decide upon. He supervises all the transaction between the bank and customers through junior officers and employees. He provides leadership and has to control the work of others. He has to ensure that the best results are obtained from his own efforts and from those bank officers and bank employees, he has tasked for being responsible.

In essence, the duties of the general manager are as follows:

- Plan, organize, coordinate and control all the financial and administrative activities of the bank and to direct and supervise the detailed operations of the bank.

- Establish and maintain adequate accounting system, provide periodic financial and operating statements, and prepare budgets as prescribed by the board of directors.

In specific terms, the duties of the general manager are as follows:

- Approve loan applications up to the amount delegated to him.

- Recommend the approval or disapproval of loan applications in excess of the amount he could give to the credit committee.

- See to it that all books of accounts are up-to-date and in balance.

- Sign or countersign checks or demand drafts when authorized by the Board of Directors.

- See to it that an effective internal control system is installed and maintained in order to prevent errors and frauds from being committed.

- Supervise the granting of loans, as well as follow up the collection of accounts either in writing or in person and see to it that past due items, if any, are within manageable levels.

- Approve payrolls as well as any disbursements for expenditures and release of loan proceeds.

- See to it that all exceptions noted in the audit and examination of the books and operations of the bank conducted by the Bangko Sentral ng Pilipinas personnel and other supervisory bodies are corrected in accordance with the instructions received.

- Certify such statements of financial condition, income statements, reports, records and statistics as may be required by law, by the Monetary Board or requested by the President or the Board of Directors.

- Initiate and enforce measure and procedures relating to all accounting matters including clerical and office methods, records, reports to the end that the business of the Corporation shall be conducted in accordance with law, lawful rules, regulations and directories of the Bangko Sentral ng Pilipinas and with the maximum safety, efficiency and economy.

- Act as a budget director, and in conjunction with the other officers and heads of departments, to prepare an annual budget covering all activities of the Corporation, and to submit the same to the Board before the calendar year begins.

- Attend meetings of the Board of Directors and the standing committees when so required by the Chairman or the Board and to render such assistance and advice as the Chairman, President or Board may desire concerning the books, accounts and system of financial transactions of the Corporation, of all its branches, and of any person, entity or Corporation in which the Corporation may be interested.

- In case of any defalcation, default, or dereliction of duty coming to his knowledge at any time, to notify at once the Chairman and the President.

- In the absence of the General Manager or his inability to act, his duties shall be performed by such person as may be designated by the Board.

h. **COMPLIANCE OFFICER**. (Installation of Compliance Officer, as amended on 01-25-11 and confirmed on 02-13-11). It is the bank's discipline to stay compliant with regulations on a going-concern basis that is essential to what makes it a bank. His/her duties and responsibilities shall include the following:

- In consultation with the Board of Directors and Board Officers, prepares a Compliance Program for approval of the Board, and thereafter, submit the same to the DRB, BSP.

- Oversee and coordinate with the Board and Bank President the implementation of Compliance Program.

- Acquaint the Board members and the bank personnel with the provisions of the Compliance Program.

- Conduct regular updates orientation of the latest issuances, policies rules and regulations issued by the regulatory institutions (BSP, PDIC, SEC, BIR, DOLE, SSS, and DOF).

- Build-up library of all relevant laws, rules, and regulations issued by regulatory bodies.

- Keep the library current and up-to-date be seeing to it that copies of new laws and issuances of regulatory bodies, interpretations thereof, amendments thereto and repeat revocation thereof are on file and properly disseminated to the officers and employees of the bank.

- Study each new law, rule or regulation with the following objectives: (a) determination of the unit/group/department and personnel affected; (b) providing proper implementation guideline; (c) identification of the risk of non-compliance thereof.

- Provide a vehicle for efficient dissemination of issuances, laws, rules and regulations: (a) install system with which permanent laws, rules and regulations together with their implementing guidelines and the risks/consequences for non-compliance thereof are effectively disseminated to acknowledged, and clearly understood by each and every staff member of the bank; (b) conduct regular meetings and seminar/workshops among the officers and staff on the proper implementation of the guidelines and risk implications; (c) maintain a bulletin board and regularly post new issuances/implementing guidelines for the information and guidance of all concerned; (d) adopt an open communication system; (e) free flow of information should be maintained and compliance related issues should be conveyed in a complete and timely manner; (f) compliance issues should be brought to the attention of the staff concerned as soon as possible for immediate resolution in order to minimize risks/violations thereof.

- Regularly consult with appropriate regulatory agencies for additional guidance on specific provisions of laws, rules and regulations and/or discuss compliance findings with each agencies, initiate dialogues regarding borderline issues.

- Conduct annual competence assessment, future training needs and introduce remedial action to correct/improve inadequate performance.

- Install compliance monitoring system in coordination with the Audit Committee or Bank President to insure that the directors, officers and staff are familiar with the compliance program.

- Undertake periodic compliance review/monitoring and assessment of each department/branch on a regular basis.

- Compliance officers should consult internal and external auditor of any violation of laws, rules and regulation noted in their findings.

- Compliance Officer shall submit reports on the monitoring and assessment to the President/Chairman of the Board of Directors to document findings, issues, concerns and remedial/corrective measures taken which report must be cleared and approved by the department/unit head/branch managers before submitting the same to the officers concerned.

- The Compliance Officer shall closely and religiously monitor the following: (a) past due loans; (b) non-performing loans; (c) aging of loans.

- The Compliance Officer should be familiar with the types/kinds of risks the Bank is exposed to which are as follows: (a) credit risk; (b) market risk; (c) interest risk; (d) foreign exchange risk; (e) liquidity risk; (f) operational risk; (g) legal risk; (h) compliance risk.

- The Compliance Officer should be acquainted with the manner SAFr is computed/evaluated: (a) Credit Risk; (b) Operational Risk; (c) Market Conduct Risk; (d) Liquidity Risk; (e) Interest Rate Risk in the Banking Book (IRRBB); (f) ML/TF/PF Risk; (g) Compliance (h) Internal Audit; (i) Earnings; (j) Capital; (k) Liquidity; (l) Governance.

i. **INTERNAL AUDITOR**. (Installation of Internal Auditor, as amended on 01-25-11 and confirmed on 01-13-11). The Internal Audit Section is being tasked to assist in the financial and operational management of the company, shall be responsible in conducting its activities in such manner, as to:

- provide the correct accountability;

- protect the company from losses and fraud, wastage and extravagance;

- develop the necessary management information.

Its primary objective is to assist the management in achieving an effective and efficient administration of its fiscal and operational functions. This objective cover two phases:

- Protective - to protect the company's interest, including the disclosure of weaknesses and deficiencies in control standards needing correction. To attain this objective, he/she must, (a) ascertain the degree of reliability of the amounts and statistics; (b) ascertain the extent to which the monies and properties are safeguarded from losses of all kinds and are properly accounted for; (c) ascertain the extent of compliance with the established policies, regulations, plans and procedures.

- Constructive–the furtherance of the company's interest, including the recommendation of actions to improve its performance. To achieve this objective, he/she needs to: (a) review and appraise the policies, regulations, procedures and plans in the light of related date, changing circumstances and other evidences having a bearing on their effectiveness; (b) review and appraise the internal records of the various units within the company in terms of their adequacy, efficiency and effectiveness; (c) review and appraise the performance within the framework of the policies, regulations, plans and procedures.

He/she has the authority to examine all the company's records, books, vouchers, files and properties necessary to carry out his/her work. His/her examination and review shall in no way relieve the other persons from their primary responsibilities assigned to them.

To carry out its work, its personnel shall institute and conduct an independent review and appraisal of the accounting, financial and other operational aspects of the company's various organizational units.

As such, he/she shall conduct periodic audit and whenever necessary, do special investigation of the records and operations of the company and keep management informed of the irregularities and unsatisfactory conditions discovered and other findings which may be of interest.

And in order to attain its objectives, internal audit personnel have to report its findings and recommendations to the responsible officials of the company. These reports will be presented in writing or verbally, according to the circumstances.

He/she shall be directly responsible for the complete reporting in each case, of all unsatisfactory conditions and deviations from the established procedures to the management.

Additionally, he/she is also expected to give constructive recommendations/suggestions regarding improvements of the procedures, during the course of his/her work.

j. **OTHER OFFICERS**. The Board of Directors may appoint such other officers as may be deemed necessary, provide their powers and duties, and fix their compensation.

IV. Board Composition:

PANGASINAN BANK (A Rural Bank), INC.
List of Board of Directors
As of December 31, 2021

Name	Type	Principal Stockholder	No. of yrs. as Director	No. of Shares Held	Percent to Total Shares
Mr. Romualdo Patrick F. Siapno	Chairman	Siapno Family	19	6,262	1.25
Arch. Mark Joseph F. Siapno	Director	Siapno Family	19	5,956	1.19
Anne Q. De Guzman	Director	De Guzman Family	9	3,313	0.66
Dennis N. Calimlim	Director	Calimlim Family	19	6,750	1.35
Atty. Gerald Z. Gubatan	Independent Director	Gubatan Family	3	5,098	1.02

V. Board Qualification:

- At least twenty five years of age at the time of election or appointment.
- At least College graduate and have five (5) years' experience in business.
- Have attended a special seminar for Board of Directors conducted or accredited by the BSP.
- Fit and proper for the position of a director of the bank. The following matters were considered in determining fit and proper for the position of a director:
  - Integrity/probity
  - Competence
  - Education
  - Diligence
  - Experience/Training

VI. .of Board-Level Committee Including Membership and Function

- **AUDIT COMMITTEE**. The Audit Committee shall be composed of members of the board of directors, at least one (1) of whom shall be independent director, including the Chairman, preferably with accounting, auditing or related financial management expertise. Duties and responsibilities are the following:

  a. The Audit Committee will oversee the bank's financial reporting and control as well as the internal and external audit activities.

  b. It will be responsible for the setting up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor who will both report directly to the committee.
  c. It will monitor and evaluate/review the adequacy and effectiveness of the internal control system, including financial, operational and compliance

control and risk management; seeing to it that the latter is conducted quarterly.

d. Effective and active supervision of the compliance function by diligently guiding the Chief Compliance Officer in the conduct of regular updates on the compliance program, and monitor of Bank's compliance with applicable laws, rules and regulations.

e. The audit committee shall have an explicit authority to look into any matter within its terms of preference. It shall have full access to and cooperation of the management, as well as the full discretion to invite any director or executive officer to attend its meetings.

f. The Audit Committee shall have the full responsibility in monitoring and overseeing the over-all functions of the Credit Risk Review Officer (CRRO). The CRRO will report to the Audit Committee functionally and to the President administratively. The administrative functions of the CRRO to the President includes but not limited to:

   - Preparing, organizing and maintaining reports and communications between her unit and the branches/senior management;

   - Communicating results of loan reviews, stress tests required from her end to the senior management and/or other employees;

   - Scheduling appointments for supervisors, clients and scheduling of in-offices meetings or conferences with employees;

   - Performing research projects for the senior management related to credit/loan evaluation;

   - To clearly and concisely relay information to others: senior management, employees and clients.

g. The Audit Committee shall convene quarterly at every 3rd Monday of the following month of the quarter.

VII. Directors Attendance at Board/Committee Meetings

PANGASINAN BANK (A Rural Bank), INC.
Attendance at Board and Committee Meetings
As of December 31, 2021

Name of Directors	Board Number of Meetings		Audit Committee	
	Attended	%	Attended	%
Mr. Romualdo Patrick F. Siapno	11	100	na	na
Arch. Mark Joseph F. Siapno	11	100	2	66.67
Anne Q. de Guzman	11	100	na	na
Atty. Gerald Z. Gubatan	11	100	2	66.67
Dennis N. Calimlim	11	100	3	100

VIII. List of Executive Officers/Senior Management

PANGASINAN BANK (A Rural Bank), INC.
List of Executive Officers/Senior Management
As of December 31, 2021

Ms. Anne Q. de Guzman	President
Mr. Edmund V. Fernandez	Vice President/ General Manager/ Security Officer/ Remedial Officer
Ma. Socorro Q. Aquino	Corporate Secretary/ Chief Credit Officer/ Property Mgmt. Head
Evelyn C. Vergara	Chief Compliance Officer
Dianne L. Antenorio	Internal Auditor
Gemmalyn P. Navarro	Treasurer/Legal Secretary
Dinah R. Desamito	Credit Risk Review Officer
Sebastina F. Nepacina	Chief Accounting Head
Chiqui T. Ungson	HR Head

IX. Performance Assessment Program

The performance appraisal policy supports the performance appraisal scheme. The scheme is a formal process centered on an annual meeting of each employee and their line manager to discuss his/her work. The purpose of the meeting is to review the previous year's achievements and to set objectives for the following year. These should align individual employees' goals and objectives with organizational goals and objectives.

Core Principles of the Appraisal Policy

1. The appraisal process aims to improve the effectiveness of the organization by contributing to achieving a well-motivated and competent workforce.
2. Appraisal is an ongoing process with an annual formal meeting to review progress.
3. The appraisal discussion is a two-way communication exercise to ensure that both the needs of the individual, and of the organization are being met, and will be met in the next year.
4. The appraisal discussion will review the previous year's achievement, and will set an agreed Personal Development Plan for the coming year for each member of staff.
5. All directly employed employees who have completed their probationary period are required to participate in the appraisal process.
6. The appraisal process will be used to identify the individual's development needs and support the objectives of the Training and Development Policy.
7. All staff will receive appraisal training as an appraisee, and where appropriate as an appraiser.
8. The appraisal process will provide management with valuable data to assist succession planning.
9. The appraisal process will be a fair and equitable process in line with our Equality Policy.

Performance Appraisal Implementation

Performance appraisal discussions will be held over a designated 4-week period on an annual basis (usually conducted during the anniversary date or date of hiring of every employee). They will be arranged by the appraisee's line manager. Line managers are encouraged to provide the opportunity for a supplemental 6-month verbal appraisal review, mid-year and other informal reviews as necessary throughout the year.

The discussion will be held in private. Information gained during the appraisal will be shared only with senior management. The exception is training needs that will be provided to the HR / administration for action. Confidentiality of appraisal will be respected.

The appraiser (usually the employee's line manager) will be expected to have successfully completed appraiser training, and to be familiar with the appraisee's work.

All appraisal documents should be issued to both parties prior to the discussion, in order to allow time for both parties to reflect and prepare. These will provide a framework and focus for the discussion.

A time and venue for the discussion will be advised at least one week before the meeting takes place.

The Appraisal Discussion

The appraisal discussion will allow an opportunity for both the appraisee, and the appraiser to reflect and comment on the previous year's achievements. It will praise achievement and encourage the appraisee in his/her role.

The appraiser is accountable for giving the employee constructive, timely and honest appraisals of their performance, which should take into account both the goals of the organization and of the individual.

The discussion should be a positive dialogue, and will focus on assisting the appraisee to acquire the relevant knowledge, skills and competencies to perform his/her current role to the best of his/her abilities.

The appropriate forms will be completed and signed by both parties. The appraisee will be given the opportunity to note any comments that he/she does not agree with and complete a self-assessment.

The appraisee and line manager should agree on a Personal Development plan for the appraisee for the following year. This will reflect the appraisee's aspirations and the organization's requirements, and should align personal and organizational goals. The organization and the line manager will support the individual to achieve these goals during the forthcoming year.

Any training needs, future training requirements, planned qualifications, development opportunities and career planning should be discussed in the light of the Personal Development Plan.

Training and Monitoring

Senior Management are responsible for the appraisal process, and he/she shall ensure that appraisers and appraisees are adequately equipped and trained to undertake the performance appraisal.

Guidelines and Policies on Position Changes and Salary Grading

Salary Process

- Starting salary for new hires without experience shall be the minimum rates.

- Starting salary for new hires with experience, shall take into consideration the factors in the salary review:

    - **Applicant's Experience**: the number of years of previously worked in the industry and relevant functional experience the applicant possesses at the time of application.

    - **Applicant's Education**: relevant education, training and /or certifications that at least meet the minimum requirements for the job.

    - **Applicant's Salary History**: the salary history in positions similar to the new position or being considered as progressing towards the new position, may be taken into consideration.

    - **Internal equity**: the skills and background of applicants should be compared to those of internal (department/division) employees performing similar work.

Salary equity does not imply that all employees in similar positions who have similar years of experience and education should be paid the same salary. Recognition of varying levels of skills and performance, for example, will result in differences in salary among employees.

- **Recruitment difficulties:** skills in high demand or hard-to-find areas require additional salary consideration. Factors such as the scarcity of qualified applicants, the number of rejected job offers, and the turnover rate for the position may be considered.

Qualifications for salary increases at mid-point rate.

a. Employee must have no tardiness beyond the allowable time within a year.
b. Employee must have no memos pertaining to violations of company policies and rules within 2 years.
c. Employee must have passed the performance evaluation rate of at least 10 at 2 consecutive **Performance Appraisal Activity**.
d. Employee must have a positive recommendation from his/her immediate supervisor/manager. (With attached supporting documents to justify the recommendation.)
e. Employee must have passed the level of audit performance rate of least 30% as per Internal Audit System.

Qualifications for salary increases at maximum rate.

a. Employee must have no tardiness beyond the allowable time within the previous 2 years.
b. Employee must have no memos pertaining to violations of company policies and rules within the previous 2 years.
c. Employee must have pass the performance evaluation rate of at least 10 at 3 consecutive **Performance Appraisal Activity.**
d. Employee must have a positive recommendation of his/her immediate supervisor/manager. (With attached supporting documents to justify the recommendation.)
e. Employee must have passed the level of audit performance rate of least 30% as per Internal Audit System within the previous 2 years.

Promotional Process

-when an employee moves from a position to another position that is assigned with a higher salary grade, this is considered as promotion.

Qualifications:

a. He/she must already be on regular status, and full-time employee.
b. Employee must be in his/her current position for at least 6 months to 2 years consecutively.
c. Employee must have earned a performance rate of at least 10 during the 2years period.
d. Employee must have no tardiness beyond the allowable time within a year.
e. Employee must meet the required competence and requirements of the new position.
f. No memos pertaining to company policies/rules violation within the past 2years.
g. Employee must have no record of cash overage/shortage within a year. (for teller/cashier position).

h. Employee must have a positive recommendation of his/her immediate supervisor/manager. (With attached supporting documents to justify the recommendation.)
f. Employee must have passed the level of audit performance rate of least <u>30%</u> as per Internal Audit System within the previous 2 years.

Lateral transfer

- When an existing employee is competitively selected as the most qualified candidate for an existing vacant position within the same pay grade of their current job level.

  Qualifications:

  a. He/she must already be on regular status, and full-time employee.
  b. Employee must be in his/her current position for at least 6 months to 2 years consecutively.
  c. Employee must have earned a performance rate of at least <u>10</u> during the 2 years' period.
  d. Employee must have no tardiness beyond the allowable time within a year.
  e. Employee must meet the required competence and requirements of the new position.
  f. No memos pertaining to company policies/rules violation within the past 2 years.
  g. Employee must have no record of cash overage/shortage within a year. (for teller/cashier position)
  g. Employee must have passed the level of audit performance rate of least <u>30%</u> as per Internal Audit System within the previous 2 years.

Voluntary Demotion

- When an existing employee applies for and is competitively selected as the most qualified candidate for an existing vacant position within a pay grade lower than their current job. Because the employee voluntarily applied for and accepted a 1-step or lower-graded job, the employee pay level shall be steady. If the employee's current salary aligns with the internal equity of the new pay grade, the employee's salary will not be impacted. If the employee's current salary does not align with the internal equity of the new pay grade, the employee's salary grade for reasons other than performance, such as a department re-structuring, the salary will not be decreased; however, the employee may not be eligible to receive additional pay increases until parity is reached.

X. Orientation and Education Program

EMPLOYEE ORIENTATION PROGRAM

All newly hired employees shall undergo orientation program to be coordinated by HR department.

ACTIVITY

- Company Profile
- Company Vision
- Organizational Chart

- Company Policies and Procedures
- Benefits
- Company Activities

After the orientation, new staff is given a tour of the office premises and is introduced to other staff of the Company.

GENERAL GUIDELINES

Attendance and Training Programs

- No overtime pay shall be allowed even if the seminar extends beyond regular office hours or held on Saturdays, whether inside or outside the office premises.
- An employee who is included in a training program is excused from his scheduled work hours during the duration covered by actual training program. In case of out-of-town seminars or seminar outside the office the office premises, duration shall also include a reasonable travel time.
- Training programs held outside the workstation is not considered out-of-base official business; hence, the employee is not entitled to per diem and/or meal allowance. However, the employee is entitled to reimbursement of travel expenses to/from training venue and meal expenses.

ELIGIBILITY FOR TRAINING

Any regular employee may be entitled to technical and Company sponsored training along the line of his present job or to some other lines where he will be transferred of promoted. Upon recommendation of his immediate superior or the President or General Manager.

EXPENSES FOR TRAINING

Expenses incurred for travel shall be borne by the Company.

SALARY FOR TRAINING

The employee's salary shall continue to be paid. The absence from work shall not be charged to leave privileges. If the employee is expected to report back to work at a definite day but fails to do so, such absence shall be charged to his vacation leave. Unless he can show good cause for the delay, like non-availability of air transportation due to cancellation of flight, or strike in the airport where he is expected to depart. Should it happen, he should also advise the office of his delay.

TRAINING AGREEMENT

In consideration of the payment by the Company of the cost of the training /seminar, concerned employee shall continue working with Company until the end of the holding period that commences from the completeness of the training course subject to the following:

COST / FEE	*HOLDING PERIOD*
Php 25,000.00 or less	***6 months***
Php 50,000.00 or less	***12 months***
Php 75,000.00 or less	***18 months***
Php 100,000.00 or less	***24 months***

In cases where an employee attends consecutive trainings/seminars, the holding period of the initial training/seminar should be completed first before continuing with the holding period of the subsequent training/seminar. Holding periods should not overlap with each other.

