

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2020

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1. Corporate Policy

a. Bank's Vision and Mission Statements

- **Corporate Mission**

Consistent with the statement “the bank works as the engine of economy Bangko Mabuhay (A Rural Bank), Inc., (the Bank) is committed to contribute to the national development through effective financial intermediation, optimization of its resources and professionalism in the banking industry.

- **Corporate Vision**

In attaining its financial strength, the bank envisions to be a leader in the rural banking industry. The Bank also aims to expand its products and services, being constantly guided by its corporate vision and commitment to continuous improvement and development not only its services, but also the human resources as well.

b. Introduction of the Bank's Brand

Bangko Mabuhay (A Rural Bank), Inc. is incorporated on January 21, 2015 through the consolidated of Rural Bank of Tanza (Cavite), Inc. (RB Tanza) and Rural Bank of Teresa (Rizal), inc. The Bangko Sentral ng Pilipinas granted the authority to operate as a rural bank on March 23, 2015, The consolidated bank commenced operation April 1, 2015.

The consolidated bank adopted its name from RB Tanza's business name “Bangko Mabuhay”. This business name was used in 1995 in order to introduce RB Tanza's products and services as it branched out within the Province of Cavite.

With its tagline “Kaagapay sa Buhay” (companion in life), the Bank provides to the community it serves, retail banking services, which include deposit products such checking account, regular and special savings deposit, regular and long-term time deposit and Automated Teller Machine (ATM) accounts; loans such as microfinance, small and medium enterprise loans, consumption, and real estate mortgage loans; and other services namely bills payment (thru Bayad Center) and remittance service (via Western Union, TransFast, BDO Remit, and InstPay).

The Bank's corporate color is red, which symbolizes blood that gives life, as the Bank's lives up to its name “Mabuhay” (to live) in catering to the banking needs of its customers such as the micro, small, medium enterprises, households, and other residents of the community.

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c. Business model of the Bank

Bangko Mabuhay's business model consists of full branch and branchlite operation with banking services and products, as described below:

Business Model	Deposit Products	Loan Products	Other Services
Full Branch	Regular Savings ATM Savings Special Savings Demand Deposit Regular Time Deposit Long Term Non-Negotiable Deposit	Microfinance SME Business Loans Corporate Loan Salary Loan Housing Loan Other Consumer Loan	Bills Payment Remittance Services thru Western Union, TransFast, and BDO Remit InstaPay – receive funds only
Branchlite	Micro Deposit	Microfinance	Bills Payment Remittance Services thru: Western Union, TransFast, and BDO Remit

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2. Financial Summary/ Financial Highlights

	2020	2019	Increase (Decrease)	%
Profitability				
Interest Income	₱ 107,585,113	₱ 142,010,418	₱ (34,425,305)	-24%
Interest Expense	10,852,326	10,882,073	(29,747)	0%
Net Interest Income	96,732,787	131,128,345	(34,395,558)	-26%
Non-interest income	28,250,879	48,175,734	(19,924,855)	-41%
Operating Expenses	114,933,929	147,197,360	(32,263,431)	-22%
Net Income after Tax	11,068,277	28,004,221	(16,935,944)	-60%
Selected Balance Sheet Data				
Liquid Assets	1,373,661,203	1,396,131,119	(22,469,916)	-2%
Gross Loans	405,945,615	496,129,916	(90,184,301)	-18%
Total Assets	1,977,527,365	2,073,177,825	(95,650,460)	-5%
Total Deposits	1,612,569,119	1,712,458,117	(99,888,998)	-6%
Total Stockholders' Equity	319,937,806	322,842,928	(2,905,122)	-1%
Selected Financial Ratios				
Return on Assets	0.55%	1.42%		
Return on Equity	3.45%	9.13%		
Past Due Ratio	51.29%	22.83%		
Minimum Liquidity Ratio	98.61%	96.20%		
Capital Adequacy Ratio	22.92%	17.79%		
Manpower				
Officers	21	21		
Rank and file	173	170		
Total	194	191		

3. Financial Condition and Results of Operation

a. Review of Bank's operations and result of operations for the financial year

The Corona Virus Disease 2019 (COVID-19) pandemic has greatly affected the economic activity in 2020 as measures such as lockdowns are taken by the government to contain the spread of the virus. During the periods of restrictive lockdowns, the Bank implemented measures such as skeleton workforce and shortened banking hours in order to ensure safety its personnel. The COVID-19 pandemic which caused economic dislocation, likewise bore heavy impact on Bank's operations.

As a result, the Bank's total assets went down by 5% to 1.978 Billion in 2020 from P 2.073 Billion in 2019 due mainly to the decrease of deposit liabilities by 6% from P 1.712 Billion in 2019 to P 1.613 Billion in 2020.

On the other hand, loan portfolio likewise shed down by 18% to P406 Million in 2020 from P 496 Million in 2019 because economic crisis suppressed loan demand. The Bank's liquid ratio went up to 98.61% in 2020 from 96.20% in 2019. Economic slowdown affected collection for which past due ratio rose to 51% in 2020 from 23% in 2019.

Net interest income decreased by 26% to P 96.733 Million, likewise non-interest income plummeted by 41% to P 28.251 Million. However, on a positive note, operating expenses dropped by 22% due to implementation of skeleton work force and shortened banking hours during the government's imposition of community quarantine or lockdowns. As a result, net income after tax went south by 60% from P 28 Million in 2019 to P 11 Million in 2020.

b. Highlight of major activities during the year that impact operations

The current pandemic showed how important electronic payment channels are in these times. Since December, 2019, the Bank embarked on offering electronic payment and financial services (EPFS), as a participant in InstaPay for receiving of funds only, where BancNet is the clearing switch operator. In compliance with the regulatory expectation to enable its customers to initiate a fund transfer transaction, the Bank would outsource the mobile application.

The Bank became the first rural bank in Cavite Province to participate and be accepted as member of the Philippine EFT Systems and Operations Network (PESONet) in October, 2020, in order to comply with the requirements of the Social Security System (SSS) as accredited paying agent for SSS pensioners. Effective in the 4th Quarter, 2020, SSS will transmit funds for pension to the Bank thru PESONet.

In December, 2020, the Bank installed an Automated Teller Machine (ATM) at Naic Branch as the 5th branch with ATM services.

c. Major strategic initiatives of the bank

i. Electronic Payment and Financial Services (EPFS)

Because of the new normal of physical distancing as health protocol to stop the spread of the virus, the Board and Senior Management resolved to offer electronic payment and financial services (EPFS) to enable its customers to send funds and initiate other financial transactions via electronic channels (e-channel) courtesy of Instapay and Pesonet. Bangko Mabuhay is a member of the Philippine Payments Management, Inc. (PPMI), the payment system

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management body of the National Retail Payment Systems (NRPS) Framework, which enables the Bank to participate in the electronic payment system.

In order to implement EPFS in e-channel, particularly sending of funds, the Bank would outsource the mobile banking application from Peppermint Tech Inc. (Philippines). Peppermint is a subsidiary of Peppermint Innovation Limited, an Australian parent entity, a company engaged in the commercialization of a proprietary mobile banking, payments and remittance technology, designed for banks, mobile money operators, remittance companies, among others.

ii. Improving Loan Portfolio

In order to achieve the Loan Target for 2020, the following specific actions were taken by Management:

- Re-organization of the Loan Department

The reorganization of the Loan Department resulted into creation of two sections within the Department, namely, (1) the Loan Marketing Section, which was headed by the Loan Marketing Manager and staffed by Account Officers in order to be more focused on soliciting and processing loan applications; and the Loan Documentation Section, which was helmed by a Manager, whose section is responsible for the processing and completion of loan documents.

A Marketing Officer has been designated during the year and has been tasked to establish a Marketing Program including marketing strategy of the Bank for the year. The said personnel was tasked to conduct training account officers to hone their skills in the area of marketing.

- Pilot-testing on Reorganization of Microfinance Department

A similar set-up, as discussed above, is pilot-tested in the Branchlite in order that the Microfinance Account Officer will be more focused in marketing microloans. However, as at end of the year, Management had not yet finalized such reorganization in the Microfinance Department.

- Improvement of Marketing Plan toward Social Media and Web-based Advertising

In mid-2020, the Bank re-launched its website in order to further improve its content and be more informative. The Bank is using its social media account thru Instagram and Facebook for advertising its products and services.

- Pooling of Account Officers for Microfinance Department

Management decided to pool its microfinance account officers to ensure continuity of operation which is disrupted by high employee turnover.

d. Challenges, opportunities, and responses during the year

Because of past due ratio rose to 52% as at end of May, 2020 (also end of enhance community quarantine in areas of operation), the Board and Senior Management resolved to prioritize the following measures to reduce past due:

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(1) Communicate with all loan borrowers – Account officers are tasked to communicate with all existing borrowers in order to determine their current status and payment capacity due to the effect of economic dislocation. The said communication will be documented through call reports which will be submitted to the Management for appropriate action.

(2) Collection Department shall follow-up borrowers using available means of communication, via personal visit, letter, email, etc. the said Department may recommend to Loans Department for restructuring of loans based on the borrower's payment capacity.

In view of the COVID19 pandemic that has affected a majority of the borrowers, the Board and Senior Management resolved to further strengthen the Bank's Credit Risk Management by considering borrower resilience to weather a similar economic crisis and operational flexibility or the soundness and adaptability of the business model in dealing with economic turbulence in evaluating creditworthiness.

4. Risk Management Framework Adopted

The Bank's risk management framework, aligned with existing regulations, seeks to ensure that there is an effective process in place to manage risk across the Bank. The Risk Management program is driven by a formal approach and aligned with the organization's profile and strategic objectives, through formalizing roles within the organization, active committees, policies and procedures, reporting, communication, and technology. This program also produces various risk mitigation activities within the business units. The resulting strategic, financial, and operational risk mitigation activities are implemented to: 1) strengthen the organization; 2) reduce the potential for unexpected losses; and 3) manage the volatility experienced by the Bank.

a. Overall risk management culture and philosophy

Risk management is integral to all aspects of the Bank's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasizes careful analysis and management of risk in all business processes.

The Bank's risk management approach reflects its values, influences the culture and guides its operations, as such, is captured in policy statements, Board and management directives, operating procedures, training programs, and is demonstrated in daily activities by management and staff. The Bank's Risk Management Framework consists of structured and consistent risk management processes that are applied across the organization under the following principles:

- i. The Bank is in the business of business of taking risks and therefore, risk must be managed and controlled if it is measured consistently and accurately.
- ii. The Bank recognizes that an effective risk management system is a critical component of bank management and a foundation for its safe and sound operation.
- iii. The Risk Management process is a top-down process and shall continually operate at all levels within the Bank. It is important to emphasize that each individual within the Bank has a role and must participate in the process.
- iv. The Bank shall promote a culture of risk awareness aligned on the expectations of Bank's regulatory supervisors.

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- v. All bank's activities shall be in accordance with applicable legal and regulatory provisions of the Philippines as well as to the Bank's internal policies and procedures.
- vi. Policies and practices that generate incentives for inappropriate actions shall be avoided. These include, but are not limited to overemphasis on short term performance results that ignore long term risks, ineffective segregation of duties that allow misuse of assets or concealment of poor results, etc.
- vii. It is the Bank's firm policy that liquidity will never be compromised for profitability.

b. Risk appetite and strategy

The Bank faces a broad range of risks doing business as a financial intermediary. These risks include its day-to-day operational activities which can be significant. These risks are managed through detailed processes that emphasize the importance of integrity, maintaining high quality staff, and accountability.

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

The Bank's Risk Appetite Statement considers the most significant risks to which the Bank is exposed and provides an outline of the approach to managing these risks. All strategic plans and business plans for functional areas must be consistent with this Statement. The Risk Appetite Statement is treated as a live and evolving document where its intent is challenged and discussed on a frequent basis.

- i. **Strategic Risks.** The Bank aspires to be among the country's top rural banks. This requires on-going development and innovation in its operations through strategic plan. The Bank has a low appetite for threats to the effective and efficient delivery of its strategic plan. It recognizes that the actual or perceived inability to deliver strategic plan could have a significant impact on its ability to achieve its objectives as well as its reputation. The Bank's Board meets regularly to discuss actual performance vis-à-vis plan. A framework is in place to ensure the Bank's strategic plan is managed and reported on a consistent basis.
- ii. **Liquidity Risks.** The Bank has a very low appetite for liquidity risks because these have significant impact on the Bank's reputation.
- iii. **Credit Risk.** The Bank has a low appetite for credit risks. Risk tolerances for the Bank's credit activities are approved by the Board. Performance against these measures is monitored and reported to the Board and Senior Management on a monthly basis.
- iv. **People and Culture Risks.** The Bank's significant people and culture-related risks include the following:
 - **Calibre of People** – The Bank relies on motivated and high-quality staff to perform its functions. It aims to create an environment where employees are empowered to the full extent of their abilities. The appetite for losses to the value of the Bank's collective competencies, knowledge and skills is very low.