In case of voluntary or involuntary termination of employment, concerned employee shall reimburse the Company of the training/seminar cost on a pro-rata basis corresponding to the remaining portion of the holding period. The reimbursement will be deducted from his/her last pay and if there is any deficiency, concerned employee shall pay within 5 days without need of any demand.

REPORT ON TRAINING

An employee who attends the training program approved by the Management is required to submit a report on course and cascade the same within the month after the completion of the seminar. The employee concerned will be in-charge of his/her presentation materials, presentation date, among other things relative to the cascading. The schedule proposed will be subjected to the approval of HR department. A copy of his/her Training materials and Certificate of Attendance shall be submitted to HR which will be filed on the employee's 201 file.

XI. Retirement and Succession Policy

Importance of Succession Planning

The Bank considers succession planning as part of its strategic planning on human capital known as talent management. . It shall cover the activities and processes throughout the employee life cycle: recruiting and hiring, onboarding, training, professional development, performance management, workforce planning, leadership development, career development, cross-functional work assignments, job leveling, and the employee exit process. When managing internal talents, the Bank will ensure that the right people are moving at the right pace into the right positions at the right time. An effective succession planning strategy, coupled with solid career development programs, will help paint a more promising future for employees and help them focus more on realizing the objectives of the Bank by actively guiding potential successors in their career development. In this way the Bank is assured of continuous loyalty of the employees who would do everything possible to ensure the growth and development of the Bank.

Roles and Responsibilities of the Board

- The board shall approve appropriate hiring and selection policies and processes, adopt a continuing professional development program, and institutionalize a framework for continuing assessment of fitness and propriety of employees.

- Ensure that all branches/units have adequate resources, including personnel complement;

- Oversee implementation of a sound succession planning program by creating and promoting an organizational culture that places high priority on business continuity. This shall include providing sufficient financial and human resources associated with the Bank's business continuity initiatives.

Roles of the Senior Management

- Translate the approved succession plan into specific policies and processes covering all businesses and functions of the Bank. Said policies should be clearly documented, approved by the board of directors and communicated to personnel at all levels.

- Oversee the implementation of the program in close coordination with the Human Resource Head.

Role of the Human Resource Head

- The Human Resource Head shall assist the Board and the Management in fulfilling the oversight responsibilities in the areas of recruitment, manpower planning, personnel development, performance appraisal, remuneration and other key human resource issues.

- Implements policies and procedures as approved by the Board in achieving the objectives covered by the succession plan.

Processes

1. **Identification of Critical Position and Potential Successor**

Identifying critical positions is an important part of the succession planning process of the Bank. It allows the identification of talent investments to ensure leadership continuity and mitigate risk from leadership erosion. In this regard, the Bank has identified the following positions being critical in the succession planning and their potential successor, based on the **Personnel Qualifications** updated as of March 29, 2022:

A. DIRECTORS AND SENIOR MANAGEMENT

Critical Positions	Skills/Competencies Required	Tenure in the Bank	Successor
Board of Director	The Board should take into account the relevant qualifications of every	One (1) year elected annually during the	In case of vacancy in the position of Chairmanship of the

	candidate nominated for election such as among others, physical/mental fitness, relevant educational and professional background, personal track record, diversity of related experience/training, commitment to contribute willingness to serve and interest to remain engaged and involved.	Stockholders Meeting, where non-independent directors can be elected annually without limit. Maximum of nine (9) years cumulative for Independent Director	Board or any of its Committees the Vice Chairman of the Board or Committee shall automatically take over the position of Chairman. In cases of vacancies for other positions the remaining Board Members will amongst themselves elect a replacement to fill in the vacancies Only when the number of the members of the Board of Directors may no longer adhere to legal or regulatory mandates shall a Special Stockholders Meeting shall be convened to fill in the vacancies of the Board of Directors.
President	• Have an excellent and through understanding of the business; • Have skills and human qualities which allow him/her to advise, train and raise awareness among Bank Staff on the significance of business ethics and compliance; • Must show dedication and allegiance to the	Ten (10) years above	Any Member of Board of Directors or Stockholder

	Bank and its policies and procedure; • Must prove that they can be relied on to show up to work on time, to attend to their duties in a professional way, and to uphold the standards the Bank sets for itself.		
General Manager	• Excellent verbal and written communication; • Solid presentation skills and ability to explain complex processes to an audience; • Expert in financial management and persistent business will to succeed; • Planning and managing the company's performance; • Manage operations and processes within budget;	Five (5) years above	Manager/Accountant or Hire from external source or BOD discretion to appoint if the position becomes vacant.
Corporate Secretary	• Strong administrative skills and an aptitude for using IT software; • Commercial awareness; • Meticulous attention to detail; • Interpersonal skills; • Influencing skills; • Excellent	Five (5) years above	Any member of Stockholders or hire from external source at the discretion of the Board of Directors

	organization and time management; • The ability to take the initiative; • A flexible and practical approach to work; • Discretion and diplomacy;		
Compliance Officer	• Have an excellent and thorough understanding of the business; • Have skills and human qualities which allow him to advise, train and raise awareness among Bank Staff on the significance of business ethics and compliance; • Must show dedication and allegiance to the Bank and its policies and procedures; • Must prove that they can be relied on to show up to work on time, to attend to their duties in a professional way, and to uphold the standards the Bank sets for itself.	Five (5) years above	Internal Auditor/Manager/ Accountant **(subject to the BSP confirmation)**
Internal Auditor	• Communication skills, including oral communication, report writing, and presentation skills;	Five (5) years and above	Assistant Internal Auditor/Manager/ Accountant **(subject to the BSP confirmation).**

	• Problem-solving skills (i.e., conceptual and analytical thinking); • Ability to promote the value of internal audit among key employees within the organization; • Keeping abreast with regulatory changes and industry standards; • Knowledge in auditing, internal audit standards, fraud awareness, and professional ethical standards; • Knowledge in enterprise risk management (i.e., risk analysis and control assessment); • Other competencies that were identified in the survey were organizational skills, change management skills, critical thinking, teamwork, and conflict resolution and negotiation skills.		
Treasurer	• Be capable of handling figures and cash; • Have an orderly mind and methodical way of	Five (5) years and above	Manager/Cashier/ Accountant or BOD discretion to appoint if the position becomes vacant. **(subject to the BSP**

	thinking; • Have experience in dealing with large sums of money and budgets; • Have experience of financial control and budgeting; • Have an eye for detail; • Be available to be contacted for ad hoc advice;		**confirmation).**

B. OFFICERS

Critical Positions	**Skills/Competencies Required**	**Tenure in the Bank**	**Successor**
Credit Head/ Property Mgmt. Head	• Proven work experience as a Credit Manager, Credit Analyst or similar role; • Hands-on experience with accounting software; • Solid understanding of lending procedures; • Excellent analytical skills, with the ability to create and process financial spreadsheets (e.g. in Excel); • Negotiation skills;	Five (5) years and above	Manager/Senior Loan Officer (subject to BOD confirmation)
Credit Risk Review Officer	• Have a senior experience in credit	Five (5) years and above	Manager/Senior Loan Officer

	risk underwriting or adjudication capacity; • Have a comprehensive understanding of credit risk management rules; regulatory ratings and regulatory examination process and practices ; • Have experience underwriting, assessing and approving leveraged lending transactions and understanding; • Have in-depth knowledge of lending products;		(subject to BOD confirmation)
Chief Accounting Head	• Numerical Skill; • Eye for Detail; • Time Management and Organizational Skill; • Computer Skill; • Communication Skill; • Business Awareness; • Integrity; • Resilience and Adaptability; • Critical thinking, problem solving and critical analysis such as reviewing, interpreting and evaluating financial data, business systems and operational data	Five (5) years and above	Manager/Accountant/ Senior Officers (subject to BOD confirmation)

	and controls		
Human Resource Head	• Business Management & Leadership Skills • Human Capital Development Skills • Communication & Interpersonal Skills • Strategic Thinking & Planning Skills • Workplace Culture Development Skills	Five (5) years and above	Manager/Accountant/ Senior Officers (subject to BOD confirmation)
MIS/IT Officer	• good problem solving skills; • ability to effectively manage time and resources; • a clear vision of "the big picture" as well as the "small details"; • a desire to work closely with other people; • excellent communication skills; • ability to think strategically about technology;	Five (5) years and above	Qualified Senior Officer or hire from external source.
Branch Manager	• Computer literate; • Have a managerial experience in any applicable field of management;	Seven (7) years above	Cashier/Accountant

C. STAFF

Non-Critical Positions	Skills/Competencies Required	Tenure in the Bank	Successor
Cashier	• Computer literate;	Three (3) years	Teller

	• Knowledgeable in tellering and accounting; • Know how to detect counterfeit money vs. genuine bills and coins;	above	
Accountant	• Computer literate; • Know how to interact with people; • Knowledge in basic bookkeeping and accounting;	One (1) year above	Bookkeeper
Loan Appraiser	• Know how to interact with people; • Knowledge in basic appraisal • Knows how to drive a motorcycle or four wheeled vehicle	Two (2) years above	Loan Processing Officer/ Bookkeeper
Loans Processing Officer	• Proven working experience as a Loan Officer. • Familiarity with computers and banking applications/software. • Solid understanding of direct/indirect lending products and practices. • Excellent communication and interpersonal skills. • Customer satisfaction orientation and	Six (6) to Twelve (12) mos.	Loans Bookkeeper

	sales competencies		
Loans Bookkeeper And Teller/Clerk	• Computer literate (MS word and excel); • Good PR and communication skills • Adaptability	Six (6) to Twelve (12) mos.	Teller/Clerk

2. Identifying Competencies

The Bank shall implement a system of identification and competency-profiling of critical positions in order to develop strategies to transfer critical knowledge and attract, develop and retain qualified candidates to compete for these positions if and when they become vacant. The HR Head shall develop said identification and profiling process to assist the BOD/Management in the internal selection process.

3. Employees Training Program

Training is a program that helps employees learn specific knowledge or skills to improve performance in their current duties and responsibilities. The Bank believes that good training programs help keep the right people and contribute to its profitability.

On top of the trainings and seminars already undertaken by the personnel as indicated in the updated Personnel Qualifications *(Annex A)*, the Bank is committed to providing the required and necessary trainings needed by the officers and employees of the Bank by adopting an Annual Training Program, copy of which is hereto attached as Annex B, which will ensure continuous development of qualified pool of candidates ready to fill critical or key positions while helping them realize their career plans and aspirations and improve their ability to respond to changing work environment.

XII. Remuneration Policy:

Directors' Fees and Other Remuneration. Each Director shall receive a fee or per diem for attendance at any meeting of the Board in an amount based on the Corporation Code of the Philippines. However, subject to the approval of the stockholders in determining the amount, the Board shall consider the financial capabilities of the Association, provided, however, that nothing herein contained shall be constructed to preclude any Director from serving in any other capacity and receiving compensation therefore. The Board shall fix the compensation and other remuneration of any Director who serves in any other official capacity or performs executive functions or any special service of the Corporation. (As amended on August 4, 1979)

XIII. Policies and Procedures on Related Party Transactions

A. Policies and Guidelines

1. Related party transactions shall be allowed provided that these comply with applicable regulatory limits/requirements and dealings are conducted at arm's length basis. Said transactions shall only be made and entered into, substantially on terms and conditions not less favorable than those with other customers of comparable risks.

2. Related party transactions shall require the approval from the Board of Directors.

3. All approved related party transactions shall be reported by the Chief Compliance Officer (CCO) to the Audit Committee and to the Bangko Sentral ng Pilipinas (BSP) quarterly, as required under BSP Circular 895. Such transaction shall also be ratified and approved by the stockholders in the Annual Stockholders' Meeting.

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

   Any member of the Board who has an interest in the transaction under discussion shall not participate therein and shall abstain from voting on the approval of the transaction.

5. Reportorial/Disclosure Requirements
   a. As explained in BSP Memorandum No. M-2012-032, transactions concerning deposit operations are excluded from the reporting requirement on related party transactions under BSP Circular No. 895.

   b. Also, lease and other similar contracts with recurring payment transactions shall only be reported once, upon approval of said transaction by the board of directors.

   c. In case the related parties involved in the transactions are both supervised by the BSP, only the lessor, in case of lease contract, or the party engaging/requesting for the services of the other financial institution, in case of other contracts, shall submit the report.

   d. Necessary disclosures shall be made also in the Notes to the Financial Statements of the Annual Report. At a minimum, the disclosures shall include:
      (i) the amount of the transactions;
      (ii) the amount of outstanding balances and their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and details of any guarantees given or received;
      (iii) provisions for doubtful debts related to the amount of outstanding balances;

(iv) the expense recognized during the period in respect of bad or doubtful debts due from related parties.

6. The following transactions shall **not** be deemed related party transactions for purposes of this policy/guidelines:

   a. Executive Officer and Director compensation arrangements;
   b. Transaction concerning deposit operations
   c. Transaction where the rates or charges involved in the transaction are determined by competitive bids or fixed by law or regulated by a governmental authority
   d. Transactions available to all employees in general, such as: deposit transactions and borrowings covered under the bank's financial assistance program approved by BSP.

B. Procedures

1. All Directors and Officers shall submit to the Compliance Officer a filled up Related Party Transaction Information Statement Questionnaire on the following instances:
   - At the beginning of term of the newly appointed/elected Director or Officer.
   - At the beginning of the calendar year for all incumbents.
   - Upon discovery of the unreported related party transactions.

   The Questionnaire shall be accomplished as part of the responsibility of Directors and Officers to disclose related party transactions. It shall include commitment to disclose proposed transactions that the director/officer or their related party will undertake with Pangasinan Bank, Inc.

2. Based on the Information Statement Questionnaire, the Compliance Officer shall submit/ elevate to the Board of Directors for ratification/approval.

3. A related party transaction shall be approved by the vote of the majority of the directors who are not related parties to the transaction. All credit and non-credit Related Party Transactions go through the normal approval processes of the bank after due consideration to existing DOSRI regulations and SB limits of the MORB.

4. The Chief Compliance Officer (CCO) shall prepare a quarterly report of all related party transactions to the Audit Committee for the latter's information. Said committee shall be provided with all pertinent documents and material facts that support the transaction.

5. On a quarterly basis, the CCO shall also submit the required report to BSP using the existing report format.

6. If a related party transaction would be ongoing, the Board of Directors shall periodically review and assess ongoing relationships with related parties to determine and ensure compliance with the all the regulatory requirements.

7. No director may engage in any Board or Committee discussion or approval of any related party transaction in which he or she is a related party. However, such director must provide to the Board or Committee all material information reasonably requested concerning the transaction.

8. Consistent with corporate values and code of conduct observed by Pangasinan Bank, Inc., it shall encourage all personnel to report confidentially and without risk of reprisal, legitimate concerns about illegal, unethical or questionable Related Party Transaction's.

9. In the event of a Related Party Transaction turning sour or becoming a problem transaction, the Bank shall collect the difference between the interest rate granted and the normal/regular rate of the transaction and also all the other waived charges extended to the related party/ies, who abuse the exceptional dealing given.

C. <u>Roles of Senior Management and Assessment Function</u>

1. The senior management shall implement appropriate controls to effectively manage and monitor Related Party Transactions on a per transaction and aggregate basis.

2. They shall also monitor exposures to related parties on an ongoing basis to ensure compliance with the bank's policy and Bangko Sentral regulations.

3. The Internal Audit Committee shall conduct a periodic formal review of the effectiveness of bank's system and internal control governing related party transactions to assess consistency with the board-approved policies and procedures.

4. The Compliance Dept. shall ensure that the bank complies with relevant rules and regulations and is informed of regulatory developments in area affecting related parties.

5. The Compliance Dept. shall aid in the review of the bank's transactions and identify any potential related party transaction that would require review by the Board.

6. The Compliance Dept. shall ensure that the related party transaction policy is kept updated and is properly implemented throughout the bank.

<u>XIV. Self-Assessment Function:</u>

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

<u>Authority:</u>

Internal Audit Department (IAD) aims to promote effective controls at a reasonable cost. To achieve this, **<u>IAD is authorized</u>**, in the course of its activities:

- To enter all areas of the auditable units and have full, free, and unrestricted access to all levels of management, Bank's internal records, including Board of Director (BOD) meetings, bank's functions, systems, the documents and ledgers, property, and personnel of the Bank, considered necessary for the performance of its functions;

- To require all members of staff and management to supply such information and explanations as may be needed within a reasonable period of time;

- To have access to the Audit Committee and the President;

- To obtain the necessary assistance of personnel in units of the Bank where they perform audits, as well as other specialized services from within or outside of the Bank;

The **IAD** and its staff are **not authorized** to:

- Perform any operational duties for the Bank;
- Initiate or approve accounting transactions external to IAD.

Responsibilities:

The scope of work of IAD is to determine whether the Bank's risk management, internal control systems, information systems and governance processes are adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed;

- Significant financial, managerial, and operating information is accurate, reliable and timely;

- Review the adequacy of controls established to ensure compliance with policies, plans, procedures and business objectives;

- Resources are acquired economically, used efficiently, and adequately protected;

- Assess the means of safeguarding assets;

- Review established procedures and systems and propose improvements;

- Monitor recommendations forwarded to make sure that effective remedial action is taken;

- Carry out ad hoc appraisals, investigations, or reviews requested by the Audit Committee or the President;

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by the President;

- Implement the annual audit plan, including, as appropriate, any special tasks or projects requested by the Audit Committee or the President;

- Evaluate and assess significant merging/consolidating functions and new or changing activities, processes, operations, and control processes coincident with their development, implementation, and/or expansion;

- Keep the Audit Committee and the President informed of emerging trends, successful practices, and significant measurement criteria in internal auditing;

- Identify and report to the Audit Committee and the President actual and potential weakness in the systems or internal control where it exists, and recommend feasible ways to remedy it;

- Issue periodic reports on a timely basis to the Audit Committee and to the President of the Bank summarizing the result of the Audit activities;

- Maintain a team that collectively possesses the necessary knowledge, skills, and disciplines for the achievement of the IAD activities. In cases of special need, IAD resources may be implemented by:
    - Assistance of other suitable staff within the Bank;
    - Engagement of consulting services;

The internal audit process, however, does not relieve departmental heads and staff of their responsibility for the maintenance and improvement of internal controls in their respective area.

Independence and Objectivity:

To ensure its independence, Internal Audit Department (IAD) is directly and functionally responsible to the Audit Committee, and administratively to the President.

In this context, functional accountability means that the Audit Committee would:

1. Approve the internal audit risk assessment and related audit plan;

2. Receive communications from the Head of IAD on the results of the internal audit activities or other matters that he/she determines to be necessary, including private meetings with him/her without management present;

3. Approve the charter of the internal audit function;

4. Determine whether there are scopes or budgetary limitations that impede the ability of the internal audit activity to execute its responsibilities;

Administrative accountability is the relationship of the IAD within the organization's management structure that facilitates day-to-day operations of the internal audit activity and provides appropriate interface and support for effectiveness. Administrative reporting typically includes:

1. Budgeting and management accounting;
2. Internal communications and information flows;
3. Administration of the organization's internal policies and procedures;

To maintain objectivity, the Internal Audit Department (IAD) is not involved in day-to-day control procedures. Instead, each business unit is responsible for its internal control.

Accountability:

The Head of IAD, in the discharge of his/her duties, shall be accountable functionally to the Audit Committee, and administratively to the President. IAD Head shall send copies of his/her reports that are sent to the Audit Committee to the President. The main functions of the IAD include, but are not limited to:

- Provide annually an assessment on the adequacy and effectiveness of the Bank's processes for controlling its activities and managing its risks in the areas set forth under "Purpose and Objectives";

- Report significant issues related to the processes for controlling the activities of the Bank, including potential improvements to these processes, and provide information concerning such issues;

- Furnish the annual audit plan and periodically provide information on the status and results of the annual audit plan and the sufficiency of IAD's resources;

- Coordinate with and monitor the results of work performed by, other control and monitoring functions (e.g., risk management, security, ethics, evaluations, and external audit);

- Perform financial, accounting, administrative, information technology, and operational audits in a systematic and selective manner to provide adequate audit coverage over an appropriate period;

- Review the systems of internal controls maintained by the Bank to safeguard its financial and physical assets, verifying the existence of related assets, ascertaining high-risk areas, and recommending alternative approaches to correct any weaknesses;

- Maintain a continuing program for reviewing the effectiveness of lending and technical assistance activities in order to ascertain whether results are consistent with established Bank policies, objectives, and goals;

- Review the reliability, accuracy, and integrity of financial and operating information systems and related policies, plans, procedures, and records in order to appraise their adequacy regarding the intended objectives;

- Appraise the adequacy of the action taken by the President on recommendations to correct reported internal control weaknesses and/or deficient conditions and advise the Audit Committee and the President of the risk(s) assumed by not taking corrective action on reported findings;

- Continue direct communications with appropriate management staff members on corrective actions considered inadequate until the matter has been satisfactorily resolved.

Continuity and Impartiality:

- Internal Audit within the Bank shall be a permanent function.
- IAD shall be objective and impartial in performing its assignment.
- Objectivity and impartiality entail that the internal audit department will seek to avoid any conflict of interest.

For the purpose of the impartiality and independence of the IAD, the appointment, and removal of IAD Head shall be executed in accordance with the Bank's internal regulations, but in consultation with the Chairman of the Audit Committee. Furthermore, personnel evaluation (performance appraisal) of the IAD Head shall be conducted by the Audit Committee.

Standards:

Internal Audit Department adheres to the standards of best professional practice, such as International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of The Institute of Internal Auditors.