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- **Conduct of People** – The Bank expects employees to conduct themselves with a high degree of integrity, to strive for excellence in the work they perform and the outcomes they achieve, and to promote the public interest. The appetite for behaviors which do not meet these standards is very low. The Bank takes very seriously any breaches of its Code of Conduct.
 - **Work Health & Safety (WHS)** – The Bank aims to create a safe working environment for all its staff, where people are protected from physical or psychological harm. It has a very low appetite for practices or behaviors that lead to staff being harmed while at work.
- v. **Operational Risks.** The Bank's appetite for specific operational risks is detailed below. Risks are carefully analyzed in all the Bank's operational activities, including to ensure that the benefit of the risk control measures exceeds the costs of these measures.
- (i) **Information Technology Information Technology (IT)** risks cover both daily operations and on-going enhancements to the Bank's IT systems. These include:
 - **Processing** – Prolonged outage of the Bank's Core System: The Bank has a very low appetite for risks to the availability of systems which support its critical business functions including those which relate to inter-bank settlements, banking operations and financial markets operations. Maximum recovery times have been identified and agreed with each business area.
 - **Information Security** – Cyber-attack on Bank's systems or networks: The Bank has a very low appetite for threats to Bank assets arising from external malicious attacks. To address this risk, the Bank aims for strong internal control processes and the development of robust technology solutions.
 - **On-going Development** - The implementation of new technologies creates new opportunities, but also new risks. The Bank has a low appetite for IT system-related incidents which are generated by poor change management practices.
 - (ii) **Fraud and Corruption.** The Bank has no appetite for any fraud or corruption perpetrated by its staff. The Bank takes all allegations of suspected fraud or corruption very seriously and responds fully and fairly as set out in the Code of Conduct.
 - (iii) **Physical Security.** The Bank strives to provide a highly-secure environment for its people and assets by ensuring its physical security measures meet high standards. The Bank has a very low appetite for the failure of physical security measure.
 - (iv) **Compliance.** The Bank is committed to a high level of compliance with relevant law, regulation, industry codes and standards as well as internal policies and sound corporate governance principles. Identified breaches of compliance will be remedied as soon as practicable. The Bank has no appetite for deliberate or purposeful violations of law or regulatory requirements.
 - (v) **Information Management.** The Bank is committed to ensuring that its information is authentic, appropriately classified, properly conserved and managed in accordance with regulatory and business requirements. It has a very low appetite for the compromise of

processes governing the use of information, its management and publication. The Bank has no appetite for the deliberate misuse of its information.

vi. Interest Rate Risk in Banking Books (IRRBB). The Bank considers the overall impact of the bank's interest rate sensitive assets, liabilities and off-balance sheet exposures over short-, medium- and long-term time horizons on their earnings and economic value in order to manage current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect the Bank's banking book position.

The Bank captures all material sources of IRRBB and assesses the effect of interest rate changes on earnings and/or economic value. The measurement of IRRBB is based on outcomes arising from an appropriate range of interest rate shocks and stress scenarios. Towards this end, Bank measures and assesses the impact of a 100-, 200- and 300- basis point or 1%, 2%, and 3%, respectively, movement in interest rates to the Bank's net interest income on a monthly basis.

vii. Reputational Risks. – The Bank has no tolerance to risks to earnings, capital, and liquidity arising from negative perception on the Bank of its customers, shareholders, investors, employees, market analysts, the media and other stakeholders such as regulators and other government agencies that can adversely affect the Bank's ability to maintain existing business relationships, establish new businesses or partnerships, or continuously access varied sources of funding.

viii. Environmental and Social Risks – The Bank has no appetite for environmental and social (E&S) risks that pose potential financial, legal and/or reputational negative effect of environmental and social issues on the Bank. As part of credit risk management, the Bank shall not finance projects with E&S issues such as environmental pollution, climate risks (both physical and transition risk), hazards to human health, safety and security, and threats to community, biodiversity and cultural heritage, among others.

c. Bank-wide risk governance structure and risk management process

The Bank's risk management framework, aligned with existing regulations, seeks to ensure that there is an effective process in place to manage risk across the Bank. Risk management is integral to all aspects of the Bank's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasizes careful analysis and management of risk in all business processes.

Risks are identified, assessed and managed at both an enterprise level ('top-down') and business level ('bottom-up'). The Executive/ Credit Committee and the Audit Committee, and as well as the Board of Directors, oversee risk management process.

d. Money Laundering and Terrorist Financing Prevention Program

The Money Laundering and Terrorist Financing Prevention Program (MTPP) of the Bank is designed to provide guidance for the its employees to ensure that the Bank's products, services and operations are not used for money laundering (ML) and terrorist financing (TF) purposes. The MTPP is updated to adopt new Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF) rules and regulations.

The Bank is committed to develop and implement an effective money laundering and terrorist financing prevention program, take appropriate action on detected or potential suspicious

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activity, comply with applicable anti-money laundering laws and regulations, and promote AML awareness among its employees.

5. Corporate Governance

This section comprehensively discusses the bank's corporate governance framework and corporate culture adopted by the bank. The following minimum information should be discussed in this section:

a. Overall corporate governance structure and practices

The Board of Directors is composed of 11 directors, majority of whom, are non-executive directors. The Board of Directors is the highest authority in the matters of governance and managing the business of the Bank. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the bank. The Board is responsible to promote and adhere to the principles and best practices of corporate governance to foster the long-term success of the bank in fulfilling its mission and vision.

The Board is assisted in its governance function by two (2) Board-level Committees such as 1) Executive/Credit; and 2) Audit. All board committees report regularly to the BOD on their activities as follows:

- **Executive/ Credit Committee**

The Executive/ Credit Committee safeguards the quality of the Bank's loan portfolio by applying prudent risk acceptance criteria considering borrower's overall risk dimension amidst prevailing industry and economic conditions. The Committee regularly meets to discuss, approve and endorse new credit applications and to be promptly apprised with developments relating to watch listed and classified loan accounts. In addition to credit risk acceptance, the Bank's Credit Committee formulates credit policies and also handles credit administrative support which includes credit investigation, insurance, securities documentation and custodianship and disposal of non-performing assets.

This Committee also assists the Board of Directors in fulfilling its corporate governance responsibilities. It reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors. The committee is responsible for ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines. It oversees the periodic performance evaluation of the board and its committees and executive management; and also conducts an annual self-evaluation of its performance. The Committee is also responsible for the development and oversight of the bank's risk management program.

- **Audit Committee**

The Audit Committee is tasked primarily with assisting the Board in fulfilling its oversight responsibilities. The Committee reviews the Bank's financial information, its systems of internal controls and risk management, the audit process, and compliance with significant applicable legal, ethical and regulatory requirements. It monitors the Bank's compliance with approved internal policies and controls, as well as statutory regulations, emphasizing an accounting system that is compliance with prescribed Accounting Standards. The Committee facilitates free and open communication among Management, Compliance, Risk Management, Internal Audit, the external auditors, BSP examiners and the Committee. It enjoys sufficient authority to promote independence and to ensure broad audit coverage,

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adequate consideration of audit reports, and appropriate action on audit recommendations. It is also empowered, among others, to appoint, compensate and oversee external audit engagements, review and comment on internal and external audit reports; and resolve financial reporting disputes between management and the auditor.

b. Selection process for the Board and Senior Management

The Board of Directors is nominated and voted by stockholders every year, each director serves a one-year term until the election of another set of directors, while the Executive Committee recommends appointment of Senior Management subject to approval of the Board. Through the Executive Committee, the Bank ensures that all directors and Senior Management are qualified based on their integrity, physical fitness, competence, education, moral standing in the community, and relevant business or banking experience, among others. The Bank does not discriminate against gender, age, and ethnic, political, religious or cultural backgrounds. There is one independent director whose role is to provide independent judgment, outside experience, and objectivity to the Board and who has not served as independent director for a maximum cumulative term of nine years from the reckoning period rule.

c. Board's Over-All Responsibility

The Board of Directors is primarily responsible for defining the Bank's vision and mission. The Board has the fiduciary responsibility to the Bank and all its shareholders including minority shareholders. It approves and oversees the implementation of strategies to achieve corporate objectives. It likewise approves and oversees the implementation of the risk governance framework, the systems of checks and balances, establishment of a sound corporate governance framework. The Board of Directors approves the selection of the Chief Executive Officer and key members of Senior Management and control functions and oversees their performance.

d. Role and Contribution of Executive, Non-executive, and Independent Directors, and of the Chairman of the Board

The President & General Manager is an executive director who is responsible in the general supervision, administration and management of the Bank.

There are ten (10) non-executive directors who are responsible for oversight function on the business and affairs of the Bank, and one (1) of whom is an independent director.

The Chairperson of the Board, who provides leadership in the board of directors, is responsible for:

- effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors;
- Overseeing the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- Ensuring a sound decision making process;

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- Encouraging and promoting critical discussion to ensure that dissenting views can be expressed and discussed within the decision-making process;
- Ensuring members of the board of directors receives accurate, timely, and relevant information;
- Ensuring the conduct of proper orientation for first time directors and provides training opportunities for all directors; and
- Ensuring conduct of performance evaluation of the board of directors at least once a year.

e. Board composition

Name of Director	Type of directorship	No. of years served as director	Number shares held	Percentage of ownership
1. Emmanuel P. Santos	Chairman	8	295,552	15.65%
2. Edwin S. Fojas	Executive	34	103,414	5.48%
3. Raymundo A. Del Rosario	Non-executive	30	157,630	8.35%
4. Joselito C. Fojas	Non-executive	7	7,497	0.40%
5. Elena J. Malabanan	Non-executive	33	158,597	8.40%
6. Misael P. Santos	Non-executive	4	20,755	1.10%
7. Purificacion N. Garcia	Non-executive	30	44,494	2.36%
8. Cynia J. Fojas	Non-executive	30	60,544	3.21%
9. Maria Criselda M. Fojas	Non-executive	7	9,535	0.50%
10. Maria Elisa P. Fojas	Non-executive	8	800	0.04%
11. Roberto U. Teo	Non-executive - Independent	4	1	-

f. Board qualification

Name of Director, Nationality and Age	Relevant Qualifications/ experience
1. Misael P. Santos (Filipino, 50 years old)	<p>Dr. Misael P. Santos was elected as member of the Board of Directors on February 18, 2017. He was elected as Chairman in 2020.</p> <p>His training includes corporate governance for rural bank directors conducted by the RBRDFI in 2017. He is a medical practitioner by profession.</p> <p>He graduated from the De La Salle University with degrees in Bachelor of Science in Biology and Medicine.</p>
2. Emmanuel P. Santos (Filipino, 59 years old)	<p>Dr. Emmanuel P. Santos was elected as Chairman of the Board on February 10, 2018 and was succeeded by Dr. Misael P. Santos in 2020. He is a member of the Executive/ Credit</p>

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	<p>Committee.</p> <p>His trainings include Corporate Governance and Risk Management for Rural Bank Directors conducted by the Rural Bankers Research and Development Foundation Inc. (RBRDFI) in 2012; Anti-Money Laundering in-house training conducted by the Bank's Compliance Officer in 2015, and Corporate Governance for Rural Bank Directors conducted by RBRDFI in 2018.</p> <p>Mr. Santos studied Bachelor of Science in Psychology and Medicine in University of Sto.Tomas.</p>
<p>3. Edwin S. Fojas (Filipino, 69 years old)</p>	<p>Mr. Edwin S. Fojas is the President and General Manager since 1985 and Chairman of the Executive/ Credit Committee.</p> <p>A career banker for more than 30 years, Mr. Fojas started his banking career in a Commercial Bank, where he gained experience and knowledge in banking, prior to his on-boarding with this Bank.</p> <p>He completed trainings in Corporate Governance Course conducted by the De La Salle University in 2002; Microfinance Modular Training conducted by the Rural Bankers Association of the Philippines (RBAP) – Microenterprise Access to Banking Services (MABS) in 2002; Acquired Asset Management and Bank Security sponsored by the Confederation of Southern Tagalog Rural Bankers (CSTRB) in 2003 and 2004, respectively; Anti Money Laundering in-house training conducted by the Compliance Officer in 2015; and Corporate Governance for Rural Bank Directors and Officers conducted by the RBRDFI in 2018.</p> <p>Mr. Fojas graduated from De La Salle University with a degree of Bachelor of Science in Commerce and completed post graduate studies of Masters in Business Management at the Asian Institute of Management.</p>
<p>4. Raymundo A. Del Rosario (Filipino, 71 years old)</p>	<p>Mr. Raymundo A. Del Rosario was elected as member of the Board of Directors in 1991. He is the incumbent Vice President and a member of the Executive/ Credit Committee.</p> <p>Mr. Del Rosario is currently incumbent Vice Mayor of the Municipality of Tanza, Cavite. Aside of his more than 25 years experience as director of the bank, Mr. Del Rosario had been engaged in construction, real estate, gas service station business.</p> <p>His trainings included Corporate Governance conducted by De La Salle University in 2002 and Anti-Money Laundering in-house training conducted by the Compliance Officer in 2015.</p> <p>Mr. Del Rosario studied Bachelor of Science in Commerce at</p>

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	the Far Eastern University.
5. Joselito C. Fojas (Filipino, 69 years old)	<p>Mr. Joselito C. Fojas was elected as member of the Board of Directors in 2013, He is the incumbent Treasurer and a member of the Executive/ Credit Committee.</p> <p>He is also a Director and Treasurer of Soleil CapitalePhilippines, Inc., a subsidiary of Soleil Chartered Bank with head office in New York, USA and engaged in financial packaging and in the issuance of financial instruments. He is also a member of the Board of Directors of Green House Techno Development Corp., member of the Board of Trustees of the Institute of Reproductive Health, a foundation engaged primarily in the propagation of natural family planning methods, a partner of the Source Organic Market, a company engaged in marketing and distribution of organic produce, and a partner of First Option Realty, a company engaged in real estate marketing and brokering.</p> <p>He completed trainings in Corporate Governance conducted by the RBRDFI in 2013 and Anti-money Laundering in-house training conducted by the Compliance Officer in 2015.</p> <p>Mr. Fojas took up Bachelor of Science in Industrial Engineering in the University of the Philippines and finished post graduate Masters in Business Management at the Asian Institute of Management.</p>
6. Elena J. Malabanan (Filipino, 82 years old)	<p>Dr. Elena J. Malabanan was elected as member of the Board of Directors in 1988. Dr. Malabanan has served as member of the Board of Directors for more than 30 years.</p> <p>She is a member of the Audit Committee.</p> <p>Her trainings included Corporate Governance in 2002, Best Practices in Crafting a Customized Risk Management Manual in 2012, and Anti-Money Laundering in-house training in 2015.</p> <p>She studied Bachelor of Science in Medicine in University of Sto. Tomas.</p>
7. Purificacion N. Garcia (Filipino, 83 years old)	<p>Ms. Purificacion N. Garica was elected as member of the Board of Directors in 1993. Ms. Garcia has served as Director of the Bank for more than 25 years.</p> <p>She is a member of the Audit Committee</p> <p>Her training includes corporate governance conducted by the De La Salle University in 2002 and Anti-Money Laundering in-house training conducted by the Compliance Officer in 2015.</p> <p>She graduated from National Teachers College with a degree in Bachelor of Science in Education.</p>