COMPLIANCE FUNCTION

Rationale

A bank compliance program is the method that the Bank uses to abide by all applicable regulations, rules and laws. **Pangasinan Bank (A Rural Bank), Inc**. is responsible for developing a sound and safe compliance program that takes into account the risks involved for the protection of the bank's clients, reputation, employees and overall business efforts. The Bank appoints Compliance Officer in order to develop compliance policies and procedures, monitor and test programs, train employees, render advice, report results and handle the general management of the compliance department.

Introduction

Bank's Compliance System is designed to specifically identify and mitigate business risks which may erode the franchise value of the bank. Business risks refers to conditions which may be detrimental to a bank's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Combining business risk with the financial risks arising from the use of borrowed funds generates total corporate risk of the bank. Business risks shall include, but not limited to, the following:

a. Risks to reputation that arise from internal decisions that may damage a bank's market standing;

b. Risks to reputation that arise from business actions, decisions and practices that ultimately will influence on the public's trust of a bank;

c. Risks from the actions of a bank that are contrary to existing regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standards of good practice;

d. Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect a bank's business model.

Objectives of the Compliance Program

A. Address the Bank's business activities and consequent risks –

1. Emphasize that bank personnel has an important role in complying with regulations. E. g. Bank's Code of Conduct

2. Banking laws, rules and regulations should serve as established compliance standards (benchmark) to be followed by personnel.

3. Specific individual(s) belonging to Senior Management who shall be in-charge of the overall responsibility to oversee compliance

B. Give emphasis to education and training

1. Personnel whose jobs could have a material impact on compliance risks should be adequately educated and trained.

2. The Bank, through its training office, should take steps to communicate effectively its standards and procedures on AML, corporate governance and the code of conduct by requiring participation in training programs or issuing publications that explain in a practical manner what is required of them.
3. Periodic testing and self-assessment exercises should go hand-in-hand with training to determine the level of knowledge & understanding on banking laws, rules and regulations.
4. A culture of knowledge-sharing among bank personnel by freely communicating compliance concerns in regular meetings should be encouraged.

Corporate Policy

Following are the corporate policy framework relative to the installation and adoption of the Compliance System:

1. Compliance is not merely the function of the Compliance Officer but is a matter of concern of all directors, officers and personnel. It is the direct responsibility of each manager and a personal responsibility of each staff.

2. It is essential that each director, officer and staff comply with the spirit as well as set policies and procedures.

3. Compliance is to be regarded as a means of enhancing profitability within the limitation of regulatory requirements and good business practice.

Training

The compliance department must provide all employees of the bank with adequate and effective training concerning all policies and procedures of the bank. Each employee must be tested for comprehensive understanding. Some policy and procedures testing, such as concerning the "Bank Secrecy Act", "Money *Laundering Act."* and the *"Know-Your-Client Policy" must* occur on an annual basis.

***Providing* Advice**

During the course of any business day, many compliance questions arise from the employees of other departments within the bank. The compliance department is in-charge with the responsibility of giving advice concerning all questions of compliance control and application.

Reporting

The compliance officer must provide reports to other areas of the bank concerning the results of compliance reviews and training. They must also report changes in laws that result in policy amendments and new policies developed in accordance with new legislation. All changes to the compliance program of the bank must be cleared through and approved by the board of directors.

Management

The compliance officer should manage the compliance staff under his control in order to provide for adequate coverage of all compliance program functions including the goal of safety and soundness

I – STATUS OF COMPLIANCE FUNCTION

The compliance function has a formal status within the Bank. It is established by a Compliance Charter duly approved by the Board of Directors on Aug. 31, 2021 through Board Resolution No. 091-2021. It defines the compliance functions' standing, authority and independence, and addresses the following issues:

a. measures to ensure the independence of the compliance function from the business activities of the bank;

b. the organizational structure and responsibilities of the unit or department administering the compliance program;

c. the relationship of the compliance unit/department with other functions or units of the organization, including the delineation of responsibilities and lines of cooperation;

d. its right to obtain/have full access to information necessary to carry out its responsibilities;

e. its right to conduct investigations of possible breaches of the compliance policy;

f. its formal reporting relationships to senior management, the Board of Directors, and the appropriate board-level Committee.

g. its right of direct access to the Board of Directors and to the appropriate Board-Level-Committee.

II - BASIC ELEMENTS OF COMPLIANCE SYSTEM

A. The Compliance Program was duly approved by the Board of Directors and noted through its Board Resolution No. 091-2021, dated Aug. 31, 2021, embodied therein are the following:

1. Risks program covers financial risks that arise from the balance sheet exposures of the bank. The Internal audit program, on the other hand, shall review on ex-post basis whether prescribed guidelines of the bank were followed in administering transactions, handling procedures, making decisions, and undertaking related activities.

2. The Bank ensures that compliance and internal audit department is provided with necessary staff to carry out its function, taking into consideration the size and complexity of the operations of the Bank.

Banking by its nature entails taking a wide array of risks. Risks are exposure to possible loss or inquiry that may affect capital and earnings. Nearly all transactions entered into by a rural bank involves risks. However, risk may also arise from bank's inaction or failure to comply with relevant laws, rules, and regulations issued by regulatory/supervisory bodies. The success of a rural bank is largely dependent on the ability of its directors and officers to prudently manage these risks. Risk management involves identification, measuring, controlling and reporting risks and disclosing possible consequences. The normal risks in daily operations which may result in loss to earnings and capital are the following:

***Credit risks* –** arising from the borrower's failure to pay interest and/or loan principal at maturity date.

***Liquidity risks* –** arising from the failure to meet maturing obligations due to mismatch in cash flows and incidence of high past due loans which may put pressure on the bank's liquidity position.

***Market and Investment risks* –** arising from the possible decline in the value of acquired assets and investments in equities and debt instruments.

***Interest rate risk* –** risk arising from mismatches of the timing which interest rates on assets and liabilities can be changed.

***Operations risks* –** arising as a result of weakness in organizational structure, poor oversight functions of the Board of Directors and Senior Management, faulty hiring policies, weak internal control system, inadequate internal and external audit coverage and deficient/inadequate management information system.

***Legal risks* –** arising as a result of unenforceable contracts, lawsuits or adverse judgment.

***Reputation risks* –** arising from negative/adverse public opinion.

***Compliance risks* –** this type of risk has not been given much attention, perhaps because they are difficult to estimate, quantify and provide for in advance. Compliance risk arises from failure to comply with relevant rules and regulations issued by regulatory and/or supervisory bodies and due to unsound banking practices. The risk exposes the bank and its directors and officers to fines, monetary penalties and administrative sanctions.

3. An appropriate organizational structure was put in place to manage the compliance function and execute the approved compliance program. The compliance function is manned by full-time officer/staff either embedded in operating departments, or in a department of its own.

4. In addition to the organizational structure, the duties and responsibilities of the Compliance Officer and other personnel involved in the compliance function must be defined explicitly.

COMPLIANCE FUNCTION

- it is the bank's discipline to stay compliant with regulations on a going-concern basis that is essential to what makes it a bank.

INTERNAL AUDIT FUNCTION

- an essential counter-checking is provided by the internal audit function. Its importance is highlighted by the fact that governance principles require it to be a board-level responsibility. As the bank's conscience and counter-check, this function must be internalized and institutionalized within the workflow of any bank.

B. A constructive working relationship between the bank and BSP

The Bank through its Compliance Officer, may consult with the BSP for clarifications on specific provisions of related laws and regulations. Similarly, BSP may initiate a dialogue with the bank to discuss the compliance program of the bank and its records of implementation of the same.

The Bank is enjoined to discuss clarifications of pertinent laws and regulations with other appropriate agencies that issue market regulations and/or tax guidelines.

C. Clear and open communication lines within the bank to educate and address compliance matters

Officers and staff shall be trained in the normal course of bank operations with respect to the compliance program of the bank and the identified business risks. The processes for imparting to bank personnel for the necessary appreciation of the bank's compliance culture shall form part of the Compliance Manual.

III – COMPLIANCE OFFICER

a. The Compliance Officer should have the necessary qualifications, experience, and professional background and should have a sound understanding of relevant laws and regulations and their potential impact on the bank's operations.

b. The Compliance Officer should be up-to-date with the development in laws, rules and standards, maintained through continuous training.

c. The Bank has appointed a full-time Compliance Officer to manage the compliance program. Given the importance of the compliance function, the Compliance Officer is a senior officer functionally reporting to the bank's board-level Audit Committee. Such appointment/designation shall require prior approval of the Monetary Board. The Compliance Officer's qualifications shall be subject to the provisions of the MORB enumerating the qualifications of bank officers, particularly putting consideration to "fit and proper criteria" such as integrity/probity, competence, education, diligence and experience/training.

d. The Compliance Officer shall oversee the identification and management of the bank's compliance risk and shall supervise the compliance function staff.

IV – RESPONSIBILITIES OF DIRECTORS AND SENIOR MANAGEMENT ON COMPLIANCE

Aside from the duties and responsibilities of the Board of Directors mentioned under Sec. 132, the Board of Directors shall ensure that a compliance program is defined for the bank and that compliance issues are resolved expeditiously. For this purpose, the board-level Audit Committee, shall oversee the compliance program.

The Board of Directors shall ensure that the bank personnel adhere to the pre-defined compliance standard of the bank. Implementation of the compliance program rests collectively with senior management, of which the Compliance Officer is the lead operating officer on compliance. Senior management, through the Compliance Officer, should periodically report to the board-level Audit Committee matters that affect the design and implementation of the compliance program. Any changes, updates and amendments to the compliance program must be approved by the board-level Audit Committee. However, any material breaches of the compliance program shall be reported to and promptly addressed by the Compliance Officer within the mechanisms defined by the compliance manual.

V – COMPLIANCE ISSUES

In order to ensure compliance with laws and regulatory issuance in the daily operations of the bank, the following shall be observed:

A. Each department/branch shall be furnished a list of laws, rules and regulations applicable to all their transactions which shall be observed by its officers and staff. A summary of the provisions of laws, rules and regulations relevant to banking is shown in **ANNEX A – (Regulatory Compliance Matrix Monitoring-to be performed quarterly).**

    1. Banking Laws
    2. BSP Circulars
    3. Corporation Code
    4. Bureau of Internal Revenue
    5. Securities and Exchange Commission
    6. Local Government Code
    7. Philippine Deposit Insurance Corp.
    8. Department of Labor and Employment
    9. Social Security System
    10. Department of Justice
    11. Officer Orders/Memoranda

B. A list of reports required to be submitted to the BSP and other regulatory agencies shall be furnished each department/branch. Each department/branch responsible for the preparations/submission of such reports shall be identified. Each department/branch shall maintain a logbook containing information when each report is due and when such report was actually submitted to the regulatory body. Evidence of receipt of reports by the appropriate regulatory office shall be kept on file at all times. A list of required reports to be submitted to BSP is shown in **ANNEX B - (BSP Reportorial Requirements Monitoring-to be performed quarterly)**.

C. To determine compliance of banks with prescribed internal control standards, a suggested set of **Internal Control Questionnaires** is attached as **ANNEX C-to be performed annually**.

D. A set of **Questionnaire on Deposit Practices** is also suggested to determine compliance of banks with deposit practices attached **ANNEX D-to be performed annually.**

E. In order to ascertain compliance with policies and procedures on **Related Party Transactions**, a questionnaire as **ANNEX E-to be performed annually**, is also attached.

F. **<u>Assessment Checklist</u>** as **<u>ANNEX F- to be performed annually</u>** in every Department/Branch Unit to find out if manual of operations policies and procedures are performed as such.

G. The reports of the Compliance Officer on the results of the compliance testing shall be submitted to the President together with his recommendations. The compliance rating of each department/branch shall be based among others, on the number of violations, amount involved and persistence in committing the violations. The level of risks are as follows:

Low	-	Possibility of losses is minimal
Moderate	-	Risk of losses is manageable
High	-	Exposure to losses are very definite and imminent.

The Compliance rating shall be considered as one of the basis for promotions, awards and other incentives that may be granted by the bank as well as for disciplinary actions.

The compliance risk rating of each department/branch be considered in determining the frequency and scope of the succeeding compliance review to be performed. Initially, the compliance audit shall be conducted quarterly. Thereafter, the audit of a department rated "low" may be reduced to once a year, those rated "moderate" shall continue to be audited quarterly, while those rated "high" shall be audited at least monthly.

H. The president shall inform in writing, the Heads of each department/branch subject of the report of the details of the violations noted and shall require the department head/branch manager to correct the violations immediately and to submit written reports on the action taken on the violations noted and the status of the corrective actions taken. Whenever necessary, meetings/discussion between the Compliance Officer, the Department Head/Branch Manager shall be held. Such meetings shall be supported by minutes of the discussion and commitments made by the department head/branch manager to correct the exceptions noted.

I. The President shall submit periodic reports, at least quarterly to the Board of Directors on violations noted by the compliance officer, the actions taken by the officer concerned to correct said violations and appropriate recommendations to prevent repetition thereof.

<u>VI - RISK ASSESSMENT AND TESTING</u>

1. The Compliance Officer in coordination with the Internal Auditor or the Bank President shall establish a monitoring and assessment process, a checklist of regulations, to ensure that all directors, officers and staff of the bank are familiar with the compliance program.

2. Once the Compliance program is in place, a periodic compliance review/monitoring and assessment of each department/branch on a regular basis shall be enforced.

3. The internal and external auditors of the bank shall be required to inform the Compliance Officer of any violation of laws, rules and regulations noted in their audit work.

Reports on the monitoring and assessment shall be prepared and submitted to the President/Chief Operating Officer to documents findings, issues, concerns and remedial/corrective measures taken. The reports must be thoroughly reviewed and approved by the department/unit head/branch managers concerned before their submission to the President and the Board of Directors.

ANNUAL AUDIT PLAN

AUDIT APPROACH

The Internal Audit will consist of interviews with key employees, review of documents, inspections, data analysis, review of accounting entries and the usage of applicable audit tools. A random as well as statistical sampling approach shall be employed in the conduct of examination. Direct confirmation of deposit and/or loan balances from sample-sized clients, thru mailed Auditor's inquiry letters will also be applied. The audit will consist of the components described below. The phases are listed in sequential order and should provide an overview of the sequencing of the proposed engagement.

I. Mobilization Phase

The Internal Auditor will:

- Require all units a list of schedules and relevant documents and materials that will support our fieldwork prior to the audit visit.
- Develop and have the audited branches and units undergo an initial interview of the officers and staff that we anticipate needing to meet with, in order to perform the audit.
- Develop an audit program to guide activities during the course of this audit. The audit program guide shall include a list of the controls that would be reviewed along with a defined approach for understanding the design of the control and how it would be tested to determine if it is operating effectively.

II. Execution Phase:

Once the audit program has been finalized, and the appropriate resources have been identified, fieldwork will proceed in accordance with the audit plan. We will expect results from the execution of the detailed Audit Program and utilization of working papers that will support the results from the detailed Audit Program.

III. Reporting Phase:

- General Audit Examination – is the review of all areas of operations of the branch/department.

  1. Audit Draft/Initial Report - As the audit progresses, the Internal Auditor/Staff shall provide draft report containing the initial findings/observations in one or more risk areas. We expect that the branch/unit will respond quickly as possible. Our team will compile all draft reports of the audited branch/unit management within the specified days to come up with preliminary audit report.

	No. of Accounts	No. of Accounts		*(Data as of Oct. 31, 2021)*
	Deposits	Loans	Total	No. of days to reply
Admin & Units	-	-	-	3 days
Alaminos	351	42	393	3 days
Binmaley	740	44	784	3 days
Malasiqui	940	65	1,005	5 days
Mangaldan	1,281	104	1,385	5 days
Rosario	314	39	353	3 days
San Fabian	1,601	78	1,679	5 days
	5,227	372	5,599	

Note: Branches with **below 999 accounts** (deposits and loans) **3 days**
Branches with **1, 000 or more accounts** (deposits and loans) **5 days**

2. Preliminary Audit Report will include our recommendation on how to effectively address the findings/violations among others. A period of **minimum of 15 days** and a **maximum of 30 days** depending on the total number of accounts on loans and deposits will be provided to the branch/unit, within which to reply and make some corrections, if needed. A timeline to address the deficiencies/findings/observation must be included in their reply.

	No. of Accounts	No. of Accounts	*(Data as of Oct. 31, 2021)*	
	Deposits	Loans	Total	No. of days to reply
Admin & Units	-	-	-	15 days

Alaminos	351	42	393	15 days
Binmaley	740	44	784	20 days
Malasiqui	940	65	1,005	25 days
Mangaldan	1,281	104	1,385	25 days
Rosario	314	39	353	15 days
San Fabian	1,601	78	1,679	30 days
	5,227	372	5,599	

Note: Branches with **below 500 accounts** (deposits and loans) **15 days**
Branches with **501 to 1, 000 accounts** (deposits and loans) **20 days**
Branches with **1,001 to 1,500 accounts** (deposits and loans) **25 days**
Branches with **1, 501 or more accounts** (deposits and loans) **30 days**

Any request for extension for submission of audit replies will be subject for approval by the audit committee.

3. Final Audit Report – After receiving the response(s) to the Preliminary Audit Report, the Internal Auditor shall prepare a Final Audit Report (FAR). From the FAR matrix, the Internal Auditor shall objectively assess each response as to whether each audit deficiency/violation/observation has been addressed properly by indicating the word "Accepted or Complied" or "Not Acceptable or Not Complied."

   The Internal Auditor will then prepare a Memorandum Report addressed to the Audit Committee highlighting the material finding/violations/observations particularly items which are marked "Not Acceptable or Not Complied" in an annex supporting the Memo Report.

4. Spot Audit Report – The follow up audit of at least two (2) sections of the branch that provided the major exceptions and/or that caused the highest number of internal control and procedure deficiencies. The Internal Auditor/Staff shall prepare the audit report based on the remaining findings/exceptions not complied/regularized by the branch/department for the spot audit done and would be the basis for the imposition of penalty for the repetitious/recurring violations.

- Special Audit Examination – review of area/s in the branch/department with allegations/reported incidence of fraud, irregularities, illegal acts and other similar events.

1. Special Audit Report – The internal auditor will prepare an appropriate report upon conclusion of the investigation on the area/s of allegations, which will be submitted to the Audit Committee and Senior Management for proper action to be taken. Results of special audit will be taken separately from the general audit examination; files shall be kept/ maintained to the conclusion of the matter or per Record Retention Policy.

IV. Manner of Risk Assessment, Risk Levels and Audit Rating:

The Internal Auditor will conduct annually risk assessment and determine the risk level of each risk area/category on a per risk universe manner after the end of audit year. The results of the assessment shall be the basis of the prioritization in the next audit engagement (see attached Annex A).

Based on the information provided by each branch/unit during our initial conversation, combined with our understanding about the branch/unit operation, we will formulate risk considerations that we understand, are relevant to their respective operation. Our goal is to incorporate these risk considerations in our audit program to be developed in the Mobilization Phase of the internal audit.

The risks shall be evaluated as to their efficiency and Bank Management is expected to follow the process below:

1. Identifying the risk
2. Develop strategies and procedures to prioritize risk
3. Design policies to mitigate risk
4. Implement policies and assign responsibilities
5. Test effectiveness and monitor results
6. Revise ineffective policies

The Audit Rating of each branch/unit shall be in accordance with the Bank's adopted rating system.

V. Manner of Communications:

Branch/unit responses are important elements of our internal audit. Through regular meetings and ongoing communication with each branch/unit management, we will establish a relationship of openness through which we can discuss significant audit findings, recommendations for improving internal controls or operations, ultimately develop solutions to the issues.

It is our policy to discuss our findings and recommendations with the concerned branch/unit prior to issuance of each audit report so that we can verify factual accuracy. Our final report will only include findings and recommendations considered significant. Other matters will be communicated throughout the engagement and during our regular meetings and fieldwork.

In case of fraud discovery, the same process will be done only that the Audit Committee and Senior Management shall be given advance information from time-to-time.

VI. Planned Schedule

The Internal Audit for the year 2022 shall start on the 2nd week of January and will end on the 2nd week of December, except for those periods where the Internal Auditor/Staff will be needed during the regular BSP and External examinations where assistance is needed. The remaining weeks of Dec. 2022 shall be devoted to preparation for the next year's Audit Plan and Program. **(See attached Annex B for tentative schedule of each branch)**

Note: The audit schedule is based on the new normal. If COVID-19 persists, the schedule will be adjusted accordingly.

The following are the estimated time of departure and arrival from Branch and Vice Versa due to **heavy traffic** and **availability** of means of transportation considering that the Audit Team are travelling thru **PUBLIC UTILITY VEHICLE** *(if the on-site audit examination of branches will resume):*

	ARRIVAL	DEPARTURE
ALAMINOS	*Up to10:30 am	Not later than 3 pm

*depending on the influx of the passengers of the UV Express going to Alaminos.

BINMALEY	*Up to 9:30 am	Not later than 4 pm

*depending on the traffic in Dagupan and/or Binmaley.

MALASIQUI	*Up to 10:00 am	Not later than 4 pm

*this includes walking time from Jollibee traffic to Bus Terminal in Mayombo.

ROSARIO	*Up to 10:00 am	Not later than 4 pm

*depending on the availability of Bus going to Carmen from San Fernando.

SAN FABIAN	Same as Head Office time.	

*except in cases wherein the Audit Team is requested to report to Head Office for some other transactions.

VII. Projected Budget – Costs and Expenses:

Aside from regular salaries of the Internal Auditor and Audit Assistant, the Internal Audit Plan for this year is expected to incur cost and expenses, breakdown of which is hereby attached as **(Annex C)**.

For audit of branches, the IAD shall request thru the Audit Committee the use of the service car, if available, otherwise the audit team shall commute from/to head office and branches. For units confined in the Head Office, no expected costs, expenses or utilization of other assets are needed.

XV. Dividend Policy

Declaration of Dividends. Dividends may be declared annually or oftener as the Board of Directors may determine. The Board may declare dividends only from the surplus profits of the Corporation after making proper provisions for the necessary reserves in accordance with law and regulations of the Bangko Sentral ng Pilipinas, and the deductions provided in Article X and XI.

Stock Dividends. With the approval of the Stockholders representing two-thirds (2/3) of all stock then outstanding and entitled to vote given at a general meeting or at a special meeting duly called for the purpose, the Board may declare that dividends be paid in stock.

XVI. Corporate Social Responsibility Initiatives

The Board of Directors of Pangasinan Bank (A Rural Bank), Inc. is ultimately responsible in ensuring that consumer protection practices are embedded in the Bank's business operations. The bank must adhere to the highest service standards and embrace a culture of fair and responsible dealings in the conduct of its business through the adoption of a Financial Consumer Protection Framework embodies in the board-approved Financial Consumer Protection Manual.

Role and Responsibility of the Board of Directors. The Board is responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection program.

XVII. Consumer Protection Practices

Role of the Board and Senior Management

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

a. Approve the Consumer Assistance policies and procedures;

b. Approve Risk Assessment Strategies relating to Effective Recourse by the Consumer;

c. Ensure compliance with Consumer Assistance policies and procedures;

d. Provide adequate resources devoted to Consumer Assistance; and

e. Review the Consumer Assistance policies at least annually

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

Risk Assessment Strategies

Pursuant to the Bank's Consumer Protection Risk Management System, the Bank shall put in place appropriate management controls and take reasonable steps to ensure that in handling complaints/requests, it: i) identifies and remedies any recurring or systemic problems; and ii) identifies weaknesses in the Bank's internal control procedure or process. This may be done by:

1. Analyzing complaints/requests data;
2. Analyzing causes for complaints/requests;
3. Considering whether such identified weaknesses may also affect other processes or products, including those not directly complained of/requested; and
4. Correcting, whether reasonable to do so, such causes taking into consideration the concomitant costs and other resources.

A. Consumer Assistance Channels

1. Consumers may lodge their concerns through any reasonable means, such as, a centralized web-portal, walk-in or personal visit, letter, e-mail, telephone, and facsimile
2. The Bank must maintain a Consumer Assistance Helpdesk or hotline dedicated for customer concerns and service and manned by CAO/HR Head.
3. The Bank shall ensure that consumers know how and where to lodge their concerns.
4. The Bank is encourage to provide alternative modes of resolution, such as conciliation, mediation and arbitration, in order to achieve settlement of the issues at the Bank level.

B. Consumer Assistance Process and Timelines

1. Complaint/Request

Particulars	Simple*	Complex*
Acknowledgment	Within 2 days	Within 2 days
Processing and resolution (assess, investigate, and resolve)	Within 7 days	Within 45 days
Communication of Resolution	Within 9 days	Within 47 days
*All period are reckoned from receipt of complaint		

a. **Receiving and acknowledging complaints/requests**

➢ The Bank shall obtain and record the following data from the consumer:
(1) Full name and contact details;
(2) Nature of complaint or request and its details;
(3) Resolution requested;
(4) Signature of the complainant/requester;

(5) Name of bank personnel handling/in-charge of the complaint

- The Consumer Assistance Officer/HR Head must be able to explain the Consumer Assistance process and timelines.

- The acknowledgment shall provide an assurance that the Bank is dealing with the complaint, request additional documents, if necessary, and that the complainant shall be kept informed of the progress of the measures being taken for the complaint's resolution.

b. Investigating and Resolving Complaints

- The Bank must establish an institutional approach in assessing and investigating complaints/request and options in resolving them, considering the peculiarities of the complaints/requests and the desired remedies of the party.

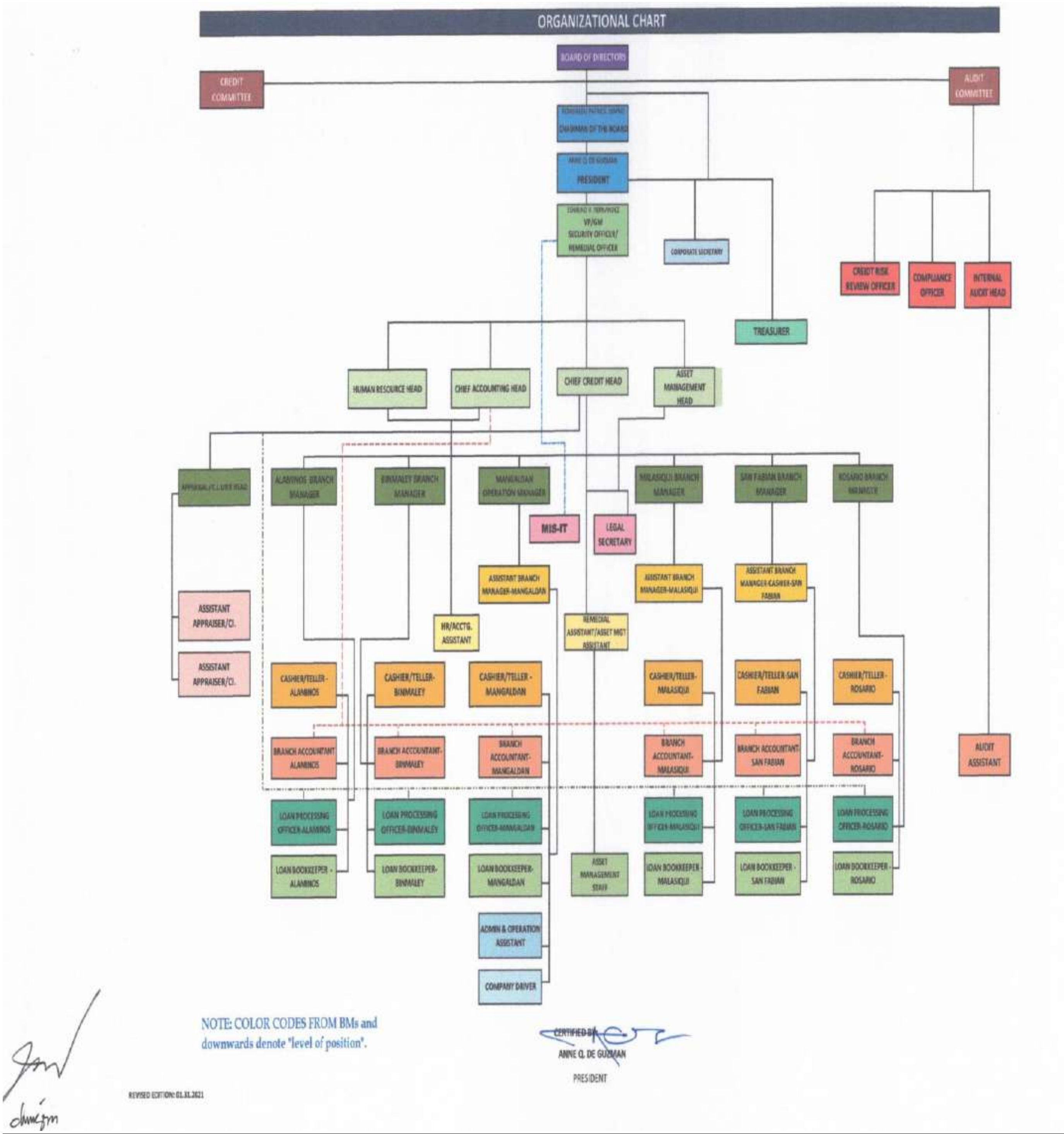
- If the assessment and investigation on complex complaints/requests cannot be completed within the timeframe stated above, complainants shall be informed of the:
  (1) Reason thereof;
  (2) Need for extended timeframe;
  (3) Date on which the complainant may expect the outcome of the Bank's assessment and/or investigation; provided, however, that the additional period shall not exceed forty-five (45) days. This will afford complainants opportunity to seek other means to resolve their complaints.

- Result of assessment, investigation, and the Bank's final response shall be communicated to the complainant in writing in simple and clear language. The Bank shall likewise inform the complainant of the possible remedies available to the party, including resort to the BSP Consumer Assistance Mechanism and the courts.

CORPORATE INFORMATION

F. CORPORATE INFORMATION

I. Bank's Organization Structure



II. List of Major Stockholders' of the Bank

PANGASINAN BANK (A Rural Bank), INC.
List of Major Directors
Major Stockholders (5% Up)
As of December 31, 2021

Name	Nationality	Common	Preferred	Total	Amount (In Million P)	Percent to Total Shares Paid-In
Siapno Family	Filipino	148,460	11,550	160,010	16.001	32.00
De Guzman Family	Filipino	108,210	10,139	118,349	11.835	23.67
Quinto Family	Filipino	73,452	19,165	92,617	9.262	18.52
Aquino Family	Filipino	57,268	2,235	59,503	5.950	11.90
Gubatan Family	Filipino	46,075	3,510	49,585	4.959	9.92
Others (47 Individual)	Filipino	16,535	3,401	19,936	1.993	3.99
TOTAL		450,000	50,000	500,000	50.000	100.00

III. Products and Services Offered

To help achieve its mission of encouraging the people to practice the habit of saving and the judicious use of credit in the communities that it serves, help eradicate usurious practices and provide quality services whether they are depositors or borrowers so that they can improve their economic standing, the bank hereby offers financial products which will help in nation-building in terms of giving economic benefits to the people.

DEPOSIT

PRODUCT	DESCRIPTION	TERMS AND CONDITION
Regular Savings	Interest-bearing deposit which can be withdrawn on demand upon presentation of duly accomplished withdrawal slip and corresponding passbook	**Term.** On demand **Interest Rate.** 0.25% p.a. **Maintaining Bal.** For an account to earn an interest, a balance of P500 must be maintained, otherwise, a maintaining fee of P10 per month is imposed as service charge. **Dormancy Period.** An account is considered dormant if no transaction *(deposit or withdrawal)* has taken place within the period of 2 years.

		Dormancy Fee 1. Imposition of dormancy fee, aside from the required 60 days prior notification, shall be done consistent with the provision of Section X263 of the MORB. 2. Only dormant account falling under the minimum daily balance of PhP500.00 shall be charged with dormancy fee of P30.00 per month.
Basic Deposit Savings Account	Interest-bearing deposit which can be withdrawn on demand upon presentation of duly accomplished withdrawal slip and corresponding passbook.	**Term.** On demand **Interest Rate.** 0.25% p.a. **Opening Amount.** Not more than P100.00 **Maintaining Bal.** None **Dormancy Charges.** None **Maximum Balance**. Not more than P50, 000.00; should the depositor exceed the P50, 000.00 maximum balance, the bank should convert the basic deposit account to a regular deposit account.
Special Savings	Interest-bearing deposit which can be withdrawn or renewed upon maturity, or on demand by depositor upon presentation of duly accomplished withdrawal slip and corresponding passbook	**Term.** – Minimum of 30 days and maximum of one (1) year but can be withdrawn/pre-terminated on demand upon presentation of duly accomplished withdrawal slip and corresponding passbook. In which case, the contracted interest rate is reduced to the rate given to RSD **Interest Rate** – The Board shall determine the interest rate based on prevailing market prices without prior notice. It is understood that the bigger the amount and the longer the term, the higher the interest rate. P10, 000-P600, 000 .75% p.a. Over P600,000 1% p.a. **Minimum placement of P 10,000.00** **Dormancy Period.** Same as regular savings **Manner of interest computation** – interest is computed as follows:

		If the term is completed Interest=Principal X Rate X (Term/365) If pre-terminated Interest=Principal X RSD rate X (no. of days/365) **Depositor's Option** – The depositor has the following options under the circumstances: Upon placement: Make additional placement before maturity Full or partial pre-termination Upon maturity: Withdraw the interest income earned, principal being rolled-over Partial termination, the balance being rolled-over Roll-over and additional placement Full termination/closed account For proper recognition of interest expense, the system computes the accrued interest at the end of each month to be recorded in the books of the Bank **Documentary Stamp** – The Depositor is bound to pay the documentary stamp due in accordance to the applicable revenue regulation. There shall be three (3) instances when the DST will be collected from a SSD account: 1st – All new account openings 2nd – Any additional placements 3rd – Any partial or full pre-termination made

LOANS

PRODUCT	DESCRIPTION	TERMS AND CONDITION
Agrarian Reform Loan	A credit extended to production and other types of loans granted to beneficiaries of agrarian reform for purposes of: a. Acquisition of work animals, farm equipment, seeds, fertilizer and other similar items	**Term.** Minimum of 30 days and maximum of five (5) years, with possible extension of another 5 years, payable thru monthly amortization. **Interest Rate.** Loans 3 Million or less 16% p.a. Service Charge (one time) 3%

	b. Acquisition of lands authorized under existing laws c. Construction/acquisition of facilities for production, processing, storage and marketing	Loans more than 3 Million 12% p.a. Service Charge (one time) 3% **Other Charges.** Penalty charge of 5% p.a. of past due account; other charges incidental to the extension of the loan. **Mode of Interest Payment.** Via an amortization schedule spread over the term of the loan using either the straight or diminishing balance method.
Agricultural Loan	Loans granted to borrowers, whether beneficiaries of agrarian reform or not, to finance activities relating to agriculture, and for processing, marketing, storage, and distribution of products resulting from the activities of tillers, tenant-farmers, settlers, agricultural lessees, amortizing owners, owner-cultivators, farmers' cooperatives and compact farms.	Same terms and conditions as with other loans, except for Auto Loan.
Real Estate Loan	A credit to finance the acquisition of lot, or improvement of residential units and down-payment to acquire a residential lot.	Same terms and conditions as with other loans, except for Auto Loan
Consumption Loan	A credit to purchase household or equipment for personal use, or meet expenses for educational, medical or emergency needs of the clients/borrowers and their immediate family and processing/placement fee for application of OFWs.	Same terms and conditions as with other loans, except for Auto Loan
Commercial Loan	A credit extended to small and medium enterprises engaged in any business activity in the industry, agri-business and/or services, whether single proprietorship, cooperative, partnership or corporation.	Same terms and conditions as with other loans, except for Auto Loan
Motor	Loans granted to individuals as	**Term**. Minimum of 1 year and

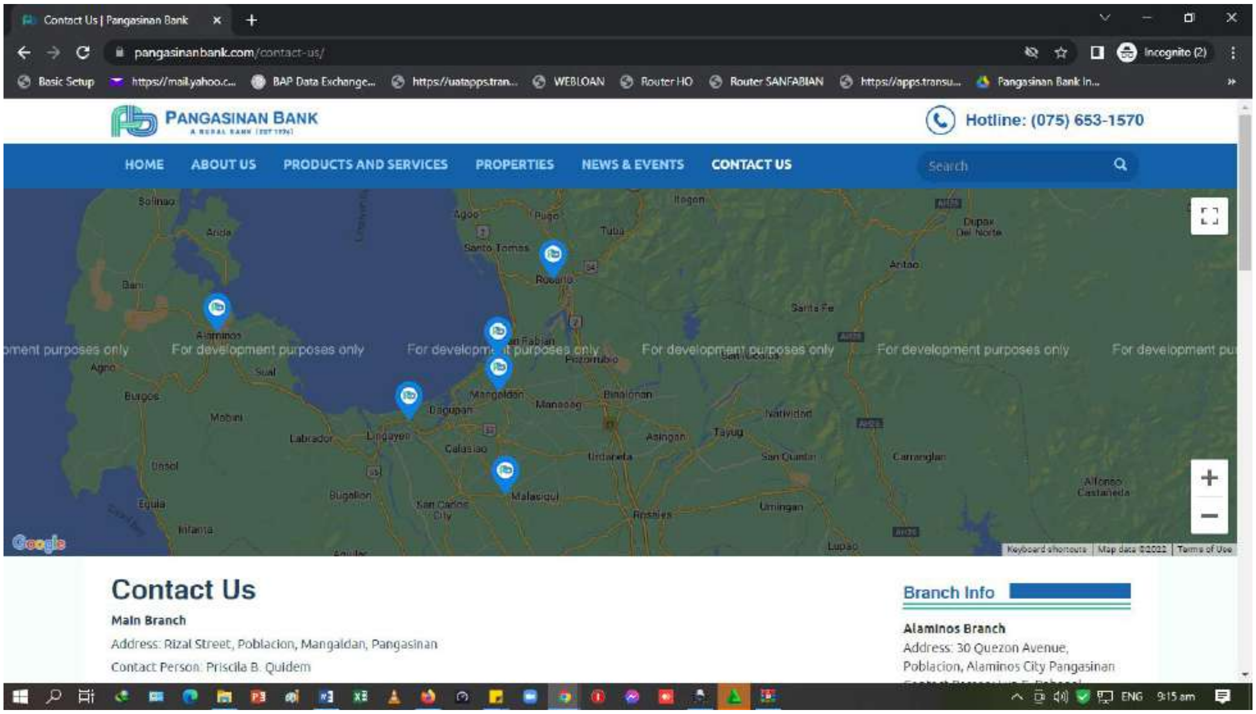
Vehicle Loan	well as businessman to acquire their motor vehicle and additional working capital in which the said motor vehicle unit (as evident of their original OR/CR) will serve as their collateral.	maximum of 5 years, via monthly amortization schedule **Interest Rate**. 10% to 58% add-on rate, depending on the term and status of collateral. **Mode of Payment**. Based on amortization schedule Note: a separate Motor Vehicle Loan Manual is available for detailed policies and procedures
Employee Loan	Loans granted to officers and employees of the Bank under the Financial Assistance Program approved by the BSP	**Term.** Minimum of 1 year and maximum of 5 years. Other terms and condition in accordance with Sec. 135 of the MORB. Interest Rate. Real Estate Loan 12% Multi-Purpose Loan: Motor Vehicle Loan 10% Auto Vehicle Loan 6% Other Multi-Purpose 10% Salary Loan 10% Calamity Loan 8% Mode of Payment. Amortization schedule applied as deduction to payroll every 10th and 25th day of the month.

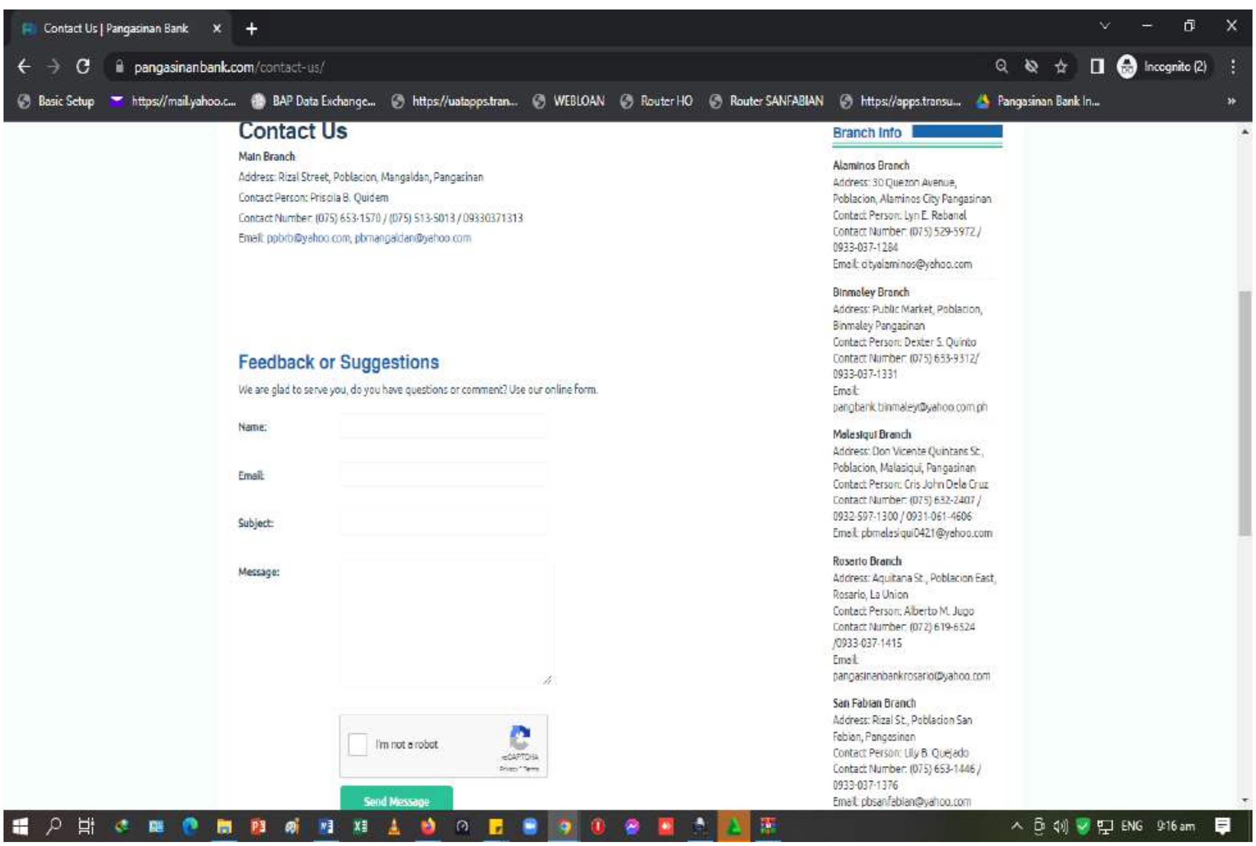
*In addition to the preceding products, the bank is also an agent of ECPay for bills payment and other related services. The bank is also accepting Western Union and Super Padala transactions, however, due to revisions in the western union sub-representative agreement effective 1 Dec. 2019, such services is temporarily suspended until further notice.