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<p>8. Cynia J. Fojas (Filipino, 79 years old)</p>	<p>Dr. Cynia J. Fojas was elected as member of the Board of Directors in 1992. Dr. Fojas has served as member of the Board of Directors for more than 27 years.</p> <p>Her trainings included Corporate Governance in 2002, Best Practices in Crafting a Customized Risk Management Manual in 2012, and Anti-Money Laundering in-house training in 2015.</p> <p>She studied Bachelor of Science in Medicine in University of Sto. Tomas.</p>
<p>9. Maria Criselda M. Fojas (Filipino, 32 years old)</p>	<p>Ms. Maria Criselda M. Fojas was elected as member of the Board of Directors on February 16, 2013 and was last re-elected as Director on February 9, 2019.</p> <p>She was formerly a member of the Audit Committee and Corporate Governance Committee. Her trainings include Corporate Governance and risk management for rural bank directors conducted by the RBRDFI in 2010 and Anti-Money Laundering in-house training conducted by the Compliance Officer in 2015.</p> <p>Ms. Fojas graduated from De La Salle University with a degree in Political Science. She also completed her Bachelor of Laws in Arellano University.</p>
<p>10. Maria Elisa P. Fojas Filipino, 59 years old)</p>	<p>Ms. Maria Elisa P. Fojas was elected as member of the Board of Directors in 2004 and was last re-elected as Director on February 9, 2019.</p> <p>Her training includes corporate governance conducted by the De La Salle University in 2002 and Anti-Money Laundering in-house training conducted by the Compliance Officer in 2015.</p>
<p>11. Roberto U. Teo (Filipino, 70 years old)</p>	<p>Mr. Roberto U. Teo was appointed independent director to the Board on February 18, 2017 and was last re-appointed as independent director on February 9, 2019.</p> <p>Currently, Mr. Teo is also a member of the Board of Directors of LBP Leasing and Finance Corporation, a fully owned subsidiary of the Land Bank of the Philippines, Chairman of the Board of Mt Apo Travel and Tours Inc. (since 2013), President and director of GT Philippines Inc. (since 2013).</p> <p>He also held directorship at the Tourism Infrastructure and Enterprise Zone Authority (2014-2018), and served as Assistant City Administration for Operation of Davao City.</p> <p>His trainings include corporate governance for rural bank directors in 2017, public corporate governance for board of directors of GOCCs in 2014, comprehensive real estate seminar and review in 2011, franchising seminar in 2009,</p>

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	<p>tourism congress pre-planning workshop in 2010, executive director series in 2006.</p> <p>Mr. Teo is a graduate of the Asian Institute of Management with a Master in Business Management Degree in 1971. He completed his Bachelor of Science in Chemical Engineering from De La Salle University.</p>
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g. List of board-level committees including membership and function

Board Level Committees	Membership	Function
Executive/ Credit Committee	<p>Edwin S. Fojas – Chairperson</p> <p>Members: Raymundo A. Del Rosario Emmanuel P. Santos Joselito C. Fojas</p>	<p>-Meet frequently as necessary and, acting as a loan committee, shall have the power to examine and approve or disapprove loans application.</p> <p>-Assist the Board of Directors in fulfilling its corporate governance responsibilities.</p> <p>-Oversee risk management program</p>
Audit Committee	<p>Roberto U. Teo – Chairperson</p> <p>Members: Elena J. Malabanan Purificacion N. Garcia</p>	<p>-Oversee the financial reporting Framework</p> <p>-Monitor and evaluate the adequacy and effectiveness of the internal control system</p> <p>-Oversee the internal audit function and external audit function</p> <p>- Oversee implementation of corrective actions</p> <p>-Investigate significant issues /concerns raised</p>

- h.** The Board of Directors was elected by the Stockholders in their annual meeting held on February 15, 2020. The Board met 21 times, while Audit Committee and Executive/ Credit Committee held 4 and 24 meetings, respectively, in 2020. However, starting April, 2020, meetings, except that of Executive / Credit Committee, were held via teleconferencing using Zoom application due to the prevailing health crisis brought about by the pandemic.

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Hereunder is the report of Directors' attendance in board and board-level committee meetings during the calendar year 2020, including the number of board and committee meetings and percentage attended by each director:

Name of Director	Board		Audit Committee		Executive/ Credit Committee	
	Number of Attended and Percentage of attendance		Number of meetings Attended and Percentage		Number of Meetings Attended and percentage	
	No.	%	No.	%	No.	%
Emmanuel P. Santos	21	100%			24	96%
Edwin S. Fojas	21	100%			21	84%
Raymundo A. Del Rosario	21	100%			19	79%
Joselito C. Fojas	21	100%			24	96%
Elena J. Malabanan	21	100%	4	100%		
Misael P. Santos	21	100%				
Purificacion N. Garcia	21	100%	4	100%		
Maria Elisa P. Fojas	21	100%				
Cynia J. Fojas	21	100%				
Maria Criselda M. Fojas	21	100%				
Roberto U. Teo	20	95%	4	100%		
Total of Meetings Held During the Year	21		4		25	

i. List of executive officers/senior management

Name of Officer, Nationality and Age	Position	Relevant qualifications/ experience
Edwin S. Fojas (Filipino, 69 years old)	President & General Manager	<p>Mr. Fojas graduated from De La Salle University with a degree of Bachelor of Science in Commerce and completed post graduate studies of Masters in Business Management at the Asian Institute of Management.</p> <p>He has more than 30 years of banking experience. Also, he completed trainings in Corporate Governance Course conducted by the De La Salle University in 2002; Microfinance Modular Training conducted by the Rural Bankers Association of the Philippines (RBAP) – Microenterprise Access to Banking Services (MABS) in 2002; Acquired Asset Management and Bank Security sponsored by the Confederation of Southern Tagalog Rural Bankers (CSTRB) in 2003 and 2004, respectively; Anti Money Laundering in-house training conducted by the Compliance Officer in 2015; and Corporate Governance for Rural Bank Directors and Officers conducted by the RBRDFI in 2018.</p>

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<p>Imelda D. Montenegro (Filipino, 57 years old)</p>	<p>Assistant General Manager/Comptroller</p>	<p>Ms. Montenegro has a Bachelor of Science in Commerce major in Accounting at the St. Paul's College. She has more than 30 years of banking experience in accounting, lending, branch operations, and treasury.</p> <p>Her trainings include corporate housekeeping, best practices in credit, microfinance, market and credit risk management and treasury/comptrollership management.</p>
<p>Basil A. Perea (Filipino, 58 years old)</p>	<p>Compliance Officer</p>	<p>Mr. Perea is a graduate of BSC – Accounting from De La Salle University. He has 26 years experience with the Bank from its one head office and extension office in 1994 to a 12 bank office network in 2020. He on-boarded as a Chief Accountant and was subsequently assigned as Internal Auditor in year 2000 and eventually appointed as Compliance Officer in 2005. Prior to his employment with the Bank, he had experience in external audit and internal audit in previous jobs.</p> <p>He attended training for compliance officers, AMLA update seminar, enterprise-wide risk management, PFRS updates, and corporate governance.</p>

j. Performance assessment program

The Assessment and Evaluation System of the Bank involves assessment of the activities or accomplishments of the Board, Committees and Individual Directors, Officers and Staff. The performance assessment program consists of the following steps:

- Step 1 – Identification of Criteria and Expected Activities
- Step 2 – Methodology and Assessment Approach
- Step 3 – Assessment Timetable
- Step 4 – Corporate Governance and Operational Improvement Program
- Step 5 – Documentation
- Step 6 – Directives, Desired Actions and Areas of Improvements

The Board of Directors, as a whole, in coordination with the Compliance Officer, conducts the self-assessment, assessment of committees and compliance officer; the Audit Committee assesses/evaluates the Internal Auditor; Senior Management is evaluated by the Corporate Governance Committee, while the other officers and staff are evaluated by the Assistant General Manager or by their respective supervisors. Management reports to the Board of Directors the results of the performance evaluation of officers and staff and shall provide recommendations based on the results of the rating. The recommendations may be in the form of merit increase, promotions or both.

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The Board of Directors, President and Bank Officers document all its assessment activities for future reference. This is to ensure a common understanding of the corporate governance and operational improvement program, including improvement of bank personnel. It is also to assign clear accountability for its effective implementation, both the program and the timetable for its implementation should be appropriately documented.

The Board of Directors, President and Bank Officers provide/set instructions to the ratee so as to improve the results of the assessment/ evaluation and of the Bank's operations as a whole. Such specific actions and recommendations commensurate with the issues identified and resulting assessment on the quality of corporate governance, operational activities and personnel improvement thru training will be part of the recommendation.

k. Orientation and Education Program

The Directors and Senior Management maintain professional integrity and continuously seek to enhance their skill, knowledge and understanding of the activities that the bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuous education or training. Directors and Senior Management attend corporate governance seminar conducted by BSP accredited training providers, prior to, or at least immediately after, assumption of office. The Compliance Officer conducts an in-house training of the Directors and Senior Management in the matter of risk management, updates on Anti-Money Laundering regulations and other relevant laws, rules and regulations.

The Bank's Human Resources Department (HRD) has implemented an annual program continuing education for rank and file, supervisors and middle management, and senior management with a combination of in-house and external training based on the training needs and results of performance evaluation.

l. Retirement and Succession Policy

The normal retirement date of Senior Management is upon his/her attainment of age sixty (60). However, the Board may approve extension of tenure of the President/ General Manager to remain active after his/her normal retirement date but not beyond 80 years old. On the other hand, the Bank does not impose mandatory retirement age for the Directors. Moreover, independent directors may only serve as such for a maximum cumulative term of nine (9) years, after which, the independent director shall be perpetually barred from serving as independent director in the Bank, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

Succession Policy provides Bank's succession plan to identify and develop internal personnel with the potential to fill key or critical organization positions. The Bank's Succession Plan involves planning for smooth continuation and to manage gaps that will arise when individuals in key positions leave or are promoted thru the individual development plan.

m. Remuneration and Incentive Policy

The Bank provides rewarding careers by maintaining competitive compensation and benefits program for employees. The remuneration policy of the Bank applies to all employees including its senior officers. The relative value of each job and corresponding pay levels are determined by a competency-based job evaluation system. The Human Resources Department regularly reviews compensation policies and recommends changes through the Corporate Governance Committee for endorsement to the Board of Directors for approval.

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On top of the salaries, the Bank's employees, including its senior management, also receive other compensation and benefits such as:

- Profit-sharing as provided by the Bank's By-laws
- Performance-based incentives/merit bonus
- 13th month pay
- Overtime pay
- Leaves (Vacation, sick ,maternity, paternity, solo parent, and special leave for women)
- Medical benefits (hospitalization and out-patient benefits for employees)
- Financial assistance loans for officers and employees
- Rice subsidy
- Retirement benefits based on tenure and salary

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

Executive and non-executive directors receive a per diem of P 7,500 for actual attendance at meetings. The said directors also participate in the profit sharing as provided in the Bank's By-laws.

ii. Remuneration Policy for Senior Management

The Board of Directors determines and approves the salaries of the President/General Manager and other two senior officers, namely, the Assistant General Manager and the Compliance Officer. The said senior officers are the top three (3) highest paid officers of the Bank.

n. Policies and procedures on related party transactions

The Bank recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institutions and to the entire group where said institutions belong. In this regard, it is the Policy of the Bank that related party transactions (RPT) are done on an arm's length basis. Towards this end, the Bank exercises appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the bank and its depositors, creditors, fiduciary clients, and other stakeholders.

The Board manages conflicts of interest or potential conflicts of interest and is responsible in:

- Evaluating on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTS are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board of directors and regulators/supervisors.
- Evaluating all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with nonrelated parties under similar circumstances and that no corporate or business resources of the BSFI are misappropriated or misapplied, and to determine any potential reputational risk

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issues that may arise as a result of or in connection with the transactions. In evaluating RPTS, the Committee takes into account, among others, the following:

- The related party's relationship to the Bank and interest in the transaction;
- The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- The benefits to the Bank of the proposed RPT;
- The availability of other sources of comparable products or services; and
- An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Bank shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs.

All RPTs that are considered material based on Bank's internal policies approved the board of directors which:

- Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the Bank's affiliation or transactions with other related parties.
- Directs Management to report to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
- Ensures that transactions with related parties, including write-off of exposures are subject to periodic independent review or audit process.
- Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT Policies and procedures.

o. Self-Assessment Function

i. Internal Audit and Compliance Functions

The internal audit function, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the Bank's records, physical properties, and personnel pertinent to carrying out any engagement. It also has the authority to directly access and to communicate with any officer or employee, to examine any activity or entity of the bank, as well as to access any records, files or data whenever relevant to the exercise of its assignment. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity also has free and unrestricted access to the Board.

The compliance function remains sufficiently independent of the operations that it conducts compliance testing and evaluation to enable him/her to perform his/her duties in a manner, which facilitates impartial and effective professional judgments and recommendations. The compliance function has no operational responsibilities. The compliance function reports directly to the Board of Directors on a monthly basis.

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The Compliance Officer reports on a regular basis to senior management on compliance matters. The report refers to the compliance risk assessment that has taken place during the reporting period, including any changes in the compliance risk profile based on relevant measurements such as performance indicators, summary of any identified breaches and/or deficiencies and the corrective measures recommended to address them, and report on corrective measures already taken.

ii. Review of Effectiveness and Adequacy of the Internal Control System

The Audit Committee provides assistance to the Board of Directors in reviewing the assurance reports of the Internal Audit Department covering the results of assessment on the adequacy and effectiveness of internal controls, risk management and governance processes, and in overseeing the financial management processes, the systems of internal accounting and financial controls, the performance and independence of the external and internal auditor, and annual independent audit of the Bank's financial statements.

Internal control and risk management are further strengthened with the Board of Directors' approval of the Audit Committee recommendations arising from periodic review of Internal Audit, management reports and consultation with the Bank's frontline and support units.

p. Dividend policy

Prior to the declaration of dividends, the Board of Directors ensures compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution. The Board of Directors has the power to declare and approve cash dividend, while the stockholders have the right to approve stock dividends. The net amount available for dividends is the amount of unrestricted or free retained earnings and undivided profits reported in the statement of financial position as of the calendar year-end immediately preceding the date of dividend declaration. For the years 2020 and 2019, the Bank declared cash dividend amounting ₱10,01 Million (or ₱5.30 per share) and nil, respectively.

q. Corporate Social Responsibility

Every graduation month for elementary and high school levels in the Municipality of Tanza, Cavite, the Bank awards the highest honor graduates of elementary and high schools, public or private, with medal, token cash in form of savings deposit account and testimonial luncheon as part of the Bank's corporate social responsibility with aim in inspiring young achievers of the community.

However, in the wake health crisis, the Board decided to temporarily defer awarding of medals, token cash, and holding of testimonial ceremony in year 2020, until the pandemic is over wherein mass gathering for commencement rites can be allowed by the government authorities.

r. Consumer Protection Practices

i. Role and Responsibility of the Board and Senior Management

The Board of Directors of the Bank is ultimately responsible for ensuring that consumer protection practices are embedded in the Bank's business operations. The Board and Senior Management are responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection programs.

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The Board is primarily responsible for approving and overseeing the implementation of the Bank's consumer protection policies as well as the mechanism to ensure compliance with said policies. While Senior Management is responsible for the implementation of the consumer protection policies approved by the Board, the latter shall be responsible for monitoring and overseeing the performance of Senior Management in managing the day to day consumer protection activities of the Bank.

ii. Consumer Protection Risk Management System of the Bank

As part of the Bank's consumer protection risk management system, the bank has put in place appropriate management controls and take reasonable steps to ensure that in handling complaints/requests, it identifies and remedies any recurring or systemic problems, and identifies weaknesses in the Bank's internal control procedures or process by:

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

iii. Consumer Assistance Management System

In order that financial consumers are provided with accessible, affordable, independent, fair, accountable, timely and efficient means for resolving complaints with their financial transactions. Bangko Mabuhay shall establish the Consumer Assistance Management System (CAMS) for complaint handling and redress. CAMS shall provide guidelines on receiving, recording, evaluating, resolving, monitoring, reporting and giving feedback to consumers.

The Consumer Assistance Group is responsible in handling consumer concerns. The said Group is composed of the Consumer Assistance Group Head, who is concurrently the Assistant General Manager; Consumer Help In-charge in the person of Department Heads and Branch Managers; and, the front-liner who is designated as Consumer Help Officer.

The Assistant General Manager heads the Consumer Assistance Group. Each Manager/Supervisor is in-charge of the Department's/Branch's/MBO's designated consumer help officer who handles consumer concerns. There are alternates for the in-charge and help officer of each team to ensure presence of consumer help officer during banking hours. Group Head is be responsible for the i) overseeing and evaluating the effectiveness of CAMS; and ii) reporting to the Board and Senior Management.

The Consumer Help In-Charge is responsible for handling complaint/request which is escalated by the Consumer Help Officer. On a daily basis, this officer shall review the register of consumer concern and reports the same to the Group Head. The complex complaint/request may further be escalated by the In-charge to the Group Head or Senior Management for proper disposition.

The Consumer Help Officer is a front-liner who: i) receives and acknowledges consumer concerns; ii) records concerns in a Register/database; iii) makes an initial review and investigation of concerns; iv) handles simple complaint/request or escalates complex complaint/request to the Consumer help-in-charge; and reports to the Unit Consumer Help In-Charge.

6. Corporate Information

a. Organizational structure

Name of Officer	Position
1. Edwin S. Fojas	President & General Manager
2. Imelda D. Montenegro	Assistant General Manager/ Comptroller
3. Ma. Criselda M. Fojas	Chief Legal Officer
4. Basil A. Perea	Compliance Officer
5. Airene G. Punzalan	Cashier
6. Marites T. Luis	Accounting Manager
7. Marites L. Monzon	Loan Documentation & Administrative Manager
8. Jasmin A. Riemedio	Credit Risk Manager
9. Ma. Concepcion P. Perea	Collection Manager
10. Jonathan I. Montesines	Information and Communication Technology Manager
11. Marilyn P. Alcasid	Loan Marketing and Microfinance Manager
12. Eileen P. Dones	Internal Audit Manager
13. Angelina B. Gabriel	Customer Service Manager
14. Julie Ann G. Jordan	Branch Manager - Mamburao
15. Agnes A. Vargas	Branch Manager - Molino
16. Myra P. Arcena	Branch Manager - Naic
17. Joel Trapago	Branch Manager - Indang
18. Joseph C. Dampitan	Branch Manager – Teresa
19. Jane Lindie T. Talavera	Branch Manager – Tanay
20. Ruel B. Andaya	Branch Manager – Mendez
21. James A. Molod	Branch Manager – Alfonso

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b. List of major stockholders (with 2% and up of stockholdings) of the bank, including nationality, percentage of stockholdings and voting status

Name of Stockholder	Nationality	Percentage of Ownership	Voting Status
Emmanuel P. Santos	Filipino	15.65%	Voting
Elena J. Malabanan	Filipino	8.66%	Voting
Raymundo A. Del Rosario	Filipino	8.35%	Voting
Heirs of Lily C. Fojas	Filipino	8.30%	Voting
Edwin S. Fojas	Filipino	5.48%	Voting
Myrna S. Fojas	Filipino	4.98%	Voting
Heirs of Raul J. Fojas	Spanish	4.79%	Voting
Heirs of Jovencio S. Fojas, Jr.	Filipino	4.69%	Voting
Macario S. Fojas	Filipino	4.69%	Voting
Leticia P. Santos	Filipino	4.25%	Voting
Cynia J. Fojas	Filipino	3.21%	Voting
Heirs of Romeo O. Ner	Filipino	2.80%	Voting
Sergio J. Fojas	Filipino	2.75%	Voting
Purificacion N. Garcia	Filipino	2.36%	Voting

c. List and description of products and services offered

The Bank's products and services are as follows:

Deposit	Regular savings, ATM savings, special savings, checking account, regular time deposit, long term non-negotiable time deposit
Loans	SME, microfinance, salary/consumption, housing, corporate loans
Remittance	Western Union, TransFast, G-Cash Remit, BDO Remit
Bills Payment	
Others	Utility bills, etc. (Bayad Center) SSS collecting and paying (pension) agent InstaPay – Receiving of Funds only

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d. Bank website and social media accounts

The Bank's website is at: www.bangkomabuhay.com.ph.

Facebook account is at: Bangko Mabuhay – A Rural Bank, Inc.

Instagram account is at: bangkomabuhayofficial

e. List of banking units as of December 31, 2020:

Bank Office	Location	Contact Numbers
1. Head Office	Bangko Mabuhay Building, A. Soriano Highway, Bgy. Daang Amaya III, Tanza, Cavite	(046) 489-20-01 to 04
2. Molino Branch	Bangko Mabuhay Building, Zapote-Paliparan Road, Bgy. Molino III, Bacoor City, Cavite	(046) -477-01-50; (046)-477-01-04
3. Indang Branch	Bangko Mabuhay Building, De Ocampo St., Poblacion, Indang, Cavite	(046)-415-07-93; (046)-862-10-65
4. Naic Branch	Bangko Mabuhay Building, P. Poblete St., Bgy. Gombalza, Naic, Cavite	(046)-412-05-98 (046)-412-06-51
5. Mamburao Branch	San Jose St., Bgy. 7, Mamburao, Occidental Mindoro	(043)711-19-56 (0922)-878-58-55
6. Teresa Branch	No. 56 Pres. M.L. Quezon St., Poblacion, Teresa, Rizal	(02)-650-31-21
7. Tanay Branch	Near Tanay Public Market, SitioPasipit, Bgy. Plaza Aldea, Tanay, Rizal	(02)-635-74-58 (02)-213-34-64
8. Mendez Branch	No. 145 J.P. Rizal St., Poblacion, Mendez, Cavite	(046)-413-01-64 (046)-413-02-51
9. Alfonso Branch	Bgy. Luksuhinlbaba, Alfonso, Cavite	(046)-404-57-75
10. Dasmariñas Branchlite	Camerino Avenue corner San Juan St., Bgry. Zone 1, Dasmariñas City, Cavite	(046)-424-12-68 (046)-432-03-24
11. Manggahan Branchlite	No. 36 Grepps Building, CM Delos Reyes St., Bgy. Manggahan, Gen.	(046)-509-50-23

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2020

	Trias City, Cavite	
12. Silang Branchlite	Josephine Village, Bgy. Lucsuhin, Silang, Cavite	(046)-409-33-85

7. Information on sustainability finance as required under Section 153 of the Manual of Regulations for Banks (MORB).

a. Overview of Environmental and Social (E&S) risk management system

The Bank is cognizant that climate change and other environmental and social risks could pose financial concerns considering their significant and protracted implications on the Bank's operations and financial interest. Therefore, the Board and Senior Management are committed to embed sustainability principles in the Bank's governance framework, risk management system, business strategy and operations.

Toward this end, the Bank shall promote a culture that fosters environmentally and socially responsible business decisions and build its team's internal capacity and awareness of climate risks on how to assess and manage the same, integrate this process into existing risk management system. Managing climate-related physical risks contributes to the reduction of credit risk on the Bank's loan portfolio.

b. Breakdown of E&S Risk Exposures of the Bank per Sector

The Bank caters to agricultural sector, housing sector and the micro, small and medium enterprises (MSMEs). These are also the same sector which are exposed or vulnerable to physical risks/ or E&S risk. Hereunder is the breakdown of E&S risk exposures of the Bank per sector, as of December 31:

E&S Risk Exposures per Sector as of December 31, 2020				
Loan Product	Current	Past Due	Non-Performing	Total
Agra-agri credit				
a. Agrarian reform loans	₱	₱	₱ 213,370	₱ 213,370
b. Other agri credits	6,956,689	136,832	10,993,200	18,086,720
Microfinance	27,402,822		14,209,407	41,612,229
SME Loans				
a. Small enterprise	71,856,445	23,560,391	49,623,492	145,040,328
b. Medium enterprise	32,869,362	27,091,927	31,269,699	91,230,988
Loans for housing purpose	24,972,385	8,450,492	17,742,290	51,165,167
Total	₱ 164,057,703	₱ 59,239,642	₱ 124,051,459	₱ 347,348,803

BANGKO MABUHAY (A RURAL BANK), INC.
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E&S Risk Exposures per Sector as of December 31, 2019				
Loan Product	Current	Past Due	Non-Performing	Total
Agra-agri credit				
a. Agrarian reform loans ₱	- ₱	- ₱	213,370 ₱	213,370
b. Other agri credits	8,663,688	2,115,928	6,437,635	17,217,251
Microfinance	43,802,302	-	4,704,962	48,507,264
SME Loans				
a. Small enterprise	168,672,397	23,859,001	31,901,606	224,433,004
b. Medium enterprise	73,388,558	-	19,173,462	92,562,020
Loans for housing purpose	47,879,407	943,689	10,382,420	59,205,516
Total	₱ 342,406,352	₱ 26,918,618	₱ 72,813,455	₱ 442,138,425

c. Information on Existing and Emerging E&S risks and their impact on the Bank

The Bank's operates in the Region 4-A, in Provinces of Cavite and Rizal; and in Region 4-B, in the Province of Occidental Mindoro. The Bank recognizes that the climate change as existing and emerging E&S risks and its potential impact on the Bank is immense. These impacts include major changes in rainfall patterns and distributions, threats to the natural ecosystems, declining rice yields, increasing intense droughts, risk sea level, and water scarcity, among others. Aside from climate change, environmental risks include eruption of Taal volcano in January, 2020, resulting into disruption of Branch operation in upland part of Cavite.

Understanding and deepening our knowledge level on physical risks will enable the Bank to finance agricultural, housing and MSME sectors on a sustainable manner. Physical risk refers to the potential loss or damage to tangible assets arising from climate change and/or other weather-related condition.

d. Initiatives to Promote Adherence to Internationally-recognized Sustainability Standards and Practices

The Board and Senior Management shall strive to promote adherence to internationally-recognized sustainability standards and practices by:

- Enhancing the understanding and technical skills of Bank personnel on sustainability finance through capacity building;
- Monitoring the Bank's progress in attaining sustainability objectives; and
- Ensuring operation and personnel performance are consistent with the objectives

BANGKO MABUHAY (A RURAL BANK), INC.
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Statement of Management's Responsibility for Financial Statements

The management of Bangko Mabuhay (A Rural Bank), Inc. is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2020 and 2019 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

UHY M.L. Aguirre & Co. and Daroya & Co., CPAs, the independent auditors appointed by the stockholders for the years ended, December 31, 2020 and 2019, respectively, have audited the financial statements of the company in accordance with the Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.