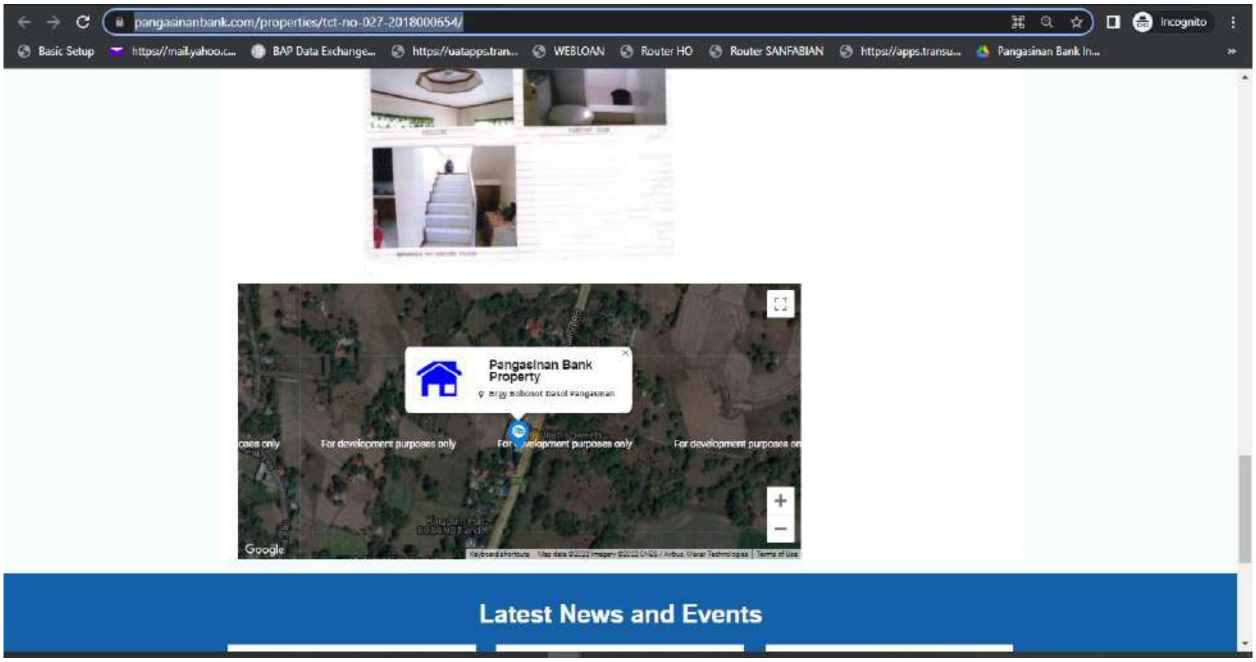
The Bank has implemented the risk-based lending program wherein capacity to pay, secondary to collateral, are the main consideration in the approval of the loan application. A flexible and attractive interest rate for REM Loans was launched on 3 May 2021 as follows: (1) Loans 3 million or less 16% p.a. + 3% one-time service charge for the term indicated in the Promissory Note; (2) Loans more than 3 million 12% p.a. + 3% one-time service charge for the term indicated in the Promissory Note.

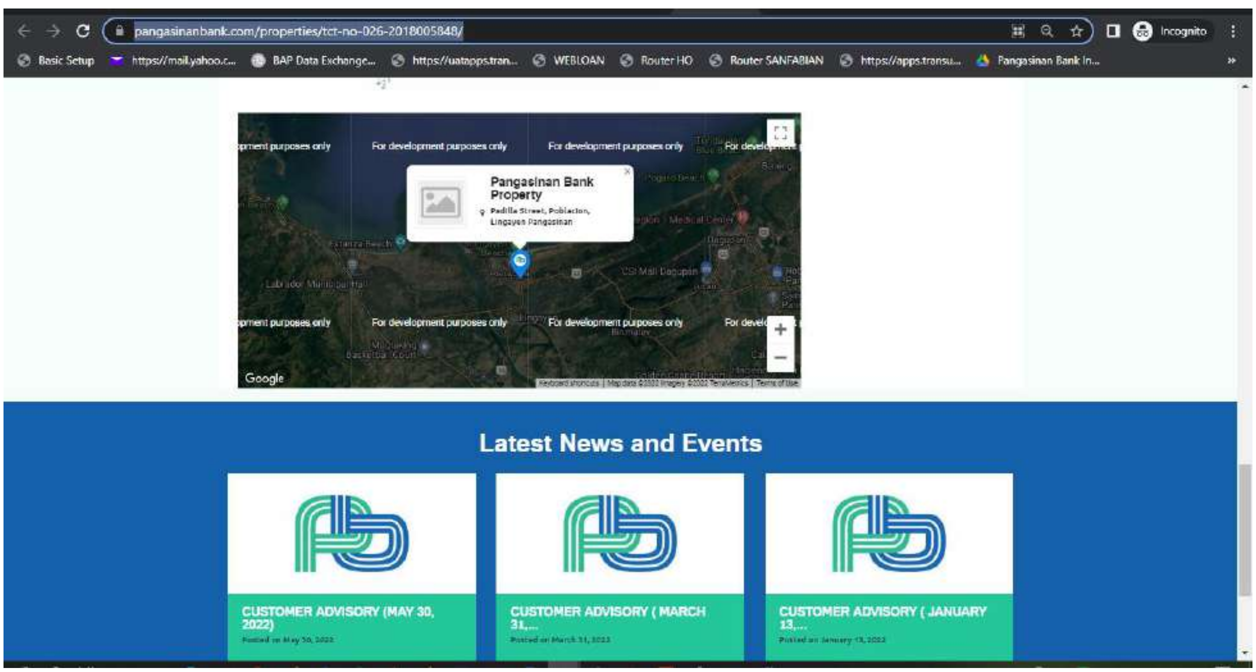
IV. Bank's Website

www.pangasinanbank.com


Contact Us | Pangasinan Bank
pangasinanbank.com/contact-us/
PANGASINAN BANK
Hotline: (075) 653-1570
HOME
ABOUT US
PRODUCTS AND SERVICES
PROPERTIES
NEWS & EVENTS
CONTACT US
Search
For development purposes only
Contact Us
Main Branch
Address: Rizal Street, Poblacion, Mangaldan, Pangasinan
Contact Person: Priscila B. Quidem
Branch Info
Alaminos Branch
Address: 30 Quezon Avenue,
Poblacion, Alaminos City Pangasinan


Contact Us | Pangasinan Bank
pangasinanbank.com/contact-us/
Contact Us
Main Branch
Address: Rizal Street, Poblacion, Mangaldan, Pangasinan
Contact Person: Priscila B. Quidem
Contact Number: (075) 653-1570 / (075) 513-5013 / 09330371313
Feedback or Suggestions
We are glad to serve you, do you have questions or comment? Use our online form.
Name:
Email:
Subject:
Message:
I'm not a robot
Send Message
Branch Info
Alaminos Branch
Address: 30 Quezon Avenue,
Poblacion, Alaminos City Pangasinan
Contact Person: Lyn E. Rabanal
Binmaley Branch
Address: Public Market, Poblacion,
Binmaley Pangasinan
Contact Person: Dexter S. Quinto
Malasiqui Branch
Address: Don Vicente Quintans St.,
Poblacion, Malasiqui, Pangasinan
Contact Person: Cris John Dela Cruz
Rosario Branch
Address: Aquitana St., Poblacion East,
Rosario, La Union
Contact Person: Alberto M. Jugo
San Fabian Branch
Address: Rizal St., Poblacion San
Fabian, Pangasinan
Contact Person: Lily B. Quejado


pangasinanbank.com/properties/tct-no-027-2018000654/
Pangasinan Bank Property
Latest News and Events


pangasinanbank.com/properties/tct-no-026-2018005848/
Pangasinan Bank Property
Padilla Street, Poblacion, Lingayen Pangasinan
Latest News and Events
CUSTOMER ADVISORY (MAY 30, 2022)
CUSTOMER ADVISORY (MARCH 31,...
CUSTOMER ADVISORY (JANUARY 13,...

V. Banking Units

MANGALDAN-HEAD OFFICE

Rizal Avenue, Poblacion
Mangaldan, Pangasinan

Administration:

Tel. No. (075) 653-1570 (Admin)
(075) 522-3616 (Audit & HRD)
0923-991-4091 (ROPA)
0930-771-8741 (Compliance)

Email Addresses:

ppbrb@yahoo.com	Bank's Official Email/ Compliance Officer/ Chief Accounting Head
enna_726@yahoo.com	President
pangasinanbank.gm@yahoo.com	General Manager
marie.aquino67@gmail.com	Credit Head
ropapb@yahoo.com	ROPA Dept.
pbiauditdepartment@yahoo.com	Audit Dept.
pbhrd@yahoo.com	HR Dept.
pbi_mis_it@yahoo.com	IT Dept.
pbriskdept@yahoo.com	Credit Risk Review Dept.
pbi.remedial@yahoo.com	Remedial Dept.
pbi_ciau@yahoo.com	Appraisal Dept.

Operations

Tel. No. (075)-513-5013
0906-556-5712 (Operations)
0933-037-1313 (Manager)

Email Addresses:

pbmangaldan.bm@yahoo.com	Operations Manager
pbmangaldan@yahoo.com	Asst. Operations Manager


PANGASINANBANK
A RURAL BANK (EST. 1976)
HEAD OFFICE

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Branch Personnel Photos

PANGASINAN BANK
A RURAL BANK (EST 1976)

PBI ADMIN OFFICERS

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PBI MAIN OPERATIONS (MANGALDAN)

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Pages

- About Us
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- Products and Services
  - Agricultural Loan

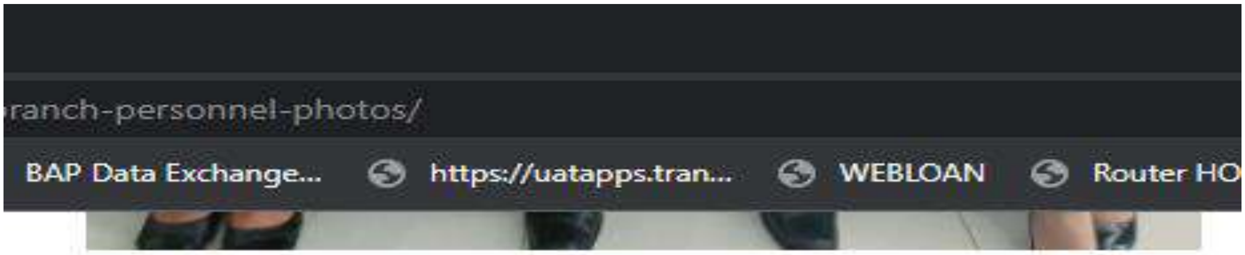
ALAMINOS BRANCH

30 Quezon Avenue, Poblacion
Alaminos City, Pangasinan

Tel. No. (075) 529-5972
0933-037-1284 (Operations)
0951-351-9858 (Manager)

Email Addresses:

pbalaminos.bm@yahoo.com	Operations Manager
cityalaminos@yahoo.com	Asst. Operations Manager



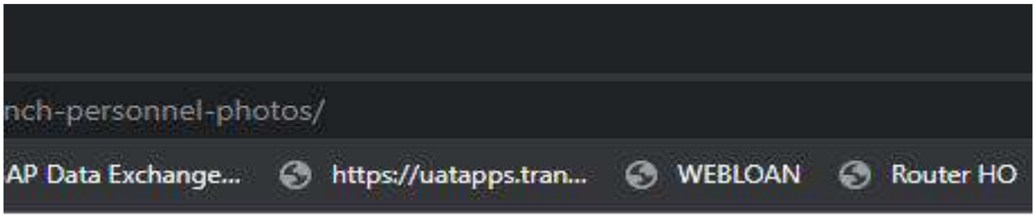
PBI ALAMINOS BRANCH

BINMALEY BRANCH
Public Market, Poblacion
Binmaley, Pangasinan

Tel. No. (075) 633-9312
0933-037-1331 (Operations)
0932-726-9312 (Manager)

Email Addresses:

binmaleypb.bm@yahoo.com	Operations Manager
pangbank.binmaley@yahoo.com.ph	Asst. Operations Manager



PBI BINMALEY BRANCH

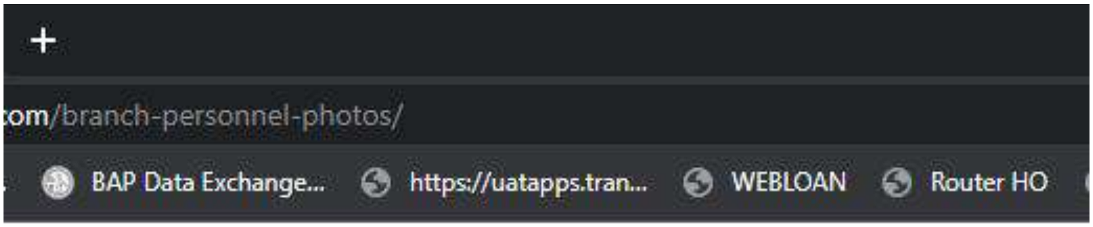
MALASIQUI BRANCH

Don Vicente Quintans Street
Poblacion, Malasiqui, Pangasinan

Tel. No. (075) 632-2407
0932-597-1300 (Operations)
0931-061-4606 (Manager)

Email Addresses:

pbmalasiqui.bm@yahoo.com	Operations Manager
pbmalasiqui0421@yahoo.com.	Asst. Operations Manager



PBI MALASIQUI BRANCH

ROSARIO BRANCH

Aquitania, Poblacion
Rosario, La Union

Tel. No. (072) 687-0367
0933-037-1415 (Operations)
0906-270-2864 (Manager)

Email Addresses:
pbrosario.bm@yahoo.com — Operations Manager
pangasinanbankrosario@yahoo.com. — Asst. Operations Manager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COMMERCIAL
AGRICULTURAL
OFW LOAN
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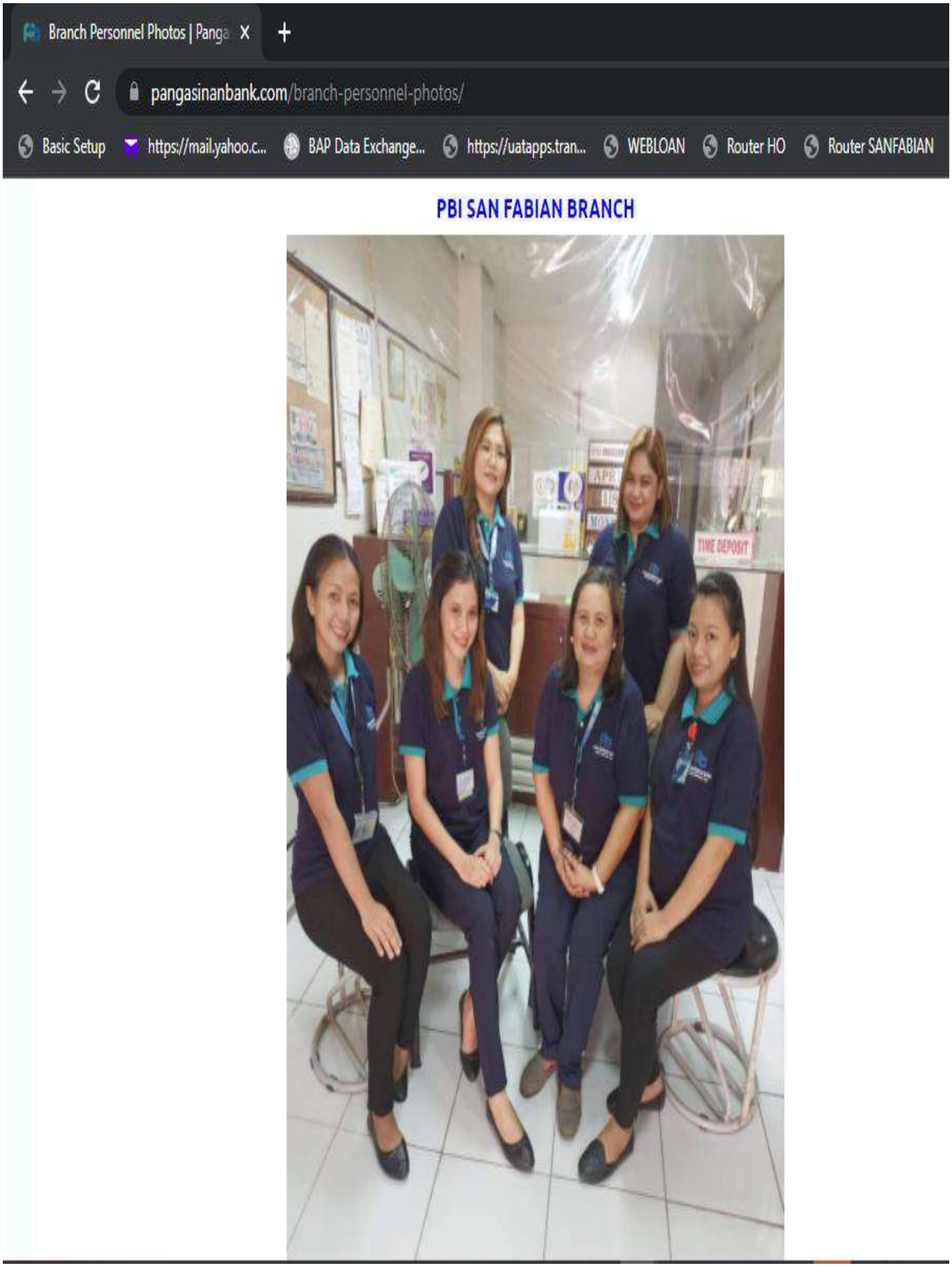
SAN FABIAN BRANCH
Rizal Street, Poblacion
San Fabian, Pangasinan

Tel. No. (075) 653-1446
0906-302-1745 (Operations)
0933-037-1376 (Manager)

Email Addresses:

pbsanfabian.bm@yahoo.com	Operations Manager
pbsanfabian@yahoo.com.	Asst. Operations Manager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TIME DEPOSIT

AUDITED FINANCIAL STATEMENTS (AFS) WITH AUDITOR'S OPINION

G. AUDITED FINANCIAL STATEMENTS (AFS) WITH AUDITOR'S OPINION

PANGASINAN BANK (A RURAL BANK), INC.

Rizal Avenue, Mangaldan Pangasinan

AUDITED FINANCIAL STATEMENTS

December 31, 2021

DAROYA & CO.
Certified Public Accountants
4th Floor Benning Square Building, Arellano St., Dagupan City, Pangasinan
Tel. Nos.: 522-7098 / 522-4333

D A R O Y A & C O .
Certified Public Accountants

4th Floor, Benning Square Building
Arellano, Dagupan City, Pangasinan
Tel. Nos. 522-7098 / 522-4333

SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
PANGASINAN BANK (A RURAL BANK), INC.
Rizal Avenue, Mangaldan Pangasinan

We have audited the financial statement of **PANGASINAN BANK (A RURAL BANK), INC.** for the year ended December 31, 2021, on which we have rendered the attached report dated March 8, 2022.

In compliance with SRC Rule 68, we are stating that the Company has 39 Stockholders owning 100 or more shares each as of December 31, 2021.

DAROYA & CO.
BOA AN 221, valid until September 05, 2024
SEC/BSP Accreditation No. 0221 (Group C)
(Audit Period Covered 2020-2024)

JOVENCIO N. DAROYA JR.
Partner
CPA Certificate No. 0090369, valid until April 10, 2023
SEC/BSP Accreditation No. 90369 (Group C)
(Audit Period Covered 2020-2024)
BIR AN. 010046780012109, valid until November 25, 2022
TIN 161-520-408
PTR No. 1363139 (2022) Dagupan City

Dagupan City, Pangasinan
March 8, 2022

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DATE: 29 MAR 2022
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COLLECTION SECTION

DAROYA & CO.
Certified Public Accountants

4th Floor, Benning Square Building
Arellano, Dagupan City, Pangasinan
Tel. Nos. 522-7098 / 522-4333

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
PANGASINAN BANK (A RURAL BANK), INC.
Rizal Avenue, Mangaldan Pangasinan

We have audited the financial statements of **PANGASINAN BANK (A RURAL BANK), INC.** as of and for the year ended December 31, 2021, on which we have rendered the attached report dated March 8, 2022.

The supplementary information shown as Reconciliation of Retained Earnings Available for Dividend Declaration is presented for purpose of additional analysis and is not required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, the computation and information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DAROYA & CO.
BOA AN 221, valid until September 05, 2024
SEC/BSP Accreditation No. 0221 (Group C)
(Audit Period Covered 2020-2024)

JOVENCIO N. DAROYA JR.
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(Audit Period Covered 2020-2024)
BIR AN. 010046780012109, valid until November 25, 2022
TIN 161-520-408
PTR No. 1363139 (2022) Dagupan City

Dagupan City
March 8, 2022

PANGASINAN BANK (A RURAL BANK), INC.

Rizal Avenue, Poblacion, Mangaldan, Pangasinan

STATEMENT OF FINANCIAL POSITION

As of December 31, 2021 and 2020

(Amounts in Philippine Pesos)

	Notes	2021	2020
ASSETS			
Cash and Cash Equivalents	2,5	3,082,880	3,021,940
Due from Bangko Sentral ng Pilipinas	2.6	10.581.544	10.644.144
Due from Other Banks	2,7	169,584,446	188,341,119
Loans and Receivables	2,8	177,648,283	150,570,329
Held-to-Maturity Financial Assets	2,9	28,238,271	27,903,571
Bank Premises, Furniture, Fixtures and Equipment	2,10	10,508,034	11,689,850
Investment Properties	2,11	12,726,951	14,752,754
Other Assets	2,12	13,673,527	11,819,856
TOTAL ASSETS		**426,043,936**	**418,743,563**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit Liabilities	2,13	345,928,667	338,324,877
Unearned Income	2,14	4,679,802	4,306,650
Other Liabilities	2,15	4,695,968	2,656,250
Income Tax Payable	2,16	359,743	90,509
Total Liabilities		355,664,181	345,378,286
EQUITY			
Paid-in Capital	2,17	50,000,000	50,000,000
Retained Earnings Reserve	2,17	11,069,563	10,437,798
Retained Earnings Free	2,17	8,176,844	11,705,142
Accumulated Other Comprehensive Income	2	1,133,349	1,222,337
Total Equity		70,379,756	73,365,277
TOTAL LIABILITIES AND EQUITY		**426,043,936**	**418,743,563**

This statement should be read in conjunction with the accompanying notes.