MISAEAL P. SANTOS
Chairman


EDWIN S. FOJAS
President & General Manager


JOSELITO C. FOJAS
Treasurer

Signed this 3rd day of May, 2021.

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2020



INDEPENDENT AUDITOR'S REPORT

1806 Cityland
Pasong Tamo Tower
2210 Chino Roces Ave.
Makati City
Metro Manila, 1231
Philippines

Phone +63 2 8555 0834
Email ask@mlaguirre.org
Web www.mlaguirre.org

Stockholders and Board of Directors
BANGKO MABUHAY (A RURAL BANK), INC.
A. Soriano Highway, Brgy. Daang Amaya III, Tanza Cavite

Opinion

We have audited the financial statements of **BANGKO MABUHAY (A RURAL BANK), INC.** (the "Bank"), which comprise the statement of financial position as of December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statement, including a summary of significant accounting policies.

In our opinion, the financial statement presents fairly, in all material respects, the financial position of **BANGKO MABUHAY (A RURAL BANK), INC.** as of December 31, 2020, and its financial performance and cash flow for the year then ended in accordance with Philippine Financial Reporting Standards – (PFRS).

Basis for Opinion

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

Other Matter

The financial statements of the Bank for the year ended December 31, 2019, were audited by another auditor who expressed an unmodified opinion on those statements on May 18, 2020.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards – (PFRS) and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

BANGKO MABUHAY (A RURAL BANK), INC.
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Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Further descriptions of the auditor's responsibilities for the audit of the financial statements are indicated in the Appendix I of this auditor's report.

Report on the Supplementary Information Required Under Revenue Regulations and BSP Circular 1074

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010, Revenue Regulations 34-2020 and BSP Circular 1074 to the financial statements are presented for purposes of filing with Bureau of Internal Revenue and the Bangko Sentral ng Pilipinas, respectively, and are not a required part of the basic financial statements. Such information is the responsibility of the Management of **BANGKO MABUHAY (A RURAL BANK), INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

UHY M.L. AGUIRRE & CO., CPAs

Tax Identification No. 006-533-775
BOA Accreditation No. 4511
January 11, 2018 valid until May 14, 2021
BIR Accreditation No.08-005582-000-2018
September 18, 2018 valid until September 17, 2021
BSP Accredited
Valid for Financial Audit Report For the Years 2019,
2020, 2021, 2022 and 2023
SEC Group B Accreditation No. 0373-F
December 18, 2018 valid until December 17, 2021
NEA Accreditation No. 2020-12-00069
December 11, 2020 valid until December 10, 2023
IC Accreditation No. F-2018-007-R
May 29, 2018 valid until May 28, 2021

By: 

MICHAEL L. AGUIRRE

Partner
CPA Certificate No. 097376
PRC ID Expiry Date September 11, 2021
BOA Accreditation No. 4511
January 11, 2018 valid until May 14, 2021
BSP Accredited
Valid for Financial Audit Report For the Years 2019,
2020, 2021, 2022 and 2023
SEC Group B Accreditation No. 1730-A
December 18, 2018 valid until December 17, 2021
Tax Identification No. 182-084-772
BIR Accreditation No. 08-005582-001-2018
September 18, 2018, valid until September 17, 2021
IC Accreditation No. SP-2018-016-R
May 29, 2018 valid until May 28, 2021
PTR No. 8555624
Issued on January 16, 2021
Makati City

April 24, 2021
Makati City, Philippines

BANGKO MABUHAY (A RURAL BANK), INC.
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APPENDIX I

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

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

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

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2020

BANGKO MABUHAY (RURAL BANK), INC.
STATEMENT OF FINANCIAL POSITION

December 31 ,2020
(With Comparative Figures for 2019)
(in Philippine Peso)

	Notes	2020	2019
ASSETS			
Cash and other cash items	9	26,855,937	24,003,809
Due from Bangko Sentral ng Pilipinas	10	35,156,458	51,784,358
Due from other banks	11	474,958,837	820,385,387
Financial assets at amortized cost	12	836,702,971	499,957,564
Loans and receivables - net	13	389,872,042	485,908,112
Bank Premises, Furniture, Fixtures and Equipment-net	14	43,604,136	44,900,208
Right-of-use asset-net	16	1,487,564	-
Investment Properties - net	16	115,683,717	98,684,899
Deferred tax assets - net	31	9,626,931	6,667,934
Other Assets - net	17	43,578,772	40,885,553
TOTAL ASSETS		1,977,527,365	2,073,177,824
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	18	1,612,569,119	1,712,458,117
Bills payable	19	15,000,000	10,000,000
Income tax payable	31	797,359	219,516
Lease liabilities	20	1,791,115	-
Retirement liabilities - net	28	2,816,549	1,540,175
Other liabilities	21	24,615,417	28,117,087
TOTAL LIABILITIES		1,657,589,559	1,752,334,895
STOCKHOLDER'S EQUITY			
Capital stock	22	188,879,800	188,879,800
Additional Paid-in Capital	22	26,811,831	26,811,831
Remeasurement losses on retirement liabilities	28	(1,695,025)	-
Surplus free	22	105,941,200	105,151,298
NET STOCKHOLDERS' EQUITY		319,937,806	320,842,929
TOTAL LIABILITIES AND EQUITY		1,977,527,365	2,073,177,824

See Accompanying Notes to the Financial Statements

BANGKO MABUHAY (A RURAL BANK), INC.
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BANGKO MABUHAY (RURAL BANK), INC.
STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended December 31 ,2020

(With Comparative Figures for 2019)

(in Philippine Peso)

	Notes	2020	2019
INTEREST INCOME			
Loans and receivables	24	82,894,077	108,448,022
Due from other banks	24	5,771,358	12,307,312
Financial assets at amortized cost	24	18,919,678	21,255,084
		107,585,113	142,010,418
INTEREST AND FINANCE CHARGES			
Deposit liabilities	25	10,686,926	10,846,129
Bills Payable	25	11,089	35,944
Lease liabilities	25	154,311	-
		10,852,326	10,882,073
NET INTEREST INCOME		96,732,787	131,128,345
Provision for credit and impairment losses	23	345,621	7,524,025
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		96,387,166	123,604,320
OTHER INCOME			
Service charges and commissions	26	14,539,426	21,674,833
Gain from sale of non-financial assets	26	9,104,139	22,210,593
Recovery on charge-off assets	26	95,891	133,569
Miscellaneous income	26	4,511,423	4,156,738
		28,250,879	48,175,733
TOTAL OPERATING INCOME		124,638,045	171,780,053
OPERATING EXPENSES	27	114,933,929	139,673,335
PROFIT BEFORE INCOME TAX		9,704,116	32,106,718
PROVISION FOR (BENEFIT FROM) INCOME TAX		(1,364,161)	4,102,497
PROFIT		11,068,277	28,004,221
OTHER COMPREHENSIVE INCOME		-	-
NET INCOME		11,068,277	28,004,221

See Accompanying Notes to the Financial Statements

BANGKO MABUHAY (A RURAL BANK), INC.
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BANGKO MABUHAY (RURAL BANK), INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Year Ended December 31 ,2020

(With Comparative Figures for 2019)

(in Philippine Peso)

	Notes	Capital Stock	Additional Paid-in Capital	Surplus Free	Remeasurement losses on retirement liabilities	Total
Balance at January 1, 2019	22	188,879,800	26,811,831	77,147,077	-	292,838,708
Total comprehensive income				28,004,221	-	28,004,221
Balance at December 31, 2019		188,879,800	26,811,831	105,151,298	-	320,842,929
Application of PFRS 16	35	-	-	(267,745)	-	(267,745)
Application of PAS 19	35	-	-	-	(1,695,025)	(1,695,025)
Dividends declared	22	-	-	(10,010,630)	-	(10,010,630)
Total comprehensive income		-	-	11,068,277	-	11,068,277
Balance at December 31, 2020		188,879,800	26,811,831	105,941,200	(1,695,025)	319,937,806

See Accompanying Notes to the Financial Statements

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2020

BANGKO MABUHAY (RURAL BANK), INC.
STATEMENT OF CASH FLOWS

For the Year Ended December 31 ,2020
 (With Comparative Figures for 2019)
 (in Philippine Peso)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		9,704,116	32,106,718
Adjustments for:			
Interest Income	11,12,13	(107,585,113)	(142,010,418)
Depreciation and amortization	30	13,313,348	11,316,710
Interest expense	25	10,852,326	10,882,073
Gain on sale of non-financial assets	26	(9,104,139)	(22,210,593)
Retirement benefit expense	26	1,121,524	-
Provision for credit and impairment losses	23	345,621	7,524,025
Operating cash flows before working capital changes		(81,352,317)	(102,391,485)
Changes in operating assets and liabilities			
Decrease (increase) in:			
Loans and receivables		91,369,612	20,179,286
Other assets		(2,693,218)	(7,458,724)
Increase (decrease) in:			
Deposit liabilities		(99,735,429)	191,301,831
Other liabilities		(5,041,846)	1,946,862
Net cash generated from (used in) operations		(97,453,198)	103,577,770
Interest received		110,655,566	139,804,364
Interest paid		(11,005,895)	(10,416,582)
Income tax paid		(1,016,992)	(4,784,531)
Net cash generated from operations		1,179,481	228,181,021
CASH FLOWS FROM INVESTING ACTIVITIES			
Additional financial assets at amortized cost		(336,745,407)	(62,408,216)
Additional investment properties	15	(24,619,718)	(19,406,576)
Net proceeds from sale of investment properties		12,438,354	27,163,350
Acquisition of bank premises, furniture, fixtures, & equipment	14	(5,842,666)	(4,531,053)
Net cash used in investing activities		(354,769,437)	(59,182,495)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	22	(10,010,630)	
Net proceeds from (payment of) bills payable	19	5,000,000	(15,000,000)
Payment of lease liabilities	20	(601,736)	
Net cash used in financing activities		(5,612,366)	(15,000,000)
NET INCREASE (DECREASE) IN CASH		(359,202,322)	153,998,526
CASH AT BEGINNING OF YEAR		896,173,554	742,175,028
CASH AT END OF YEAR		536,971,232	896,173,554

(See Accompanying Notes to Financial Statements)

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2020

BANGKO MABUHAY (RURAL BANK), INC.
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

(With Comparative Figures for 2019)

(in Philippine Pesos)

1. CORPORATE INFORMATION

Bangko Mabuhay (A Rural Bank), Inc. was incorporated in the Philippines on January 21, 2015 through the consolidation of Rural Bank of Tanza (Cavite), Inc. and Rural Bank of Teresa (Rizal), Inc. The consolidation was approved by the Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC) under the Strengthening Program for Rural Banks (SPRB) pursuant to Republic Act (RA) No. 7353 and the Monetary Board Resolution No. 1541 dated September 19, 2013. The consolidated bank was incorporated and registered with Securities and Exchange Commission (SEC) under Registration Number CS201500594. On March 23, 2015, the BSP granted the Bank the Certificate of Authority to engage in the business of rural banking which commenced the operation on April 1, 2015.

The Bank's Head Office is located at A. Soriano Highway, Bgy. Daang Amaya III, Tanza Cavite (which is also its principal and registered address). The Bank operates in the Philippines, particularly in the Provinces of Cavite, Rizal and Occidental Mindoro and, as of December 31, 2020 and 2019, it has 8 branches and 3 branch-lite units. A branch-lite unit under BSP regulations refers to any permanent office of the Bank that is other than its head office or a branch. The said branch-lite units perform limited banking activities (such as microfinance, micro-deposit, bills payment and remittance services) and record its transactions in the books of the head office or the branch to which these units are annexed. The branches' and branch-lite units' addresses as of reporting dates are as follows:

No.	Name of Branch/ Branch-lite Unit	Address
1	Molino Branch	Bangko Mabuhay Building, Zapote-Paliparan Road, Bgy. Molino III, Bacoor City, Cavite
2	Indang Branch	Bangko Mabuhay Building, De Ocampo St., Poblacion, Indang, Cavite
3	Naic Branch	Bangko Mabuhay Building, P. Poblete St., corner Balong Pari St., Poblacion, Naic, Cavite
4	Mamburao Branch	San Jose St., Bgy. Poblacion 7, Mamburao, Occidental Mindoro
5	Teresa Branch	No. 56 Pres. M.L. Quezon St., Poblacion, Teresa, Rizal
6	Tanay Branch	Near Tanay Public Market, Sitio Pasipit, Bgy. Plaza Aldea, Tanay, Rizal
7	Mendez Branch	No. 145 J. P. Rizal St., Poblacion, Mendez, Cavite
8	Alfonso Branch	Bgy. Luksuhin-Ibaba, Alfonso, Cavite
9	Dasmariñas Branch-lite	Camerino Avenue corner San Juan St., Bgy. Zone 1, Dasmariñas City, Cavite
10	Manggahan Branch-lite	No. 36 Greps Building, C.M. Delos Reyes St., Bgy. Manggahan, Gen. Trias City, Cavite
11	Silang Branch-lite	Josephine Village, Bgy. Lucsuhin, Silang, Cavite

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2020

The Bank files, pays and remits its tax obligations to Bureau of Internal Revenue District Office No. 54B situated at Kawit, West Cavite under TIN 008-937-347-000.

The corporate term of the Bank is perpetual, unless otherwise stated, pursuant to Article 11 of the Revised Corporation Code of the Philippines which took effect on February 23, 2019.

The Board of Directors (BOD) of the Bank has reviewed and approved the release of accompanying financial statements for the year ended December 31, 2020 (including comparative figures for December 31, 2019) on April 24, 2021.

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and interpretations issued by the International Financial Reporting Interpretations Committee (FRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except where a Financial Reporting Standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements.

Presentation and Functional Currency

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

The Bank chose to present its financial statements using its functional currency.

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 7.

Income and expenses are not offset in the statement of comprehensive 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 includes 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 BSP which the Bank considers as cash as withdrawals can be made to meet the Bank’s cash requirements as allowed by the BSP.

Use of Judgments and Estimates

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

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

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

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2020

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

Going Concern Assumption

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

3. ADOPTION OF NEW AND REVISED REPORTING STANDARDS

Changes in Accounting Policies and Disclosures

The Bank adopted all accounting standards and interpretations as at December 31, 2020 and 2019. The accounting policies adopted are consistent with those of the previous financial year, except for new and revised accounting standards adopted by the Bank starting January 1, 2020. Adoption of these standards did not have any significant impact on the Bank's financial position or performance unless otherwise indicated. These new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and approved by the FRSC in the Philippines, and assessed to be applicable to the Bank's financial statements, are as follows:

NEW AND REVISED ACCOUNTING STANDARDS

New and Revised PFRSs effective for annual period beginning on or after January 1, 2020

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

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The adoption of this amendment to standard does not have a significant impact on the Bank's financial statements.

- **Amendments to PFRS 7, Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform**

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

The adoption of this amendment to standard does not have a significant impact on the Bank's financial statements as the Bank has no hedging relationships.

- **Amendments to PFRS 3, Definition of a Business**

The amendment is issued to improve the definition of a business which will help companies determine whether an acquisition made is of a business or a group of assets.

The amendments clarified the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements or integrating the acquired activities and assets, provides extensive guidance on what is meant by a 'substantive process', narrows the definition of 'outputs' and a 'business' to focus on returns from selling goods and services to customers, rather than on cost reductions, and introduces an optional 'concentration test' as a short-cut way of concluding that certain types of acquisitions are not business combinations.

The adoption of this amendment to standard does not have a significant impact on the Bank's financial statements as the Bank did not enter into business combination both as an acquirer and acquiree during the year.

- **Conceptual Framework for Financial Reporting issued on March 29, 2018**

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts of requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- **Amendments to PFRS 16, COVID-19-related Rent Concessions**

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19-related concessions in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The adoption of this amendment to standard does not have a significant impact on the Bank's financial statements as the Bank has no material COVID-19-related rent concessions.

- **First-Time Adoption of PFRS-16 Leases**

PFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance, and cash flows of an entity.

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An entity shall consider the terms and conditions of contracts and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.

Lessee Accounting

PFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with at term or more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-to-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Recognition

A lessee measures right-to-use assets similarly to other non-financial assets (such as property, plant, and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognizes depreciation of the right-to-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying (PAS 7) Statement of Cash Flows.

Initial Measurement

Right-of-use Asset

The right-of-use asset shall be measured initially at cost. The cost shall be composed of:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

A lessee shall recognize the costs on dismantling and removing the underlying asset as part of the cost of the right-of-use asset when it incurs an obligation for those costs. A lessee applies PAS 2 Inventories to costs that are incurred during a particular period as consequence of having used the right-of-use asset to produce inventories during that period. The obligations for such costs accounted for, applying this Standard or PAS 2, are recognized and measured applying PAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Lease Liability

The lease liability shall be measured at the present value of the lease payments that are not paid at the commencement dates. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

The lease payments that are not paid at the commencement date include:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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Subsequent Measurement

Right-of-use Asset

The right-of-use asset shall be measured subsequently at cost:

- (a) less any accumulated depreciation and any accumulated impairment losses; and
- (b) adjusted for any re-measurement of the lease liability.

Lease Liability

The lease liability shall be measured subsequently by:

- (a) increasing the carrying amount to reflect interest on the lease liability;
- (b) reducing the carrying amount to reflect the lease payments made; and
- (c) re-measuring the carrying amount to reflect any reassessment or lease modifications; or to reflect revised in-substance fixed lease payments.

Disclosures

The lessee is required to disclose information in the notes that, together with the information provided in the statement of financial position, statement of comprehensive income and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.

The Bank applied the modified retrospective approach upon adoption of PFRS 16 on January 1, 2019 and applied the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4, Determining whether an Arrangement contains a Lease. The Bank, therefore, did not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC 4.

The Bank elected to use the exemptions provided by the standard on lease contracts for which the lease terms end within 12 months as at the date of initial application, and lease contracts for which the underlying asset is of low value. The Bank's cash flows from operating activities have increased and cash flows from financing cash flows decreased as repayment of the principal portion of the lease liabilities were classified as cash flows from financing activities. In addition, the Bank's total assets and total liabilities have increased due to the recognition of right-of-use asset and lease liability. The accounting for operating leases where the Bank act as the lessee will significantly change due to the adoption of PFRS 16.

The effect of adoption of PFRS 16 as at January 1, 2020 is as follows:

	Increase (Decrease)
Asset	
Right-of-use asset - net	₱ 1,487,564
Liability	
Lease liabilities	₱ 1,791,115
Net impact on equity	
Surplus Free	₱ (267,746)

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Set out below are the amounts by which each financial statement line item is affected for the year ended December 31, 2020 as a result of the adoption of PFRS 16. The first column shows amounts prepared under PFRS 16 and the second column shows that the amounts would have been had PFRS 16 not been adopted. Statement of comprehensive income for the year ended December 31, 2020.

	PFRS 16	PAS 17	Increase (Decrease)
Costs and expenses:			
Rent	₱ 207,653	₱ 963,701	₱ (756,048)
Depreciation	13,313,349	12,675,805	637,544
Finance Cost	10,852,326	10,698,015	154,311
Net impact on profit for the year	₱ 24,373,328	₱ 24,337,521	₱ 35,807

Statement of financial position as of December 31, 2020:

	PFRS 16	PAS 17	Increase (Decrease)
Asset			
Right-of-use assets - net	1,487,564	-	1,487,564
TOTAL ASSETS	₱ 1,487,564	₱ -	₱ 1,487,564
Liabilities			
Lease liabilities	1,791,115	-	1,791,115
TOTAL LIABILITIES	₱ 1,791,115	₱ -	₱ 1,791,115
Net impact on equity			
Surplus Free	₱ 105,941,200	₱ 106,173,139	₱ (231,939)

Upon adoption of PFRS 16, the Bank applied a single recognition and measurement approach for all leases, except for short-term leases and leases of 'low-value' assets. The standard provides specific transition requirements and practical expedients, which the Bank had applied.

Leases previously accounted for as operating leases

The Bank recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of 'low-value' assets. The right-of-use assets were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rates at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein the Bank:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- Elected not to separate non-lease components from lease components and accounted them as single lease component.

New and Revised PFRSs in Issue but Not Yet Effective

Effective beginning on or after January 1, 2021

- **Amendments to PFRS 3, PFRS 7, PFRS 4 and PFRS 16, Interest Rate Benchmark Reform – Phase 2**

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

- Practical expedient for changes in the basis for determining the contractual cash flow as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Bank shall also disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages from risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Bank is not required to restate prior periods.

The Bank is currently examining the impact of adopting these amendments in its financial reporting.

Effective beginning on or after January 1, 2022

- **Amendments to PFRS 3, Reference to the Conceptual Framework**

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

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

The Bank is currently examining the impact of adopting these amendments to PFRS 3 in its financial reporting.

- **Amendments to PAS 16, Plant and Equipment: Proceeds before Intended Use**

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

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The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The Bank is currently examining the impact of adopting these amendments to PAS 16 in its financial reporting.

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Bank is currently examining the impact of adopting these amendments to PAS 37 in its financial reporting.

- **Annual Improvements to PFRSs 2018-2020 Cycle**

- **Amendments to PFRS 1, First-time Adoption of Philippine Financial Reporting Standards, Subsidiary as a first-time adopter**

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent based on the parent’s date of transition of PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Bank.

- **Amendments to PFRS 9, Financial Instruments, Fees in the ‘10 percent’ test for derecognition of financial liabilities**

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Bank’s financial statements.

- **Amendments to PAS 41, Agriculture, Taxation in fair value measurements**

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

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Bank's financial statements.

- **Amendments to PFRS 16, Lease Incentives**

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted.

The Bank is currently examining the impact of adopting these amendments to PFRS 16 in its financial reporting.

Effective beginning on or after January 1, 2023

- **Amendments to PAS 1, Classification of Liabilities as Current or Non-current**

The amendments clarify paragraphs 69 to 76 of PAS 1, Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

The amendments are effective for annual reporting period beginning on or after January 1, 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- **PFRS 17, Insurance Contracts**

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies. PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

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- A specific adaption for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PRFS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

The Bank is currently examining the impact of adopting PFRS 17 in its financial reporting.

- **Deferred effectivity**

Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interest in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Bank is currently assessing the impact of adopting PFRS 10 and PAS 28 in its financial reporting.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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.

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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 and measurement of financial assets

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative 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, Fair Value Through Other Comprehensive Income (FVTOCI), and Fair Value Through Profit or Loss (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.

Solely Payments of Principal and Interest (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 comprehensive income. Gains and losses are recognized in the statement of comprehensive 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 comprehensive 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 comprehensive income.

The Bank classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Loans and receivables', 'Financial assets at amortized cost', and certain financial assets under 'Other assets' as financial assets at amortized cost.

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.

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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 Bank 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 effective interest rate (EIR).

This accounting policy relates to the statement of financial position captions 'Deposit liabilities', 'Bills payable', and certain financial liabilities 'Other liabilities' which are not designated at FVTPL.

Cash and other cash items

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Cash and other cash items include cash on hand and in vault and checks and other cash items. Other cash items 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 BangkoSentral 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.

Investment Securities at Amortized Cost

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 FVTPL; or
- (b) those that the Bank designates as financial assets designated at FVTOCI.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted 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 loan. 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 comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Specific and general loan loss provision are 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 qualitatively 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 are 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

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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 is 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:

For unsecured loans and other credit exposures			
No. of days unpaid/with missed payment	Classification	Minimum Allowance for Credit Losses (ACL)	Stage
31-90 days	Substandard (underperforming)	10%	2
91-120 days	Substandard (non-performing)	25%	3
121-180 days	Doubtful	50%	3
181 days and over	Loss	100%	5
For secured loans and other credit exposures			
No. of days unpaid/with missed payment	Classification	Minimum ECL	Stage
31-90 days*	Substandard (underperforming)	10%	2
91-180 days*	Substandard (non-performing)	10%	3
181-365 days	Substandard (non-performing)	25%	3
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3
* When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%			

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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 Section 143 of MORB shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard-secured	10%	2 or 3*
Substandard-unsecured	25%	2 or 3*
Doubtful	50%	3
Loss	100%	3

* 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 small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other loan types which fall below the FI's materiality threshold for individual assessment.)

For unsecured loans and other credit exposures			
No. of days unpaid/with missed payment*	Classification	Minimum ECL	Stage
1 - 30 days	Especially Mentioned	2%	2
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

* Portfolio at risk (PAR) for microfinance loans
x Thestage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).
Section 304 (MORB) 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
361 days - 5 years	Loss	100%	50%	3
Over 5 years	Loss	100%	100%	3

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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 the statement of comprehensive income. 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 Surplus-Free account (Bank shall use Surplus Reserve - others as temporary account of Surplus- General Provision). GP recognized in statement of comprehensive income as allowance for credit losses for Stage 1 accounts and the amount appropriated in Surplus-Free shall be considered as Tier 2 capital subject to the limit provided under the Capital Adequacy Ratio (CAR) framework.

Treatment of Relief Measures for the purpose of determining Estimated Credit Losses (ECL)

Under Republic Act (R.A.) No. 11469, otherwise known as the “Bayanihan to Heal as One Act” and its Implementing Rules and Regulations (IRR), all BSP-Supervised Financial Institutions (BSFIs) are mandated to grant a 30-day grace period to loan payments falling due within the Enhanced Community Quarantine(ECQ)/Modified Enhanced Community Quarantine (MECQ) period wherein lockdown situation is implemented to control spread of COVID-19. In addition, RA No. 11494, also known as “Bayanihan to Recover as One Act”, requires all BSFIs to implement a one-time 60-day grace period for all existing, current and outstanding loans with principal and/or interest, including amortization falling due from September 15, 2020 until December 31, 2020, without incurring any interest on interest, penalties, fees and other charges.

According to BSP Memorandum No. M-2020-061, since the said provision of the law is mandatory, the application of the grace period should not be considered as an indicator of significant increase in credit risk and should not trigger the migration of the loan accounts to Stage 2 and Stage 3 provisioning. In the same vein, BSFIs are expected to exclude the mandatory grace period in the count of the number of days of missed payment of the loan. The Bank applied this rule in computing for the ECL.

Sales Contract Receivables (SCR)

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 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 statement of comprehensive income at the date of sale in accordance with the provisions of PAS 15. This account is presented as part of "Loans and Receivable" account in the statement of financial position.

Unamortized interest and discounts

Interest and charges on non-supervised loans collected in advance is amortized to income over the term of the loans. Normally, the account is presented as contra-account of loans and receivables.

Bank premises, furniture, fixtures and equipment

Properties and equipment are initially measured at cost less any subsequent accumulated depreciation and amortization. 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 is incurred.

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

<u>Classification</u>	<u>Estimated Useful life</u>
Bank premises- buildings and improvements	20 years
Office equipment	2 - 5 years
Furniture and fixtures	2 - 5 years
Transportation equipment	5 - 8 years
Information and technology equipment	2 -5 years
Leasehold improvements	Lease term but not to exceed 5 years

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 statement of comprehensive income.