2 9 MAR 2022

SECTION

PANGASINAN BANK (A RURAL BANK), INC.
Rizal Avenue, Poblacion, Mangaldan, Pangasinan

STATEMENT OF INCOME
For the years ended December 31, 2021 and 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
INTEREST INCOME	18		
Loans and receivables		27,512,600	23,886,057
Held-to-maturity Investments		411,878	721,784
Deposits with banks		1,025,366	2,611,060
		28,949,844	27,218,901
INTEREST EXPENSE	19		
Deposit Liabilities		2,266,671	3,171,818
		2,266,671	3,171,818
OTHER INCOME	20		
Miscellaneous		9,292,200	10,143,822
TOTAL OPERATING INCOME		35,975,373	34,190,904
OPERATING EXPENSES	21		
Employees' compensation and other benefits		14,502,666	13,089,420
Director's Fees		432,000	-
Taxes and Licenses		2,783,718	3,336,840
Other Administrative Expenses		11,129,927	10,381,000
Depreciation/Amortization		2,394,794	1,763,939
Provision for Credit Losses		-	1,097,762
		31,243,104	29,668,960
INCOME BEFORE TAX		4,732,269	4,521,944
PROVISION FOR INCOME TAX	16 & 22	(843,337)	(812,523)
PROFIT/(LOSS) FOR THE PERIOD		**3,888,931**	**3,709,420**
OTHER COMPREHENSIVE INCOME			
Unrealized market gain/(loss) on plan assets	2	(88,988)	594,494
TOTAL COMPREHENSIVE INCOME		**3,799,943**	**4,303,915**

This statement should be read in conjunction with the accompanying notes.

PANGASINAN BANK (A RURAL BANK), INC.
Rizal Avenue, Poblacion, Mangaldan, Pangasinan

STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2021 and 2020
(Amounts In Philippine Pesos)

	Paid-in Capital		Retained Earnings			Accumulated Other Comprehensive Income	Total
	Preferred	Common	Reserve	Free	Undivided Profits		Equity
Balance at 31 December, 2019	5,000,000	45,000,000	10,219,878	9,962,854	(2,761,900)	627,843	68,048,674
Reserve for contingencies and self-insurance			217,921	(188,398)			29,523
Adjustments (see AJE)				1,464,727			1,464,727
Deficiency tax 2017				(481,562)			(481,562)
Transfers				(2,761,900)	2,761,900		-
Unrealized market gain on retirement fund						594,494	594,494
Undivided Profits ending 12/31/2020					3,709,420		3,709,420
Balance at 31 December, 2020	5,000,000	45,000,000	10,437,798	7,995,721	3,709,420	1,222,337	73,365,277
Dividends				(3,650,000)			(3,650,000)
Reserve for contingencies and self-insurance			631,765	426,426			1,058,190
Adjustments (see AJE)				(455,948)			(455,948)
Deficiency tax 2017							-
Transfers				3,709,420	(3,709,420)		-
Unrealized market gain/loss on retirement fund						(88,988)	(88,988)
Remeasurement of defined benefit liabilities				(3,737,707)			(3,737,707)
Undivided Profits ending 12/31/2021					3,888,931		3,888,931
Balance at 31 December, 2021	5,000,000	45,000,000	11,069,563	4,287,913	3,888,931	1,133,349	70,379,756

This statement should be read in conjunction with the accompanying notes.

PANGASINAN BANK (A RURAL BANK), INC.
Rizal Avenue, Poblacion, Mangaldan, Pangasinan

STATEMENT OF CASH FLOWS
For the years ended December 31, 2021 and 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT BEFORE TAX		4,732,269	4,521,944
Adjustments to reconcile net income/retained earnings to net cash provided by operating activities:			
Depreciation/Amortization	10	2,394,794	1,763,939
Provision for Credit Losses	8	-	1,097,762
Adjustments (see SCE)		(4,282,643)	1,389,262
Changes in operating assets and liabilities			
Decrease (Increase) in:			
Loans and Receivables	8	(27,077,954)	4,744,128
Unearned Interest and Discounts	7	-	(19,169)
Other Asset	12	(1,853,671)	(4,608,123)
Increase (Decrease) in:			
Deposit Liabilities	13	7,603,790	22,349,956
Other Liabilities	15	2,039,718	(1,144,436)
Unearned Income	14	373,153	939,982
Cash generated from operations		(16,070,545)	31,035,244
Income Taxes	16	(574,104)	(688,057)
NET CASH FROM OPERATING ACTIVITIES		(16,644,649)	30,347,187
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) Decrease in:			
Held-to-Maturity Financial Assets	9	(334,699)	(60,338)
Investment Properties	11	2,226,654	(6,623,294)
Disposal, Acc. Depreciation, Adjustments	10	(145,633)	22,501
Bank Premises, Furniture and Equipment	10	(210,007)	(1,494,110)
NET CASH FROM INVESTING ACTIVITIES		1,536,315	(8,155,240)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Dividends		(3,650,000)	-
Capital Infusion			-
NET CASH FROM FINANCING ACTIVITIES		(3,650,000)	-
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS		(18,758,334)	22,191,947
CASH BALANCE AT BEGINNING OF YEAR			
Cash and Cash Equivalents	5	3,021,940	2,815,238
Due from Bangko Sentral ng Pilipinas	6	10,644,144	10,201,495
Due from Other Banks	7	188,341,119	166,798,525
		202,007,203	179,815,257
CASH BALANCE AT END OF YEAR			
Cash and Cash Equivalents	5	3,082,880	3,021,940
Due from Bangko Sentral ng Pilipinas	6	10,581,544	10,644,144
Due from Other Banks	7	169,584,446	188,341,119
		183,248,870	202,007,203

This statement should be read in conjunction with the accompanying notes.

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DATE 29 MAR 2022
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COLLECTION SECTION

PANGASINAN BANK (A RURAL BANK), INC.
Rizal Avenue, Poblacion, Mangaldan, Pangasinan

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020

Note 1 - Company Information

Pangasinan Bank (A Rural Bank), Inc. was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) under registration number 69494. The Bank's main purpose is to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries and enterprises and to have and exercise all authority and powers and to do and perform all acts and transacts all business which may legally be had and done by rural bank organized under and in accordance with the Rural Bank's Act and transacts all business which may legally exist or be amended and to have all other things thereto and necessary and proper in connection with said purposes within such authority as may be determined by the Monetary Board of Bangko Sentral ng Pilipinas.

The bank's principal place of business is located at Rizal Avenue, Mangaldan, Pangasinan with branches in Pangasinan in the towns of Binmaley, San Fabian, Alaminos, Malasiqui and in Rosario, La Union.

The Board of Directors (BOD) of the bank has reviewed and approved the release of the accompanying financial statements for the year ended December 31, 2021 (including comparative figures for December 31, 2020) on March 6, 2022.

Note 2 - Significant Accounting Policies

A summary of more significant policies and practices of the bank are set forth below to facilitate the understanding of data presented in the financial statements.

Basis of Preparation

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

The accompanying financial statements have been prepared on a going concern basis, which contemplate the realization of assets and settlement of liabilities in the normal course of business.

Currency of Presentation

Unless otherwise stated, all amounts are expressed in Philippine Pesos (Php), the domestic currency. All financial information presented in Philippine Peso has been rounded-off to the nearest peso.

Presentation of Financial Statements

The statements of financial position of the Bank are presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 4.3.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks that are highly liquid, 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. Due from BSP includes statutory reserves required by the Bank which the Bank considers as cash and cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended standards, which became effective in year 2021. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Bank:

i. PFRS 17, Insurance Contracts (effective January 1, 2021)
PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes PFRS 4 Insurance Contracts.

ii. Amendments to PFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021 (effective April 1, 2021)
This amends PFRS 16 to permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022 (rather than only payments originally due on or before 30 June 2021); require a lessee applying the amendment to do so for annual reporting periods beginning on or after 1 April 2021; require a lessee applying the amendment to do so retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment; and specify that, in the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of PAS 8.

At the date of authorization of these financial statements, the Bank has not applied the following new and revised PFRS Standards that have been issued but are not yet effective.

i. Amendment to PFRS 17, Initial Application of PFRS 17 and PFRS 9 – Comparative Information (effective January 1, 2025)

ii. Amendments to PAS 12, Deferred Tax related to Assets and Liabilities from a Single Transaction (effective January 1, 2023)

iii. Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure Initiative – Accounting Policies (effective January 1, 2023)

iv. Amendments to PAS 8, Definition of Accounting Estimates (effective January 1, 2023)

v. Amendments to PFRS 17, Insurance Contracts (effective January 1, 2023)

vi. Amendments to PAS 1, Classification of Liabilities as Current or Non-current (effective January 1, 2023)

vii. Amendments to PFRS 3, Reference to the Conceptual Framework (effective January 1, 2022)

viii. Amendments to PAS 16, Property, Plant and Equipment – Proceeds before Intended Use (effective January 1, 2022)

ix. Amendments to PAS 37, Onerous Contracts – Cost of Fulfilling a Contract (effective January 1, 2022)

x. Annual Improvements to PFRS Standards 2018-2020 Cycle (effective January 1, 2022)
Amendments to PFRS 1, Subsidiary as a first-time adopter
Amendments to PFRS 9, Fees in the '10 per cent' test for derecognition of financial liabilities
Amendments to PFRS 16, Lease Incentives
Amendments to PAS 41, Taxation in fair value measurements

Fair Value Measurement

For measurement and disclosure purposes, the Bank determines the fair value of an asset or liability at initial measurement or at each reporting date. 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.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: a.) in the principal market for the asset or liability, or b.) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If the asset or liability measured at fair value has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The carrying amounts of the financial assets and liabilities as at December 31 for both years approximate their fair values based on the bank's fair value hierarchy.

Classification, Measurement and Reclassification of Financial Assets

Classification and measurement of financial assets

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a nonderivative and meets the definition of 'equity' for the issuer (under PAS 32, Financial Instruments: Presentation). All other non-derivative financial instruments are 'debt instruments'. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVTOCI, and FVTPL. The classification depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. In order for a financial asset to be classified and measured at amortized cost or FVTOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Business model test

The Bank determines its business model at the level that best reflects how it manages Banks of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

a. How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel

b. The risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way those risks are managed

c. How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

d. The expected frequency, value and timing of sales are also important aspects of the Bank's assessment The business model assessment is based on reasonably expected scenarios without taking 'worst case' or stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

SPPI test

As a second step of its classification process, the Bank assesses the contractual terms of financial instruments to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Financial Assets at Amortized Cost

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

1. The asset is held within a business model with the objective to hold assets in order to collect contractual cash flows; and
2. The contractual terms of the instrument give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses, with the interest calculated recognized as 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such assets are recognized in the statement of income under 'Provision for credit and impairment losses - net'. The effects of restatement on foreign currency-denominated financial assets at amortized cost are recognized in the statement of income.

The Bank classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Loans and receivables', 'Investment securities at amortized cost', if any, and certain financial assets, if any, under 'Other assets' as financial assets at amortized cost. This will also include, as prescribed by BSP Circular 1011, Held-to-Maturity Financial Assets.

Financial Assets at FVTOCI

Financial assets at FVTOCI include Available for Sale (AFS) Financial Assets.

Financial Assets at FVTPL
Debt instruments that do not meet the amortized cost or FVTOCI criteria, or that meet the criteria but the Bank has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss. Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity instrument that is not held for trading as at FVTOCI at initial recognition. The Banks's financial assets at FVTPL include government securities and private bonds held for trading purposes, or Financial Assets Held for Trading.

Derivative Instruments
Derivative instruments are initially recorded at fair value and carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative. Any gains or losses arising from changes in fair value of derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of PFRS 9 (for example, financial liabilities and non-financial host contracts) are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. The Bank assesses the existence of an embedded derivative on the date it first becomes a party to the contract, and performs re-assessment only when there is a change to the contract that significantly modifies the contractual cash flows.

Reclassification of financial assets
The Bank can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Bank is required to reclassify as follows:

1. From amortized cost or FVTOCI to FVTPL, if the objective of the business model changes so that the amortized cost or FVTOCI criteria are no longer met;
2. From FVTPL to amortized cost or FVTOCI, if the objective of the business model changes so that the amortized cost or FVTOCI criteria start to be met and the characteristics of the instrument's contractual cash flows are SPPI; and
3. From amortized cost to FVTOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVTOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVTOCI at initial recognition is not permitted. A change in the objective of the Bank's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

Classification and Measurement of Financial Liabilities
Financial liabilities are classified, at initial recognition, either as financial liabilities at FVTPL or other financial liabilities at amortized cost.

Financial liabilities at amortized cost
These liabilities are classified as such when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

These financial liabilities are measured initially at fair value, net of directly attributable transaction costs. After initial measurement, these liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy relates to the statement of financial position captions 'Deposit liabilities', 'Bills payable', 'Outstanding acceptances', 'Manager's checks', and certain financial liabilities under 'Accrued interest, taxes and other expenses' and 'Other liabilities' which are not designated at FVTPL.

Cash and Cash Equivalents

Cash includes cash on hand and in vault and checks and other cash items. Cash equivalents include highly liquid investments, if any, 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 Bangko Sentral ng Pilipinas

This account represents deposit of the bank to the Bangko Sentral ng Pilipinas as part of its legal reserve requirement to secure its deposit liabilities.

Due from Other Banks

This account represents deposits with other banking institutions earning variable interest rates prevailing at market.

Financial Assets Held for Trading

This refers to the debt and equity securities that are:

(1) acquired principally for the purpose of selling or repurchasing them in the near term; or

(2) part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

HFT securities shall be measured upon initial recognition at their fair value. Transaction costs incurred at the acquisition of HFT securities shall be recognized directly in profit or loss. After initial recognition, a bank shall measure HFT securities at their fair values without any deduction for transaction costs that it may incur on sale or other disposal. A gain or loss arising from a change in the fair value of HFT securities shall be recognized in profit or loss under the account "Gain/(Loss) on Financial Assets and Liabilities Held for Trading".

The Bank has no Financial Assets Held for Trading for the two years ended 31 December.

Available-for-Sale (AFS) Financial Assets

This refers to securities that are designated as available-for-sale, which shall be measured upon initial recognition at their fair value plus transaction costs that are directly attributable to the acquisition of securities. After initial recognition, a bank shall measure AFS at their fair values, without any deduction for transaction costs it may incur on sale or other disposal. A gain or loss arising from a change in the fair value of an AFS security shall be recognized directly in equity under the account "Net Unrealized Gains/(Losses) on AFS Financial Assets" and reflected in the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss. Dividends on an AFS equity security are recognized in profit or loss when the financial institution"s right to receive payment is established.

The Bank has no AFS Financial Assets for the two years ended 31 December.

Held-to-Maturity (HTM) Financial Assets

This refers to debt securities, quoted in an active market with fixed or determinable payments and fixed maturity that a bank has the positive intention and ability to hold to maturity other than:

(a) those that meet the definition of Financial Assets Designated at Fair Value Through Profit or Loss; or

(b) those that the financial institution designates as Available for Sale Securities (AFS).

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not qouted in an active market and with no intention of trading.

Loans and receivables shall be measured at amortized cost using the effective interest method. Loans and receivables are stated at the outstanding balance reduced by allowance for credit losses and impairment losses.

Interest on non-supervised loans collected in advance (Unearned Income) is amortized to income over the term of the loans. Interest income on past due loans arising from discount amortization (and not from the contractual interest of the accounts) shall be accrued as provided in PAS 39. Interest on charges on supervised credits are recognized as income upon collection. Such assets are carried at cost or amortized cost using the effective interest method. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Specific and general loan loss provision were determined and set-up after conducting a loans and other assets review classification, through aging, analysis and other criteria and after considering the guidelines in the classification of loans and the provisioning requirements for classified and unclassified loan accounts. After classifying loans as either current, past due or items in litigation the same are qualitively appraised and categorized. Loans and other credit accommodations shall be grouped into the following classification:

1) Pass. These are loans and other credit accommodations that do not have a greater-than normal credit risk. The borrower has the apparent ability and willingness to satisfy obligations in full and therefore no loss in ultimate collection is anticipated.

2) Especially Mentioned (EM). These are loans and other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may affect the repayment of the loan.

3) Substandard. These are loans and other credit accommodations that have well-defined weaknesses that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

4) Doubtful. These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors which strengthen the assets.

5) Loss. These are loans and other credit accommodations which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

Credit exposures shall be classified into three stages using the following time horizons in measuring ECL:

Stage of credit impairment	Characteristics	Time horizon in measuring ECL
Stage 1	Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	Twelve (12) months
Stage 2	Credit exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition	Lifetime
Stage 3	Credit exposures with objective evidence of impairment, thus, considered as "non-performing..	Lifetime

Following the "Basic Guidelines in Setting Up of Allowance for Credit Loss", as a general rule, Especially Mentioned and Substandard - Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days) shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

The loan loss estimation of the bank be subject to the following guidelines:

1. Individually Assessed Credit Exposure:*(include investments in debt securities measured at fair value through other comprehensive income and amortized cost, loan commitments, sales contract receivables, accounts receivables, accrued interest receivables, and advances).*

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

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
For unsecured loans and other credit exposures:			
31 - 90 days	Substandard (underperforming)	10%	2
91 - 120 days	Substandard (non-performing)	25%	3
121 - 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3
For secured loans and other credit exposures:			
No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 - 90 days x	Substandard (underperforming)	10%	2
91 - 180 days x	Substandard (non-performing)	10%	3
181 - 365 days	Substandard (non-performing)	25%	3
Over ayear-5years	Doubtful	50%	3
Over 5 years	Loss	100%	3
x When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%.			

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

B. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Subsection x178.17/4178Q.17/4191N.16 shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard - Secured	10%	2 or 3x
Substandard - Unsecured	25%	2 or 3x
Doubtful	50%	3
Loss	100%	3
x The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).		

2. Collectively Assessed Loans and Other Credit Exposures. *(include microfinance loans, micro enterprises and smallbusiness loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other loantypes which fall below the FI's materiality threshold for individual assessment.)*

No. of Days Unpaid/with Missed Payment *	Classification	Minimum ACL	Stage
For unsecured loans and other credit exposures:			
1 - 30 days	Especially Mentioned	2%	2

8 of 31

31 - 60 days / 1st restructuring	Substandard	25%	2 or 3 x
61 - 90 days	Doubtful	50%	3 #
91 days and over / 2nd restructuring	Loss	100%	3

* Par for microfinonce loans
x The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).
Subsection X306.2/4306Q.2/4306N.2 provides that doubtful accounts are considered as non-performing hence, shall be classified under Stage 3 notwithstanding the number of missed amortizations.

For secured loans and other credit exposures:				
No. of Days Unpaid/with Missed Payment	Classification	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
351 days - 5 years	Loss	100%	50%	3
Over 5 years	Loss	100%	100%	3

General and Specific Provisions for Loan Accounts
1. The Bank shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific provisions (Sp).

2. The Bank shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. The Banks is not required to provide a one percent (1%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments.

3. Allowance for credit losses for Stages 1, 2, and 3 accounts shall be recognized in profit or loss statement. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1 percent GP required, the deficiency shall be recognized by appropriating the Retained Earnings account (Bank shall use Retained Earnings Reserve - others as temporary account of Retained Earnings- General Provision).. GP recognized in profit or loss as allowance for credit losses for Stage 1 accounts and the amount appropriated in RE shall be considered as Tier 2 capital subject to the limit provided under the Capital Adequacy Ratio (CAR) framework.

(As a temporary presentation in CAR reports, the Retained Earnings (RE) included in Common Equity Tier (CET)/Core Tier 1 shall be net of RE-GP. In computing Tier 2 Capital, the General Loan Loss provision (GLLP) shall include the RE-GP. However, the GLLP added back to on-balance sheet assets subject to risk-weight shall not include the RE-GP since when appropriating the RE, total assets is not affected.)

Sales Contract Receivables
This refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price. This shall be recorded initially at the present value of the installment receivable discounted at the imputed rate of interest. Discount shall be accreted 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 PAS 18.

Investment in Associates

This refers to the cost of the bank"s investments in the equity instruments of associates, which shall be accounted for using the equity method. As provided under PAS 28, an associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is presumed to exist if an investor holds, directly or indirectly through subsidiaries, 20 percent or more of the voting power of the investee, unless it can be clearly demonstrated that that is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20 percent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. Under the equity method, profit and loss from the investee increase the investment account by an amount proportionate to the bank's shares in the investee. This is known as the "equity pick-up." Dividends paid out by the investee are deducted from this account.

The Bank has no Investment in Associates for the two years ended 31 December.

Unearned Income

Interest on non-supervised loans collected in advance is amortized to income over the term of the loans.

Bank premises, furniture, fixtures and equipment

Properties and equipment are initially measured at cost less any subsequent accumulated depreciation. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

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

Major spare parts and stand-by equipment qualify as properties and equipment when the bank expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of properties and equipment, they are accounted for as properties and equipment.

Estimated future dismantlement costs of items of properties and equipment arising from legal or constructive obligations are recognized as part of properties and equipment and are measured at present value at the time when the obligation was incurred.

Depreciation is computed on the straight-line method with estimated useful lives of the assets as follows.

Buildings and improvements	10-20 years
Office equipment	3-5 years
Furniture and fixtures	5-10 years
Transportation equipments	3-5 years
Information and technology	1-3 years
Leasehold improvement	3-5 years

Stand-by equipment is depreciated from the date it is made available for use over the shorter of the life of the stand-by equipment or the life of the asset the stand-by equipment is part of while major spare parts are depreciated over the period starting when it is brought into service, continuing over the lesser of its useful life and the remaining expected useful life of the asset to which it relates.Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Investment Properties

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dation in payment shall be booked initially at the carrying amount of the loan plus booked accrued interest less allowance for probable losses plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property): Provided, That where the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up: Provided, further, That if the carrying amount of ROPA exceeds P5 million, the appraisal of the foreclosed/ purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

The carrying amount of ROPA shall be allocated to land, building, other non-financial assets and financial assets (e.g., receivables from third party or equity interest in an entity) based on their fair values, which allocated carrying amounts shall become their initial costs.

The non-financial assets portion of ROPA shall remain in ROPA and shall be accounted for as follows:

1. Land and buildings shall be accounted for using the cost model under PAS 40 "Investment Property"
2. Other non-financial assets shall be accounted for using the cost model under PAS 16 "Property Plant and Equipment"
3. Buildings and other non-financial assets shall be depreciated over the remaining useful life of the assets, which shall not exceed ten years and three years from the date of acquisition, respectively; and
4. Land, buildings and other non-financial assets shall be subject to the impairment provisions of PAS 36 "Impairment".

ROPAs that comply with the provisions of PFRS 5 "Non-Current Assets Held for Sale" shall be reclassified and accounted for as such.

Other Assets

Other assets are recognized at cost. The account includes prepaid expenses, deferred income taxes, accrued interest receivables and other resources. Unused supplies, if any, are measured initially at cost. Subsequent measurement of unused supplies is at cost less impairment loss, if any. Intangible assets, at cost less amortization and impairment loss, also included.

Financial Liabilities

Financial liabilities include Deposit Liabilities, other non-interest bearing borrowings and advances from affiliates if any. Financial liabilities are recognized when the bank becomes a party to the contractual provisions of the instrument.

Deposit Liabilities

Deposits are measured at cost, which is a reflection of their fair values.

Bills payable

This refers to the amortized cost of obligations to the BSP or the amortized cost of borrowings from other banks and non-bank financial institutions with quasi-banking authority, other than those payable on call/demand.

Other Liabilities

Other liabilities are recognized upon incurrence of transaction/s wherein the Bank has an obligation to settle the same in the future. The account includes accrued interest expense, acrrued taxes and other expenses and other payables.

Paid-in Capital / Share Capital

Share capital is determined using the nominal value of shares that have been issued and fully paid. The costs of acquiring bank's own shares are shown as a deduction from equity attributable to the bank's equity holders until the shares are cancelled or reissued. When such shares are subsequently sold or reissued, any consideration received, net of directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the bank's equity holders.

Deposits for Stock Subscription

Deposits for stock subscription refer to payments made by existing stockholders or new subscribers of the bank on subscription to the increase in the authorized capital, which may be recognized either as a liability or equity. Deposits for stock subscription shall be recognized as part of equity for prudential reporting purposes when all of the conditions set forth in the 2018 MORB section 123.

Retained Earnings

Retained earnings include all current and prior period results as disclosed in the statement of income. Retained earning free pertains to unappropriated portion of the retained earnings. Retained earnings reserve pertains to appropriated portion of the retained earnings. Accumulated Other Comprehensive Income pertains to unrealized gains and losses in the fair market value of retirement and other investment items.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has concluded that it is acting as principal in all of its revenue arrangements.

PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

a. Identify the contract(s) with a customer
b. Identify the performance obligations in the contract
c. Determine the transaction price
d. Allocate the transaction price to the performance obligation in the contract
e. Recognize revenue when (or as) the entity satisfies a performance obligation

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires the Bank to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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

Service charges and penalties

Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectibility.

Fees and commissions

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as underwriting fees, corporate finance fees, and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Miscellaneous income

Income from the sale of services is recognized upon completion of service. Income from sale of properties is recognized upon completion of earnings process and the collectibility of the sales price is reasonably assured under 'Gain from sale of non-financial asset (ROPA)' in the statement of income.

Interest income

Interest on interest-bearing financial assets at FVTPL and Held-for-Trading (HFT) investments are recognized based on the contractual rate. Interest on financial instruments measured at amortized cost and FVTOCI are recognized based on the effective interest method of accounting.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the Bank estimates cash flows from the financial instrument (e.g., prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Retirement Benefits

The Bank operates a defined benefit retirement plan and a defined contribution plan, which require contributions to be made to a separately administered fund.

Defined benefit retirement plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (if any). The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

1. Service cost
2. Net interest on the net defined benefit liability or asset
3. Remeasurements of net defined benefit liability or asset

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on retirement liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than twelve months after the reporting date, the estimated liability is actuarially determined and reported under 'Other Liabilities' in the statement of financial position. Currently the Bank requires all employees to avail forced leaves before the end of the reporting date.

The year-end status of the Bank's retirement plan is as follows:

The changes in Net Defined Benefit is as follows:

Beginning balance	7,480,292	627,843
Net changes	382,703	6,226,302
Less: Fair Value of Plan Assets	7,774,006	7,448,639
Unrealized Market Gain/(loss) - Other Comprehensive Income	(88,988)	594,494
Benefit Obligations	9,884,994	5,398,878
Less: Fair Value of Plan Assets	7,774,006	7,448,639
Net Defined Benefit Asset (Liability)	(2,110,988)	2,049,761

Related Parties

Parties are considered related if one party has control, joint control, significant influence over the other party in making financial and operating decisions. The key management personnel of the bank and post-employment benefit plans for the benefit of bank's employees are also considered to be related parties.

Basic Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to the common shareholders by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend declaration, if any.

Taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the balance sheet date.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment 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 reassessment is made after 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 fulfillment is dependent on a specified asset; or

d. There is a substantial change to the asset.

Provisions

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and when it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense' in the statement of income.

Contingent Assets and Contingent Liabilities

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

Events After the Reporting Period

The bank identifies subsequent events as events that occurred after the balance sheet date but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the bank's financial position at the balance sheet date are reflected in the financial statements. Events that are not adjusting events are disclosed in the notes to the financial statements when material.

Note 3 - Management Accounting Judgment 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 at reporting date. 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 application of the bank's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not easily apparent from other source. The estimates and associated assumption are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these 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. Business model test

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match expected cash outflows and maintain adequate level of high quality liquid assets while maintaining a strategic portfolio of financial assets for trading activities. The Bank's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost and those sales are more than insignificant in value (either individually or in aggregate), the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers the circumstances surrounding the disposal as well as the requirements of BSP Circular No. 1011, Guidelines on the adoption of PFRS 9.

b. Cash flow characteristics test

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flow.

c. Determination of significant influence over another entity

The determination of significant influence over another entity, other than the rebuttable presumption of ownership over twenty percent (20.0%), requires significant judgment. In making judgment, the Bank evaluates existence of the following:

1. representation on the Board of Directors (BOD) or equivalent governing body of the investee;
2. participation in policy-making processes, including participation in decisions about dividends or other distributions;
3. material transactions between the entity and its investee;
4. interchange of managerial personnel; or
5. provision of essential technical information.

Estimating useful lives of properties and equipment

The useful lives of properties and equipment are estimated based on the period over which the assets are expected to be available for use. The estimated useful lives of properties and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the bank's assets. In addition, the estimation of the useful lives of property, plant and equipment is based on bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment would increase the recognized operating expenses and decrease non-current assets.

Impairment on financial assets

The bank assesses at each balance sheet date 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 deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the bank. 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. The methodology 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.

Impairment on non-financial assets

The bank is required to perform an impairment review when certain impairment indicators are present. Purchase accounting requires extensive use of accounting estimates and judgment to allocate the purchase price to the fair market values of the assets.

Determining the fair value of non-financial assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the bank to make estimates and assumptions that can materially affect the financial statements . Future events could cause the bank to conclude that properties and equipment, investments and intangible assets associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

Estimating allowances for credit losses

The Company estimates the allowance for credit losses related to its receivables based on assessment of specific accounts where the Company has information that certain customers are unable to meet their financial obligations. In these cases judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors. The Company follows the BSP-prescribed guidelines in computing the specific and general loan loss provisions. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated.

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

Revenue and expense recognition

The bank's revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and receivables. Differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result to material adjustments in future periods.

Expenses are recognized in the statement of income upon utilization of the service or in the date they are incurred. Finance costs, if any, are reported on an accrual basis.

Note 4 - Financial Risk Management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and financial risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risks are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate and other price risk.

The bank is exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risks are credit risk, liquidity risk and market risk.

4.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and receivables. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and guarantees.

Credit risk measurement

Credit risk is the possibility of losses associated with changes in the credit profile of borrowers or counterparties. These losses, associated with changes in portfolio value, could arise due to default or due to deterioration in credit quality.

- Default risk : obligor fails to service debt obligations
- Recovery risk : recovery post default is uncertain
- Spread risk : credit quality of obligor changes leading to a fall in the value of the loan
- Concentration risk : over exposure to an individual obligor, group or industry
- Correlation risk : concentration based on common risk factors between different borrowers, industries or sectors which may lead to simultaneous default limits, diversification strategy, and its risk based pricing of loans and receivables based on its credit risk appetite and the size of its capital.

The Bank has adopted the standardized measurement of credit risk. In this regard, the tasks under the credit risk unit are as under, among others:

- Segmentation of the credit portfolio (in terms of risk but not size);
- Model Requirements (for risk assessments);
- Data requirements;
- Credit risk reporting requirements for regulatory / control and decision-making purposes at various levels;
- Policy requirements for credit risk (credit process & practices, monitoring & portfolio management
- Align risk strategy & business strategy.

Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by industry sector are set out in the credit policy. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Impairment and provisioning policies

The Bank has adopted a Credit Impairment and Income Recognition Policy, whereby the impairment and provisioning policies are defined. The Bank assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

Maximum exposure to credit risk before collateral held

	2021	2020
Loans and receivables	177,648,283	150,570,329
Loan Commitments	None	None

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above, the total maximum exposure is derived from loans and receivables.

Contingencies, Commitments, Secured Liabilities and Pledged Assets

Contingencies and commitments arising from off-balance sheet items include direct credit substitutes (e.g., export LCs confirmed, underwritten accounts unsold), transaction-related contingencies (e.g., performance bonds, bid bonds, standby LCs), short-term self-liquidating traderelated contingencies arising from the movement of goods (e.g., sight/usance domestic LCs, sight/usance import LCs), sale and repurchase agreements not recognized in the balance sheet; interest and foreign exchange rate related items; and other commitments.

As of December 31, no amount of contingencies and commitments that arises from off-balance sheet items exist. Furthermore, there are no amount of assets pledged as collateral/security nor liabilities secured and no implied obligations considered as contingent liabilities present, except otherwise stated in the succeeding notes to financial statements.

4.2 Market Risks

Market risk is the risk of loss resulting from adverse movements in the value of financial instruments. It encompasses exposure to interest rates, foreign exchange rates, equity prices and commodity prices. Sound market risk management practices include the measurement and monitoring of market risk as well as the communication and enforcement of risk limits throughout the Bank's trading businesses.

Foreign Exchange Risk Management

Foreign exchange risk is the risk that the Bank's earnings and economic value will be adversely affected with the movements in the foreign exchange rate, though it may sometimes have an insignificant effect. The Bank is exposed to this risk since interest rate risks arises when the total present value of assets in a particular currency does not equal the present value of liabilities in that currency.

The Bank monitors its foreign exchange risk exposure based on BSP's rate publications.

Interest Rate Risk Management

Interest rate risk results from mismatches between asset and liability positions which are subject to unfavourable movements in interest rates with potentially adverse impact on margins, net interest income and economic value of a bank's assets, liabilities and shareholders' value. Interest rate risk may be measured using methods which include sensitivity analysis and simulation modelling. The Bank has its Interest Rate Risk Policy in which risks limits are laid down. The Average Yield of Interest-Generating Assets and Average Cost of Interest-Bearing Deposits for both years are presented as follows:

2021	Average balance	Interest Inc/Exp	Average return/cost
Assets			
Loan and receivables	164,109,306	27,512,600	16.76%
Investments	28,070,921	411,878	1.47%
Due from local banks	178,962,783	1,025,366	0.57%
Total interest-generating assets	371,143,009	28,949,844	7.80%
Total non-interest generating assets	51,250,740	9,292,200	18.13%
Total average assets	422,393,749	38,242,044	9.05%
Liabilities			
Deposits	342,126,772	2,266,671	0.66%
Bills payable	-	-	0.00%
Total interest-earning liabilities	342,126,772	2,266,671	0.66%
Total non-interest bearing liabilities	8,214,590	-	0.00%
Total average liabilities	350,341,362	2,266,671	0.65%
Net interest income	25,365,128		
Net interest spread	22,980,084		
Net interest margin	6.82%		

2020	Average balance	Interest Inc/Exp	Average return/cost
Assets			
Loan and receivables	153,481,689	23,886,057	15.56%
Investments	27,873,402	721,784	2.59%
Due from local banks	169,678,478	2,611,060	1.54%
Total interest-generating assets	351,033,569	27,218,901	7.75%

Total non-interest generating assets	46,042,343	-	0.00%
Total average assets	397,075,912	27,218,901	6.85%
Liabilities			
Deposits	327,149,899	3,171,818	0.97%
Bills payable	-	-	0.00%
Total interest-earning liabilities	327,149,899	3,171,818	0.97%
Total non-interest bearing liabilities	7,110,381	-	0.00%
Total average liabilities	334,260,281	3,171,818	0.95%
Net interest income	25,734,743		
Net interest spread	21,697,533		
Net interest margin	7.34%		

4.3 Liquidity Risk Management

Liquidity risk is defined within the Bank's policy framework as 'the risk that, at any time, the Bank does not have sufficient realizable financial assets to meet its financial obligations as they fall due'.

The liquidity policy of the Bank is to ensure that it:

- can meet its financial obligations as they fall due in the normal course of business; and
- maintains an adequate stock of highly liquid assets to enable it to meet unexpected funding needs at short notice.

The Bank's liquidity policy requires establishment and maintenance of three lines of defense:

- Cashflow management where the Bank creates a continuously maturing stream of assets and liabilities;
- Maintenance of a liquid assets portfolio; and
- Maintenance of a diversified liability base.

The following table presents the Bank's assets and liabilities for both years, analyzed according to when they are expected to be recovered or settled within one year and beyond one year:

2021	Within 1 year	1-5 years	5 years over
Cash and Cash Equivalents	3,082,880		
Due from Bangko Sentral ng Pilipinas	10,581,544		
Due from Other Banks	169,584,446		
Loans and Receivables (gross less discount)	177,648,283		
Held-to-Maturity Financial Assets		28,238,271	
Bank premises, furniture, fixtures and equipment		10,508,034	
Investment properties		12,726,951	
Other assets		13,673,527	
Deposit liabilities	(345,928,667)		
Unearned Income	(4,679,802)		
Other liabilities	(4,695,968)		
Total	5,592,715	65,146,783	-

2020	Within 1 year	1-5 years	5 years over
Cash and Cash Equivalents	3,021,940		
Due from Bangko Sentral ng Pilipinas	10,644,144		
Due from Other Banks	188,341,119		
Loans and Receivables (gross less discount)	150,570,329		
Held-to-Maturity Financial Assets		27,903,571	
Bank premises, furniture, fixtures and equipment		11,689,850	
Investment properties		14,752,754	
Other assets		11,819,856	
Deposit liabilities	(338,324,877)		
Unearned Income	(4,306,650)		
Other liabilities	(2,656,250)		
Total	7,289,755	66,166,030	-

The Minimum Liquidity Ratios for both years are shown below:

	2021	2020
A. Stock of Liquid Assets		
Cash on hand	3,082,880	3,021,940

20 of 31

Bank reserves on the BSP	10,581,544	10,644,144
Deposits with other local banks	169,584,446	188,341,119
Total	183,248,870	202,007,203
B. Qualifying Liabilities		
Total on-balance sheet liabilities	251,490,461	244,108,329
Minimum Liquidity Ratio	72.87%	82.75%

4.4 Capital Risk Management

The bank's objective when managing capital are to safeguard the ability to continue as a going concern in order to provide returns to shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the bank can adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Capital adequacy and the use of regulatory capital are monitored quarterly the Bank's management, employing techniques based on the guidelines developed by BSP as implemented by the Bank. The required information is submitted to BSP and filed by Bank on a quarterly basis.

Composition of managed capital

	Note	2021	2020
Share Capital	17	50,000,000	50,000,000

4.5 Regulatory Framework

The operations of the bank is also subject to the regulatory requirements of SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

The bank is subject to the inherent risk that the application of prescribed standards may conflict or differ from the application of regulations as prescribed from other regulatory bodies resulting to disparity of financial reports. Hence, there is a need to reconcile the disparity in a systematic and clear manner. The BOD ensures that management are updated in relation to pronouncements made by concerned regulatory bodies.

However, in cases where there are differences between BSP regulations and PFRS/PAS as when more than one (1) option are allowed or certain maximum or minimum limits are prescribed by the PFRS/PAS, the option or limit prescribed by BSP regulations shall be adopted by the bank.

Note 5 - Cash and cash equivalents

	2021	2020
Cash on hand and in vault	3,082,880	3,021,940

Note 6 - Due from Bangko Sentral ng Pilipinas

	2021	2020
Due from Bangko Sentral ng Pilipinas	10,581,544	10,644,144

'Due from BSP' account represents the aggregate balance of noninterest-bearing peso deposit account with the BSP which the Bank maintains primarily to meet reserve requirements.

Circular 1092 series of 2020 prescribed the required rates on the required reserves against demand, savings and time deposits. As of December 31, 2021, the required reserves amounted to P 6,918,573. The bank has complied with this provision. The required reserves are broken down as follows:

	Rate	2021	2020
Savings deposits	2%	6,918,573	6,766,498
Time Certificate of Deposits	2%		
Demand Deposits	2%		
Required Reserves		6,918,573	6,766,498

Note 7 - Due from Other Banks

	2021	2020

Private Banks		
Commercial Banks	121,075,570	132,592,827
Rural Banks & Thrift Banks	10,045,959	8,752,879
Government Banks		
Land Bank of the Phils	3,871,586	5,446,305
Development Bank of the Phils	34,591,331	41,549,107
	169,584,446	188,341,119

Note 8 - Loans and Receivables

	2021	2020
Receivables from borrowers	181,598,444	156,763,672
Sales Contract Receivable	5,553,698	5,288,984
	187,152,142	162,052,656
Allowance for credit losses		
Receivable from borrowers	(9,503,858)	(11,482,327)
SCR		
	(9,503,858)	(11,482,327)
Unearned interest and discounts		
Loans and receivables, net	177,648,283	150,570,329

The movements in allowance for credit losses on loans and receivables from borrowers are as follows.

	2021	2020
Balance at beginning of year	11,482,327	16,800,870
Provision for credit losses on loans and receivables	-	1,097,762
Others (Transfer to ROPA)	(1,978,469)	(6,416,304)
Balance at end of year	9,503,858	11,482,327

The following table shows the secured and unsecured portions of receivables from borrowers, as at December 31:

	2021		2020	
	Amount	%	Amount	%
NON-DOSRI				
Secured portion				
REM Residential	10,006,702	6%	5,144,179	3%
REM Commercial	15,543,895	9%	17,897,136	11%
REM Agricultural	7,869,696	4%	6,521,379	4%
Other Collateral	147,669,131	81%	126,845,492	81%
Unsecured portion	509,019	0%	355,487	0%
	181,598,444	100%	156,763,672	100%

The following table shows the receivables from borrowers, classified as to terms as at December 31:

Classified as to terms:	2021	2020
Short term (1 year or less)	6,440,710	4,972,011
Medium term (Over 1 year to 5 years)	39,553,449	61,652,044
Long term (Over 5 years)	135,604,285	90,139,617
	181,598,444	156,763,672

As at December 31 information on the concentration of loans and receivables, as to industry follows:

	2021		2020	
	Amount	%	Amount	%
Agriculture, Forestry and Fishing	7,869,696	4%	6,521,379	4%
Wholesale and Retail Trade Repair of Motor Vehicles and Motorcycles	15,543,895	9%	17,897,136	11%
Real Estate Activities	10,006,702	6%	5,144,179	3%
Other Service Activities	2,567,594	1%	2,121,856	1%
Motor loans	145,101,537	80%	124,723,636	80%

For Household Consumption	509,019	0%	355,487	0%
	181,598,444	100%	156,763,672	100%

The BSP considers that loan concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. Identified concentrations of credit risks are controlled and managed accordingly except those that are under 'Motor Loans'.