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 ₱5 million, the appraisal of the foreclosed/ purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the statement of income in the year of retirement or disposal. Expenditures incurred after its acquisition such as repairs and maintenance cost are normally charged to operations in the year in which the costs are incurred. The buildings classified as investment properties are depreciated over the remaining useful life which shall not exceed ten (10) years. Land is not depreciated and is carried at cost less accumulated impairment losses.

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Other Assets

Other assets are recognized at cost. The account includes prepaid expenses, deferred income taxes, 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 are subsequently measured at cost less amortization and impairment loss.

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 Land Bank of the Philippines 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, accrued taxes and other expenses and other payables.

Capital Stock

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.

Additional paid-in capital

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of tax. The additional paid-in capital account is recorded on the Bank's statement of financial position as part of equity and cannot be returned to shareholders as dividends.

Surplus Free

Surplus free includes all current and prior period results as disclosed in the statement of comprehensive income and not restricted for use by the Bank.

Revenue Recognition

Revenue is recognized to depict the transfer of promised services to customers in an amount that reflects the consideration which the Bank expects to be entitled to in exchange for those goods or services. PFRS 15 prescribes a five-step model to be followed in the recognition of revenue, wherein the Bank takes into consideration

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the performance obligations which it needs to perform in the agreements the Bank has entered into with its customers. Revenue is measured by allocating the transaction price, which includes variable considerations, to each performance obligation on a relative stand-alone selling price basis, taking into account contractually defined terms of payment and excluding value-added tax or (VAT), where applicable. Transaction prices are based on third-party pricing, arm's length pricing and cost-plus arrangement, as applicable. These are further adjusted by inputting the related time value of money on contract assets with more than one year of amortization.

When determining the Bank's performance obligations, the Bank assesses its revenue arrangements against specific criteria to determine if the Bank is acting as principal or agent. The Bank considers both the legal form and the substance of its agreement, to determine each party's respective roles in the agreement. The Bank is acting as a principal when it has control over the respective services before the Bank renders those. When the Bank's role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

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

- Interest Income is recognized as the interest accrues (taking into account the effective yield on the asset).
- Service charges and commissions are recognized on an accrual basis, when the service has been provided, unless collectibility is in doubt.
- Gain on sale of acquired assets is recognized if transactions indicate that the full ownership is transferred to the acquiree.
- Miscellaneous income comprise of processing fees, banking fees and insurance. These are recognized on an accrual basis when the service has been provided, unless collectibility is in doubt.

Cost and Expenses Recognition

An expense is recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest Expense

Interest expense for all interest bearing financial liabilities is recognized in 'interest expense' in the statements of comprehensive income using the EIR of the financial liabilities to which they relate to.

Leases

- Right-of-use assets

The bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless it is reasonably certain that the Bank obtains ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis, over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

- Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating a lease, if the lease term reflects exercising the option to terminate. The variable lease payments that do not depend

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on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- **Short-term leases and leases of low-value assets**

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Bank also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

- **Significant judgment in determining the lease term of contracts with renewal options**

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has the option, under some of its leases to lease the assets for additional terms of three to five years. The Bank applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases.

Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income.

Employee Benefits

Post-employment Benefits

The liability or asset recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of comprehensive income.

Remeasurement gains or losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in stockholder's equity and in the statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

Short-term Benefits

The Bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages,

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social security contributions, short-term compensated absences, profit sharing and bonuses, and non-monetary benefits.

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 comprehensive 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 comprehensive 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 other comprehensive income (OCI) in the period in which they arise. Remeasurements are not reclassified to the statement of comprehensive 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.

Actuarial valuation of the Bank's retirement fund is made every three years to determine the current service cost and past service liability of the Bank. The last actuarial valuation report obtained from an independent actuary was as of December 31, 2020. Based on the funding valuation as of December 31, 2020, past service liability of ₱24,677,341 exceeds the fund balance of ₱ 18,439,844, there is an unfunded liability amounting to ₱6,237,497 as of December 31, 2020. The current service cost for the plan year beginning January 1, 2021 is ₱2,914,965 (or 8.63% of annual payroll).

The Plan utilizes actuarial assumptions by using factors, such as; employee turn-over rates, future mortality rates and discount rate based on reference rate being used by the government, among others. The fund is managed by

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the trust department of a universal bank. Additional funding is done on an annual basis. As of December 31, 2020 and 2019, the fair values of the plan assets are ₱18,439,844 and ₱17,291,902, respectively.

Current service costs amounting to ₱1,121,524 in 2020 and ₱1,540,175 in 2019 are presented as contribution to retirement benefit expense under salaries and other benefits in the statements of comprehensive income (see Note 28)

Movements in the fair value of plan assets for the years 2020 and 2019 are presented below.

	2020	2019
Balance at beginning of year	₱ 17,291,902	₱ 14,924,931
Contributions to the Plan	1,540,175	1,424,867
Realized and unrealized earnings on plan assets	393,644	1,226,846
Benefits paid	(785,877)	(284,742)
Total	₱ 18,439,844	₱ 17,291,902

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.

Related Party Relationships and Transactions

Related party transactions are transfer of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and close members of the family of any such individual; and, (d) the Bank's retirement fund.

In considering each possible related party relationships, attention is directed to the substance of the relationship and not merely on the legal form.

Basic Earnings per Share and Book Value 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. Book value per share is computed by dividing total equity less any preferred shares over outstanding common shares at reporting date.

Taxation

Current Tax

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 statements of financial position date.

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Deferred Income Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences, carry-forward of unused tax credits from excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carry-over (NOLCO), to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized.

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

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

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

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

Provisions

Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

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

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.

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Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in statement of comprehensive income in the period in which they are incurred.

Foreign Currency Transactions and Translation

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency, i.e. foreign currencies, are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange difference are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences arising on non-monetary assets and liabilities where the gains and losses of such non-monetary items are recognized directly in equity; and
- Exchange difference on transactions entered into in order to hedge certain foreign currency risks.

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 is reflected in the financial statements. Events that are not adjusting events are disclosed in the notes to the financial statements when material.

Prior Period Adjustment

The Bank corrects material prior period errors retrospectively in the first set of financial statements authorized for issued after their discovery by: (a) restating the comparative amounts for the prior period presented in which the error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statement requires the Management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements and related disclosures. Future events may occur which will cause the assumptions 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.

Estimates and judgments 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.

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Critical Judgments in applying Accounting Policies

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:

Revenue and Expense Recognition

The Bank's revenue and expense recognition policies require Management to make use of estimates and assumptions that may affect the reported amounts of revenue and expense. The Bank's revenue and expense are recognized when earned or incurred, except interest on loans receivables on past due accounts which are recognized when collection is actually made as provided under existing BSP MORB.

Distinction between Operating and Finance Lease

The Bank has entered into lease agreements as a lessee. Critical judgment was exercised by Management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Rent expense of the Bank relating to its operating leases for the years ended December 31, 2020 and 2019 amounted to ₱207,653 and ₱1,030,736, respectively, as disclosed in Note 27. Right-of-use asset as of December 31, 2020 and 2019 amounted to ₱1,487,564 and nil, respectively as disclosed in Note 16. Lease liabilities as of December 31, 2020 and 2019 amounted to ₱1,791,115 and nil, respectively, as disclosed in Note 20. Interest expense on lease liabilities for the years ended December 31, 2020 and 2019 amounted to ₱154,311 and nil, respectively as disclosed in Note 20. Depreciation expense on right-of-use asset for the years ended December 31, 2020 and 2019 amounted to ₱637,543 and nil, respectively as disclosed in Note 16.

Amortized cost of financial instruments

The determination of amortized cost on financial instruments includes estimating future payments or receipts from such financial instruments. The Bank assesses annually whether new information warrants revisions to such estimates which will require adjusting the carrying accounts of financial instruments, except for reclassified financial assets, to reflect actual or revised estimated of cash flows. The Bank recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognized in the statement of comprehensive income as income or expense.

The Bank's financial assets at amortized cost amounted to ₱836,702,971 and ₱499,957,564 as of December 31, 2020 and 2019, as disclosed in Note 12.

Provisions and Contingencies

Judgment is exercised by Management to distinguish between provisions and contingencies. The Bank takes into consideration its present, legal or constructive obligations, if any, in accordance with its policies and Management's assessment.

Fair Value of Financial Instruments (see Note 8)

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

Asset Impairment

The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of bank premises, furniture, fixtures and equipment, investment properties, and intangible 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 bank premises, furniture, fixtures and equipment properties and intangible asset 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. The

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

Management has determined that the Bank's bank premises, furniture, fixtures and equipment, investment properties and intangible asset are not impaired, hence, no impairment loss was recognized in both 2020 and 2019.

Fair value of Investment Properties

Fair values of investment properties are determined using valuation methodologies acceptable under PFRS and valuation standards. Management determines the applicable valuation model based on the related income generated from the asset.

Change in Use of Assets

PAS 40 requires Management to use its judgment to determine whether a property qualifies as an investment property. The Bank has developed criteria so it can exercise its judgment consistently. On one hand, a property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Bank is accounted for as investment properties.

On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand-alone asset is accounted for as bank premises, furniture, fixtures and equipment. The Bank assesses the accounting on an annual basis.

Key Sources of Estimation Uncertainty

Impairment Losses on Loan Receivable and Financial Assets at Amortized Cost

The Bank reviews its loans and other receivable and financial assets at amortized cost portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statements of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amount of changes in fair value would differ if the Bank utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity. As of December 31, 2020 and 2019, the Management believes that the allowance provided by the Bank is sufficient to cover BSP requirements.

As of December 31, 2020 and 2019, loans and other receivables, net of allowance for credit losses, amounted to ₱389,872,042 and ₱485,908,112, respectively, as disclosed in Note 13. Financial assets at amortized cost amounted to ₱836,702,971 and ₱499,957,564 as of December 31, 2020 and 2019, respectively, as disclosed in Note 12.

Estimation of Useful Lives of Assets

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, right-of-use asset and intangible asset based on the period over which the assets are expected to be available for use. The estimated useful lives of premises, furniture, fixtures and equipment, investment properties, and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear

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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 premises, furniture, fixtures and equipment, investment properties, and intangible asset 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 and circumstances. A reduction in the estimated useful lives of premises, furniture, fixtures and equipment, investment properties, and intangible asset would increase the recognized operating expenses and decrease non-current assets.

The Bank has bank premises, furniture, fixtures and equipment stated at carrying value of ₱43,604,136 and ₱44,900,208 as of December 31, 2020 and 2019, respectively, as disclosed in Note 14. Right-of-use asset amounted to ₱1,487,564 and nil as of December 31, 2020 and 2019, respectively, as disclosed in Note 16.

Investment properties amounted to ₱115,683,717 and ₱98,684,899 as of December 31, 2020 and 2019, respectively, as disclosed in Note 15.

Impairment of Non-Financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. Though Management believes that the assumptions used in the estimation of fair values reflected in the financial statements are approximate and reasonable, significant changes in these assumptions may materially affect assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

As of December 31, 2020 and 2019, the Bank recognized impairment loss on investment properties amounting to ₱345,621 and nil, respectively, as disclosed in Notes 15 and 23.

Determining Realizable Amount of Deferred Tax Asset

The Bank reviews its deferred tax asset at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The Management believes that it is highly probable they will generate taxable profit to allow all deferred tax assets to be utilized. The Bank's deferred tax assets amounted to ₱9,623,844 and ₱6,667,934, as of December 31, 2020 and 2019, respectively, as disclosed in Note 31.

Estimating Allowance for Credit Losses

The Bank reviews its loans and receivables at each statements of financial position date to assess whether an allowance for credit losses should be recorded in the statements of comprehensive income. In particular, judgment by Management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimate is based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The carrying value of loans and receivables are ₱389,872,042 and ₱485,908,112, net of allowance for credit losses on loans and receivables amounting to ₱58,443,380 and ₱63,025,424 as of December 31, 2020 and 2019, respectively, as disclosed in Note 13.

Post-employment and Other Employee Benefits

The determination of the retirement obligation and cost and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, expected returns on plan assets and rates of compensation increase. In accordance with the

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generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over future period and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Bank believes that the assumptions are reasonable and appropriate, significant difference in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

The Bank has a funded non-contributory retirement plan. The cost of providing benefits is determined using the Projected Unit Credit Method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Post-employment expenses include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees.

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost and as reduced by the fair value of plan assets.

The funding policy is to contribute an amount based on the actuarial valuation report which is carried out at each reporting date.

The Bank's recorded net pension obligation amounted to ₱2,816,549 and ₱1,540,175 as of December 31, 2020 and 2019, respectively, as disclosed in Note 28

Estimating the Incremental Borrowing Rate (IBR) for Lease Liabilities

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities is the rate of interest that the Bank would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment. The Bank used the latest existing average lending rate per BSP as IBR in computing its lease liabilities.

The carrying values of the Bank's right-of-use assets and lease liabilities as of December 31, 2020 and 2019 are disclosed in Notes 16 and 20, respectively.

6. COVID-19 AND ITS IMPACT ON JUDGMENT AND ESTIMATE

The impact of the COVID-19 pandemic has changed the business environment and affected all aspects of business operations. Judgments and estimates now need to take into account these new changes. Management refocused their judgments and estimate relative to almost every reporting period and certain statements of comprehensive income accounts while considering the latest accounting and audit guidance from numerous public and private boards and government agencies. While not inclusive of every account that may be impacted, summarized below are some key areas Management examined as they evaluate their current judgment and estimates:

a) Revenue

Revenue estimates can be affected by many factors, but the changes in business environment resulting from COVID-19 can lead to changes in variable consideration included in ongoing customer/borrower contracts. Accounting for revenue is covered in "Revenue from Contracts with Customers". At the inception of the contract, it is Management's responsibility to estimate the value of variable consideration to which it will be entitled.