As required by BSP, the Bank discloses loan transactions with investees and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70.0% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.0% of total loan portfolio, whichever is lower. As at December 31 the Bank is in compliance with the regulatory requirements. As at December 31 DOSRI accounts under the existing regulations are shown in the table below (as reported to BSP):

	2021		2020	
	DOSRI loans	Related Party Loans (Financial Assistance Program)	DOSRI loans	Related Party Loans (Financial Assistance Program)
Outstanding loans	-	1,720,171	-	1,125,918
Percentage to total loan portfolio	0%	0.95%	0%	0.72%
Percentage of unsecured to total loan portfolio	0%	0.95%	0%	0.72%
Percentage of past due to total loan portfolio	0%	0%	0%	0%
Percentage of non-performing to total loan portfolio	0%	0%	0%	0%

The following table shows the receivables from borrowers, net of unamortized discount, classified as to status as at December 31:

Classified as to status of loans for 2021

	Current	Past Due	Non-Performing	Total
1. Agrarian reform/Other agri. Cr.				
a. Agrarian reform loans	173,272			173,272
b. Other agricultural credit loans	3,171,363	257,387	4,267,675	7,696,424
2. SME loans				
a. Small scale	8,677,837	1,211,108	2,708,399	12,597,344
b. Medium scale	2,129,297	817,254		2,946,551
3. Loans for housing purposes	8,985,508	265,123	756,070	10,006,702
4. Loans for auto loans	135,983,490	5,139,141	3,978,906	145,101,537
5. Loans for other personal use	509,019			509,019
6. Loans for other purposes	1,591,570	414,563	561,461	2,567,594
Total	161,221,357	8,104,576	12,272,511	181,598,444

Classified as to status of loans for 2020

	Current	Past Due	Non-Performing	Total
1. Agrarian reform/Other agri. Cr.				
a. Agrarian reform loans				-
b. Other agricultural credit loans	2,321,872		4,199,507	6,521,379
2. SME loans				
a. Small scale	3,392,773	326,949	10,640,083	14,359,805
b. Medium scale	973,606	1,149,861	1,413,865	3,537,332
3. Loans for housing purposes	4,017,158	353,113	773,908	5,144,179
4. Loans for auto loans	115,680,173	3,057,734	5,985,728	124,723,636
5. Loans for other personal use	355,487			355,487
6. Loans for other purposes	1,200,674	47,452	873,730	2,121,856
Total	127,941,743	4,935,108	23,886,821	156,763,672

Note 9 - Held-to-Maturity Financial Assets

	2021	2020
HTM Investments	28,531,312	28,230,312
Unamortized interest and discounts	(293,042)	(326,741)
	28,238,271	27,903,571

Classified as Financial Assets at Amortized Cost, these quoted T-bills and bonds have fixed annual interest rates ranging from 3.150% to 10.00%. The terms of these investments range from 1 to 7 years. These refer to debt securities, quoted in an active market with fixed or determinable payments and fixed maturity that a bank has the positive intention and ability to hold to maturity.

Note 10 - Bank Premises, Furniture, Fixtures and Equipment

2021				
Cost	Beg. Balance	Additions	Disposal	Ending Balance
Land	2,449,774			2,449,774
Bank premises-building	20,400,626			20,400,626
IT Equipment	4,012,929	210,007		4,222,935
Furniture and Fixtures	3,176,509		154,364	3,022,145
Transportation equipment	3,199,049			3,199,049
Leasehold improvement	463,192			463,192
Total	33,702,079	210,007	154,364	33,757,721.45
Accumulated Depreciation and Amortizations				
Bank premises-building	12,754,877	841,845		13,596,722
IT Equipment	3,381,044	394,230	85,316	3,689,958
Furniture and Fixtures	2,624,782	255,060	214,680	2,665,163
Transportation equipment	3,182,047			3,182,047
Leasehold improvement	69,479	46,319		115,798
Total	22,012,229	1,537,455	299,997	23,249,686.98

2020				
Cost	Beg. Balance	Additions	Disposal	Ending Balance
Land	2,449,774			2,449,774
Bank premises-building	19,568,354	832,272		20,400,626
IT Equipment	3,561,774	451,154		4,012,929
Furniture and Fixtures	2,965,826	210,684		3,176,509
Transportation equipment	3,226,049		27,000	3,199,049
Leasehold improvement	463,192	-		463,192
Total	32,234,969	1,494,110	27,000	33,702,079
Accumulated Depreciation and Amortizations				
Bank premises-building	11,882,846	872,031		12,754,877
IT Equipment	3,002,597	378,447		3,381,044
Furniture and Fixtures	2,341,603	283,179		2,624,782
Transportation equipment	3,186,546		4,499	3,182,047
Leasehold improvement	23,160	46,319		69,479
Total	20,436,752	1,579,976	4,499	22,012,229

Carrying Values	2021	2020
Land	2,449,774	2,449,774
Bank premises-building	6,803,904	7,645,749
IT Equipment	532,977	631,885
Furniture and Fixtures	356,983	551,727
Transportation equipment	17,002	17,002
Leasehold improvement	347,395	393,714
Total	10,508,034	11,689,850

Schedule of Depreciation	2021	2020
Bank premises-building	841,845	872,031

IT Equipment	394,230	378,447
Furniture and Fixtures	255,060	283,179
Transportation equipment	-	-
Leasehold improvement	46,319	46,319
Total Depreciation	1,537,455	1,579,976

Note 11 - Investment Properties

	2021	2020
Real and other properties acquired	15,771,195	17,238,162
Accumulated depreciation	(2,755,330)	(2,196,494)
Allowance for losses	(288,915)	(288,915)
	12,726,951	14,752,754

Note 12 - Other Assets

	2021	2020
Petty cash fund	13,000	13,000
Accounts receivable	8,692,209	8,666,700
Stationeries and supplies	106,085	106,669
Prepaid expenses	12,489,583	8,660,941
Deficiency judgment receivable	166,070	166,070
Other investments - telecom/others	257,059	257,057
Net defined benefit asset	-	2,049,761
Miscellaneous assets	461,932	412,069
Deposits with Closed Banks	16,101,323	16,101,323
Impairment allowance	(24,613,735)	(24,613,735)
	13,673,527	11,819,856

Note 13 - Deposit Liabilities

	2021	2020
Savings deposits - active	345,928,667	338,324,877
Savings deposits - dormant	-	-
Total Deposit Liabilities	345,928,667	338,324,877

	2021		2020	
	No. of Accounts	Amount	No. of Accounts	Amount
Savings deposits - active	5,248	345,928,667	5,274	338,324,877
Savings deposits - dormant				
Total	5,248	345,928,667	5,274	338,324,877

Interest rates for regular deposits is at 0.50% per annum. Time deposits, however, is at 1.30% to 1.5% per annum depending on the amount and duration of the holding period.

Note 14 - Unearned Income

	2021	2020
Other deferred credits	13,293	44,650
Deferred gross profit in asset sold	4,666,509	4,262,000
Total Unearned Income	4,679,802	4,306,650

Note 15 - Other Liabilities

	2021	2020
Accrued interest payable	184,279	297,751
Contributions payable	191,041	177,305
Accrued expenses	978,744	1,055,846

Net defined benefit liability	2,110,988	
Other liabilities	655,822	628,616
Accounts payable - ROPA	422,932	365,439
Witholding taxes payable	152,164	131,293
Total Other Liabilities	4,695,968	2,656,250

Note 16 - Income Tax Payable / (Income Tax Credit)

Income Tax Payable is computed as follows:

	Note	2021	2020
Minimum Corporate Income Tax	22	196,420	177,678
Regular Income Tax	22	843,337	812,523
Regular Income tax / MCIT (whichever is higher)		843,337	812,523
Add: Previous year's accountability			
Less: Payments			
Prior year's excess credit			(193,042)
Quarterly tax payments		(60,663)	(163,534)
Creditable tax withheld (see attached schedule)		(422,932)	(365,439)
Income tax payable/(Income tax credit)		359,743	90,509

Note 17 - Share Capital / Retained Earnings

	2021		2020	
	Common	Preferred	Common	Preferred
Authorized Capital Stock				
Amount	45,000,000	5,000,000	45,000,000	5,000,000
No of shares	450,000	50,000	450,000	50,000
Par value per share	100	100	100	100
Issued and Outstanding				
Amount	45,000,000	5,000,000	45,000,000	5,000,000
No of shares	450,000	50,000	450,000	50,000

Preferred shares has the following features: (a) Both Class A and B with a total of 50,000 shares have a fixed 10.0% cumulative dividends and are non-voting, (b) 25,000 Class A preferred shares are convertible after five (5) years and its optional, and (c) 25,000 Class B preferred shares are non-convertible.

Dividend Declaration

On January 26, 2021, the board of directors has approved the declaration of 7% cash dividends to all common shares and 10% cash dividend to all preferred shares with a total amount of P 3,650,000 based on the list of stockholders as of December 31, 2020.

Note 18 - Interest Income

	2021	2020
Loans and receivables	27,512,600	23,886,057
Held-to-maturity investments	411,878	721,784
Deposits with banks	1,025,366	2,611,060
Total Interest Income	28,949,844	27,218,901

This account refers to interest earned and/ or actually collected from the borrowers. The banks follows the accrual method of accounting in recognizing interest income on customer accounts. Accordingly, unearned discount is amortized over the term of the loan.

The interest rates applied to loans and receivables varies depending on type of loans or services provided. It ranges from 8% to 31% for terms 12 months to 60 months respectively for financing of brand new cars. Rates of financing second hand cars, REM loans and Hold-out deposits charge different rates.

Note 19 - Interest Expense

	2021	2020
Interest expense	2,266,671	3,171,818
	2,266,671	3,171,818

This account refers to payments and or monthly accruals of interest on deposits. The computation of savings deposit is on quarterly basis while the time/special savings deposit are on monthly accruals.

Note 20 - Non - Interest income

	Note	2021	2020
Service charges and commissions		110,152	184,567
Gain from sale of non-financial asset (ROPA)		7,910,396	7,967,460
Miscellanoeus income	2	1,271,652	1,991,795
Total Non-Interest Income		9,292,200	10,143,822

Note 21 - Non - Interest expenses

	2021	2020
Employees' Compensation and Other Benefits		
Salaries and Wages	9,317,851	8,857,433
Fringe Benefits	2,886,458	2,419,396
SSS, Philhealth, and other contributions	1,084,190	948,799
Medical, Dental and Hospitalization	285,618	220,938
Contribution to Retirement/Provident Fund	928,548	642,854
Director's Fees	432,000	-
Taxes and Licenses	2,783,718	3,336,840
Other Administrative Expenses		
Advertising and publicity	83,304	33,975
Documentary stamps used	4,069	141
Donations and charity	14,150	15,242
Fines and penalties	8,163	1,200
Fuels and lubricants	396,645	416,214
Information and technology	92,352	46,085
Insurance PDIC	680,870	667,436
Insurance expenses	179,616	185,269
Litigation	203,771	2,647,274
Management & other professional fees	287,208	266,142
Membership fees and dues	59,640	53,240
Other expenses	4,238,994	1,867,170
Periodicals and magazines	11,530	6,846
Postage, telephone , cable and telegrams	841,242	509,462
Power, light and water	620,370	595,658
Rent	253,200	168,600
Reparis and maintenance	438,893	299,009
Representation and entertainment	111,000	82,500
Security, clerical, messenger & janitorial	1,874,044	1,946,721
Stationery and supplies used	271,163	261,987
Supervision	54,438	-
Travelling expenses	405,264	310,830
Depreciation/Amortization	2,394,794	1,763,939
Provision for Credit Losses	-	1,097,762
Total Non-Interest Expenses	31,243,104	29,668,960

The bank is a lessee under cancellable operating lease. The lease have a one-year term with renewal options. The future minimum rentals payable under these cancellable operating lease as of December 31 are as follows:

	2021	2020
Within one year	253,200	168,600

After one year but not more than five years	253,200	168,600
More than five years	-	-

Other expenses include notarial expenses, local fares, seminars and trainings, foreign currency exchange losses (if any), PR-related expenses, some meals during official meetings, bookbinding costs, and other small value expenses that are non-recurrings.

Note 22 - Income Tax Expense

President Rodrigo Duterte has signed into law the RA 11534 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability.

RA 11534 cuts corporate income tax rate to 25 percent from the current 30 percent. This is retroactive from July 1, 2020. Corporations with net taxable income not exceeding PHP5 million and with total assets not exceeding PHP100 million, excluding land on which the particular business entity's office, plan, and equipment are situated during the taxable year for which the tax is imposed, shall be taxed at 20 percent.

RA 11534 cuts minimum corporate income tax rate to 1 percent from the current 2 percent. This is retroactive from July 1, 2020. Furthermore, non-deductible interest expense is 20% of interest income subjected to final tax.

Revenue Regulation No. 25-2020 of the Bureau of Internal Revenue prescribes that the operating loss of the business for taxable years 2020 and 2021, if applicable, shall be carried over as a deduction from gross income for the next five (5) consecutive taxable years following the year of such loss.

Minimum Corporate Income Tax is computed as follows:

	2021	2020
GROSS INCOME	38,242,044	37,362,723
Less: Non-taxable income & income subjected to final tax	1,437,244	3,332,843
Gross taxable income	36,804,800	34,029,879
COST OF SERVICE		
Interest expense, net of tax arbitrage	1,979,222	2,505,250
Employees' compensation and other benefits	14,502,666	13,089,420
Insurance - PDIC	680,870	667,436
COST OF SERVICE	17,162,759	16,262,106
GROSS INCOME FOR MCIT PURPOSES	19,642,042	17,767,773
MCIT, January 1 to December 31	196,420	-
MCIT, January 1 to June 30 (2%)		177,678
MCIT, July 1 to December 31 (1%)		88,839
TOTAL MCIT	196,420	266,517

Regular Income Tax is computed as follows:

	2021	2020
Profit (loss) per books	4,521,944	4,521,944
Non-deductible expense (including tax arbitrage)	288,649	667,769
Provision for credit losses on loans and receivables	-	1,097,762
Total	4,810,593	6,287,474
Less: Non-taxable income & income subjected to final tax	(1,437,244)	(3,332,843)
Net taxable income (loss)	3,373,349	2,954,631
RCIT, January 1 to December 31	843,337	-
RCIT, January 1 to June 30 (30%)		443,195
RCIT, July 1 to December 31 (25%)		369,329
Regular Income Tax / Income Tax Expense	843,337	812,523

Note 23 - Earnings Per Share / Book Value Per Share

The earnings per share is computed as follows:

	2021	2020
Profit for the period	3,888,931	3,709,420

Less: Preference dividends for the current year	(388,893)	(370,942)
Net Income to common share	3,500,038	3,338,478
Weighted average number of shares:		
Outstanding and issued shares	450,000	450,000
Less treasury shares		
	450,000	450,000
Earnings Per Share	8	7

The book value per share is computed as follows:

	2021	2020
Total equity	70,379,756	73,365,277
Less: Preferred equity		
50,000 Shares at P100 per share	(5,000,000)	(5,000,000)
Common equity with 450,000 shares	65,379,756	68,365,277
Book Value Per Share	145	152

Note 24 - Related Party Transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. The Bank's related parties include:

1. Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
2. post-employment benefit plans for the benefit of the Bank's employees, and
3. other related parties within the Bank.

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 statements of income are as follows:

	2021	2020
Short-term employee benefits	14,502,666	13,089,420
Post-employment benefits	928,548	642,854
	15,431,214	13,732,274

BSP-Approved Financial Assistance Program

The Bank has loans extended to officers and employees not classified as DOSRI transactions but a financial assistance program which has been approved by BSP. As of December 31, 2021 and 2020, outstanding balances amounted to P1,720,171 and P1,125,918, respectively. These transactions are non-secured and interest bearing and loan repayment is made on a monthly basis through salary deduction over the agreed term.

Deposit Laibilities

The Bank, in the ordinary course of business, has deposit transactions with certain DOSRI and with outstanding deposit balance as of December 31, 2021 and 2020.

Note 25 - Events After the Reporting Period

No any significant events took place after the Balance Sheet date that could affect the presentation of the financial statements.

Note 26 - Disclosures on Capital Adequacy

For disclosure on computed capital adequacy, refer to the submitted of Computation of the Risk-based Capital Adequacy Ratio Covering Credit Risks as of December 31, 2021 as submitted by the Bank.

The deployment of assets in loans is good at 42%. The bank has minimized its total assets deployed as cash and cash equivalents at just 1% and has liquid deposits with BSP and other banks at high 42%. On the liability side, the bank has relied primarily on savings. Savings mobilized from the clients constitute 97% of total liabilities.

The risk weighted capital adequacy ratio of the bank, as submitted, has moved to 17.06 as at December 31, 2021 from 16.77 as at December 31, 2020.

The following table presents the components in the computation of the Risk-based Capital Adequacy Ratio, before audit adjustments:

	2021	2020
Net Tier 1 Capital	68,737,586	67,598,888
Net Tier 2 Capital	6,383,283	6,383,283
Total Qualifying Capital	75,120,869	73,982,171
Total Risk-Weighted Assets	440,314,305	441,099,920
Risk-based Captial Adequacy Ratio	17.06%	16.77%
Tier 1 ratio	15.61%	15.33%
Common Tier 1 Ratio (after audit adjustments)	14.85%	15.50%
Risk-based Captial Adequacy Ratio (after audit adjustments)	16.30%	16.95%
Other pertinent indicators in relation to CAR as follows:		
Minimum Liquidity Ratio	72.87%	82.75%
Leverage ratio	16.08%	16.09%
Total Exposure Measure (Total assets, gross of GLLP)		
Total Assets	426,043,936	418,743,563
GLLP	1,383,283	1,383,283
	427,427,219	420,126,846

Note 27 - Supplementary Information Required under Revenue Regulations 15-2010

The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2021, follow:

Gross receipt tax (GRT)	2,080,784
Business permits and licenses	259,434
Real property tax	204,618
Others	238,882
	2,783,718

Note 28 - Quantitative Indicators of Financial Performance

	2021	2020
I. AT YEAR END		
Current assets	389,135,424	380,481,103
Current liabilities	345,928,667	338,324,877
Current ratio	1.12	1.12
Past due	20,377,087	28,821,929
Total loan portfolio	181,598,444	156,763,672
Past due ratio	11.22%	18.39%
Total liabilities	355,664,181	345,378,286
Total equity	70,379,756	73,365,277
Debt-to-equity ratio	5.05	4.71

II. FOR THE YEAR

Gross income	38,242,044	37,362,723
Total expenses	33,509,775	32,840,779
Net profit (before income tax)	4,732,269	4,521,944
Net profit margin rate (before income tax)	12.37%	12.10%
Expenses over income rate	87.63%	87.90%
Net profit (after tax)	3,888,931	3,709,420
Average assets	422,393,749	397,075,912
Average share capital	50,000,000	50,000,000
Average equity	71,872,516	70,706,975
Return on average assets	0.92%	0.93%
Return on average share capital	7.78%	7.42%
Return on average equity	5.41%	5.25%
Net interest income	26,683,173	24,047,082
Average interest earning assets	381,755,853	361,456,389
Net interest spread	25,245,929	20,714,239
Net interest margin	6.99%	6.65%

Note 29 - Implications of COVID -19 on our Business

The COVID-19 pandemic has developed rapidly in this 2021, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity and the company's business in various significant ways:

1. Reduced cash inflows from loan repayment; and
2. Increased credit risk defaults and lower recoveries due to inactive markets for collaterals.

Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the company might experience negative results, and liquidity restraints and incur additional impairments on its assets its succeeding months. The exact impact on our activities in 2021, except as mentioned above, and thereafter cannot be estimated and predicted respectively.

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

H. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

PANGASINAN BANK (A Rural Bank), INC.
Risk-Based Capital Adequacy Ratio
As of December 31, 2021

Total Qualifying Capital	**(Schedule A below)**	**75.121**
Risk-Weighted On-Balance Sheet Assets		398.392
Operational Risk-Weighted Assets		41.853
Net Risk Weighted Assets		440.245
Adjusted CAR covering credit and operational risk		**17.06**

Schedule A: Computation of Capital

Tier 1 (Core) Capital	
Paid up Common Stock	45.000
Surplus, Reserves, and Undivided Profits	
Retained Earnings	19.461
Undivided Profits	4.277
Total Tier 1 Capital	68.738
Tier 2 (Supplementary) Capital	
Upper Tier 2 Capital	
Paid-up perpetual and cumulative preferred stock	5.000
General Loan Loss Provision	1.383
(Limited to 1.00% of gross risk-weighted assets)	
Total Tier 2 Capital (limited to 100% of Tier 1 capital	6.383
TOTAL QUALIFYING CAPITAL	**75.121**

PANGASINAN BANK (A RB), INC.

Name of Bank

COMPUTATION OF THE RISK-BASED CAPITAL ADEQUACY RATIO COVERING COMBINED CREDIT MARKET AND OPERATIONAL RISKS

SIMPLIFIED SOLO BASIS

As of DECEMBER 31, 2021

CONTROL PROOFLIST

Item	Nature of Item	Account Code	Amount	
A.	**Calculation of Qualifying Capital**			
A.1	Net Tier 1 Capital	395000000000710000		68,737,586.00
A.2	Net Tier 2 Capital	395000000000720000		6,383,283.18
A.3	Total Qualifying Capital *[Sum of A.1 and A.2]*	395000000000700000		75,120,869.18
B.	**Calculation of Risk-Weighted Assets**			
B.1	Total Credit Risk-Weighted Assets [*B.1(d) minus B.1(h)*]	195931000000000000		398,391,505.95
(a)	Risk-Weighted On-Balance Sheet Assets	100000000000811000	398,391,505.95	
(b)	Risk-Weighted Off-Balance Sheet Assets	400000000000812000	0.00	
(c)	Counterparty Risk-Weighted Assets	110100000000813000	0.00	
(d)	Total Credit Risk Weighted Assets [*Sum of B.1(a), B.1(b) and B.1(c)*]	100000000000810000	398,391,505.95	
(e)	Deductions from Total Credit Risk-Weighted Assets			
(f)	General Loan Loss Provision (in excess of the amount permitted to be included in upper Tier 2 capital) [*Part III.1, Item G.(1)(b) minus Part II, Item B.1 (7)*]	175150500000000000	0.00	
(g)	Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board	365052000000711000	0.00	
(h)	Total Deductions [*Sum of B.1(f) and B.1(g)*]	165000000000810000	0.00	
B.2	Total Operational Risk-Weighted Assets	195000000000830000		41,852,903.37
B.3	Total Market Risk-Weighted Assets	100000000000820000		
B.4	Total Risk-Weighted Assets [*Sum of B.1, B.2 and B.3*]	100000000000800000		440,244,409.32
C.	**RISK-BASED CAPITAL ADEQUACY RATIO [*A.3 divided by B.4 multiply by 100*]**	990000000000000000		**17.06**