In 2020, due to the situation surrounding the COVID-19 pandemic, the Bank's revenue decreased by 29% compared to the prior year. As the Bank operates, it was found that its services have decreased demand and is expected to continue.

At this stage, the impact on the business and results have been significant and based on experience to date it is expected to remain the case or may even yield more negative result in the succeeding year. The Bank will continue

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to follow the various government policies and advice and, in parallel, will do its utmost to continue operations in the best and safest way possible without jeopardizing the health of its people.

b) Loans and Receivables

The Bank has considered the financial condition of customers to help determine if accounts receivable will just take longer to collect compared to historical trends or if specific reserves and/or general reserves are needed above and beyond typical reserve levels.

The Bank granted customers credit terms ranges from 90 days to 10 years and are interest bearing. The balances of receivables are within the credit terms given, thus represents currently maturing collectibles from customers. However, due to the provision of the government for relief through the issuance of Republic Act No. 11494, otherwise known as the “Bayanihan to Recover as One Act” that provides concessions to various obligations, receivable may take longer to collect upon customer availment and negotiate any concession. As of the current period, there are certain customers who have availed of such.

The Management assessed that realizability of receivables are probable without loss contingencies and without the necessity to set allowance for probable loss.

The Bank’s effectiveness in its credit and collection efforts in allowing credit to reputable customers, as well as its ability to collect cash from them in a timely manner is at par.

c) Bank premises, furniture, fixtures and equipment

During the period of the enhanced community quarantine implemented by the government, Bank premises, furniture, fixtures and equipment might mean under-utilized or not utilized Bank premises, furniture, fixtures, and equipment require that depreciation continues to be charged in the statements of comprehensive income while an asset is temporarily idle. The Bank premises, furniture, fixtures and equipment, whether utilized or unutilized, is depreciated on a regular basis over its estimated useful lives during the period.

In addition, it is crucial to assess long-lived assets to determine if the carrying value is recoverable. It is important to consider factors outside those historically relied upon when making this judgment as changes in how these assets will be used in the future, relative to the pandemic, may result in necessary adjustments to the depreciable lives of those assets.

During the year, the Bank assessed the necessity to test for impairment due to a triggering event such as the change in business climate due to the pandemic and it has determined that no allowance for impairment is necessary.

d) Accounts payable, Bills payable, Lease liabilities

The Bank has assessed settlement of its trade payables, loans and finance leases with regard to supplier negotiations for consideration payment terms in relation to the provision of the government for relief through the issuance of Republic Act No. 11494, otherwise known as the “Bayanihan to Recover as One Act” that provides concessions to various obligations during the height of the pandemic and imposed restrictions. The Bank has considered its financial condition to determine if the aforementioned obligations will take longer to settle compared to historical trends in terms of expected cash flows. Despite of the current situation, the Bank has managed an efficient and effective approach to supplier payment that does not affect essential business needs as the Bank’s assessed that future operations will remain and with favorable expectation.

As of the reporting period, the Bank assessed that current obligations can be settled within the normal credit terms based on expected cash flows.

e) Due to related parties

The Bank has assessed the settlement of advances from related parties with reference to liquidity as impacted by the COVID-19 pandemic that may greatly affected economic activity.

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The Bank may regard negotiations for considerable payment terms in relation to future expectations if conditions turn unfavorably. The Bank has assessed its financial condition to determine if advance will take longer to settle in terms of expected cash flows.

On the Bank management of an efficient and effective approach to settlement of liabilities, it includes advances from related parties. The Management assessed that settlement of related party advances will push through as originally agreed upon in the previous regular meeting held by the Board of Directors.

f) Going Concern

Management has considered the potential implications of COVID-19 and the measures taken to control it in assessing the Bank's ability to continue as a going concern. The Management neither intends to liquidate the Bank nor to cease operations. Management has considered the impact of measures taken by governments in its assessment of going concern. Management has also considered any adjusting events after the reporting date that may indicate that the Bank is no longer a going concern. Although there are inconsiderable uncertainties, however, it does not cast significant doubt upon the Bank's ability to continue as a going concern in accordance with PAS 1. The Bank determined that the financial statements is prepared on a going concern basis and there are no material uncertainties related to events or conditions that cast significant doubt over the Bank's ability to continue as a going concern.

g) Income Taxes

In response and recovery interventions to the corona virus pandemic, the government, particularly the Bureau of Internal Revenue issued Revenue Regulations 25-2020 which provides that the net operating loss for the current year, if any, is to be carried over as deduction from gross income for the next five (5) consecutive taxable years immediately following the current year as provided by the Rules and Regulations implementing Section 4 (bbbb) of Republic Act No. 11494, otherwise known as the "Bayanihan to Recover as One Act" relative to Net Operating Loss Carry-Over (NOLCO) under Section 34 (D) (3) of the NIRC, as amended.

h) Employee benefits

Management has considered whether any of the assumptions used to measure employee benefits should be revised. Also, Management has considered whether it has a legal or constructive obligation to its employees in connection with the virus, for example, sick pay or payments to employees that self-isolate, for which a liability should be recognized.

Management might be considering reducing its work-force as a result of the virus. PAS 19, Employee Benefits, requires that a liability for employee termination is recognized only when the Bank can no longer withdraw the offer of those benefits or the costs of a related restructuring are recognized in accordance with PAS 37. PAS 19 requires extensive disclosure of the assumptions used to estimate employee benefit liabilities, together with sensitivities and change in those assumptions.

In 2020, the Bank did not recognize any termination benefits since the outbreak.

i) Events after the end of the reporting period

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by the government to contain the virus have affected economic activity. The Bank has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for its people and securing the supply of materials that are essential to its business process.

At this stage, the impact on its business and results is limited and the Bank expects this to remain the case. The Bank will continue to follow the various government policies and advice, and in parallel, and will do its utmost to continue its operations in the best and safest way possible without jeopardizing the health of its people.

7. RISK MANAGEMENT OBJECTIVES AND POLICIES

General Risk Management Principles

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.

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

	Notes	2020	2019
Financial Assets			
Cash and other cash items	9 ₱	26,855,937 ₱	24,003,809
Due from Bangko Sentral ng Pilipinas	10	35,156,458	51,784,358
Due from other banks	11	474,958,837	820,385,387
Financial assets at amortized cost	12	836,702,971	499,957,564
Loans and receivable - net	13	389,872,042	485,908,112
Other assets*	17	26,472,698	23,145,716
		₱ 1,790,018,943	₱ 1,905,184,946
Financial liabilities			
Deposit liabilities	18 ₱	1,612,569,119 ₱	1,712,458,117
Bills payable	19	15,000,000	10,000,000
Lease liabilities	20	1,791,115	-
Other liabilities**	21	19,814,347	22,271,529
		₱ 1,649,174,581	₱ 1,744,729,646

*Excluding non-financial assets amounting to ₱17,106,074 and ₱17,739,837 for the years 2020 and 2019, respectively

**Excluding non-financial liabilities amounting to ₱4,801,070 and ₱5,845,558 for the years 2020 and 2019, respectively

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.

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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 etc.);
- Align risk strategy & business strategy.

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

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

	Notes	2020	2019
Financial Assets			
Cash and other cash items*	9 ₱	9,871,600 ₱	11,692,982
Due from Bangko Sentral ng Pilipinas	10	35,156,458	51,784,358
Due from other banks	11	474,958,837	820,385,387
Financial assets at amortized cost	12	836,702,971	499,957,564
Loans and receivable - net**	13	448,531,891	548,993,279
Other assets***	17	26,472,698	23,145,716
		₱ 1,831,694,455 ₱	1,955,959,286

*Excluding cash in vault amounting to ₱ 16,984,337 and ₱12,310,827 in 2020 and 2019, respectively.

**Gross of allowance for credit losses and unamortized discount amount to ₱58,659,849 and ₱63,085,167 in 2020 and 2019, respectively.

***Excluding non-financial assets amounting to ₱17,106,074 and ₱17,739,837 for the years 2020 and 2019, respectively

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Credit Quality of Financial Assets

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

2020	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and other cash items*	₱ 9,871,600	₱ -	₱ -	₱ 9,871,600
Due from Bangko Sentral ng Pilipinas	35,156,458	-	-	35,156,458
Due from other banks	474,958,837	-	-	474,958,837
Financial assets at amortized cost	836,702,971	-	-	836,702,971
Loans and receivable - net**	197,720,524	67,187,565	141,037,526	405,945,615
Other assets***	26,472,898	-	-	26,472,898
	₱ 1,580,883,288	₱ 67,187,565	₱ 141,037,526	₱ 1,789,108,379

2019	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and other cash items*	₱ 11,692,982	₱ -	₱ -	₱ 11,692,982
Due from Bangko Sentral ng Pilipinas	51,784,358	-	-	51,784,358
Due from other banks	820,385,387	-	-	820,385,387
Financial assets at amortized cost	499,957,564	-	-	499,957,564
Loans and receivable - net**	382,880,843	28,936,094	84,312,979	496,129,916
Other assets***	23,145,716	-	-	23,145,716
	₱ 1,789,846,850	₱ 28,936,094	₱ 84,312,979	₱ 1,903,095,923

*Excluding cash in vault amounting to ₱ 16,984,337 and ₱12,310,827 in 2020 and 2019, respectively

**Net of unamortized discount amounting to ₱216,469 and ₱59,743 in 2020 and 2019, respectively.

***Excluding non-financial assets amounting to ₱17,106,074 and ₱17,739,837 for the years 2020 and 2019, respectively

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.

Market Risk – Non Trading

Market risk is the risk of loss resulting from adverse movements in the value of financial instruments because of changes in market prices. The financial instruments are in form of government securities. One type of market risk that the Bank monitors on a regular basis is the interest rate risk.

Interest Rate Risk Management

Interest rate risk arises from the possibility of changes in interest rates will affect future cash flows or the fair values of financial instruments. Management monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on the net worth of the Bank's total books. This is done by modelling the impact of various changes in interest rates to the net interest positions of the Bank's total books.

Given the re-pricing position of the assets and liabilities of the Bank's total books, if interest rates increased/ decreased by 300 basis points, the Bank's total books would expect net interest income to decrease by ₱97.47 Million in 2020 and ₱ 94.16 Million in 2019. This sensitivity analysis is performed for risk management purposes and assumes no other changes in re-pricing structure. Actual change in net interest income will vary from the model.

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 asset portfolio; and
- Maintenance of a diversified liability base.

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The following tables present the Bank's financial assets and liabilities, as of December 31, 2020 and 2019 based on undiscounted contractual cash flows:

2020	Total	Within 1 year	1 - 5 years	5 years over
Financial Assets				
Cash and cash equivalents	₱ 26,855,937	₱ 26,855,937	₱ -	₱ -
Due from Bangko Sentral ng Pilipinas	35,156,458	35,156,458	-	-
Due from other banks	474,958,837	469,958,837	5,000,000	-
Financial assets at amortized cost	836,702,971	603,607,351	135,735,943	97,359,677
Loans and Receivables-net	389,872,042	59,744,618	316,816,965	13,310,459
Other assets*	26,472,698	-	-	26,472,698
Total	₱ 1,790,018,943	₱ 1,195,323,201	₱ 457,552,908	₱ 137,142,834
Financial Liabilities				
Deposit liabilities	₱ 1,612,569,119	₱ 1,395,523,260	₱ 217,045,859	₱ -
Bills payable	15,000,000	15,000,000	-	-
Lease liabilities	1,791,115	1,791,115	-	-
Other liabilities**	19,814,347	19,814,347.00	-	-
Total	₱ 1,649,174,581	₱ 1,432,128,722	₱ 217,045,859	₱ -

2019	Total	Within 1 year	1 - 5 years	5 years over
Financial Assets				
Cash and cash equivalents	₱ 24,003,809	₱ 24,003,809	₱ -	₱ -
Due from Bangko Sentral ng Pilipinas	51,784,358	51,784,358	-	-
Due from other banks	820,385,387	815,385,387	5,000,000	-
Investments at amortized cost	499,957,564	270,869,328	101,337,952	127,750,284
Loans and receivables - net	485,908,112	64,699,194	374,868,260	46,340,658
Other assets	23,145,716	-	-	23,145,716
Total	₱ 1,905,184,946	₱ 1,226,742,076	₱ 481,206,212	₱ 197,236,658
Liabilities & Equity				
Deposit liabilities	₱ 1,712,458,117	₱ 1,477,363,853	₱ 235,094,264	₱ -
Bills payable	10,000,000	10,000,000	-	-
Lease liabilities	-	-	-	-
Income tax payable	22,271,529	22,271,529	-	-
Total	₱ 1,744,729,646	₱ 1,509,635,382	₱ 235,094,264	₱ -

*Excluding non-financial assets amounting to ₱17,106,074 and ₱17,739,837 for the years 2020 and 2019, respectively

**Excluding non-financial liabilities amounting to ₱4,801,070 and ₱5,845,558 for the years 2020 and 2019, respectively

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Furthermore, BSP regulations require the Bank to promote short term resilience to liquidity shocks by maintaining a stock of liquid assets proportionate to its on- and off-balance sheet liabilities. Under said regulations, prudential minimum liquidity ratio (MLR) is at twenty percent (20%), where the MLR is expressed as a percentage of the Bank's eligible liquid assets to its qualifying liabilities. The Bank's liquid assets consist of: cash on hand; reserves in the BSP; debt securities guaranteed by the Philippine National Government; and deposits in other banks; while qualifying liabilities: consist of total liabilities; and irrevocable obligations under off-balance sheet items such as committed credit lines. As of December 31, 2020 and 2019, the Bank is compliant with MLR regulations with ratios of 98.61% and 96.20%, respectively.

Operational Risk Management

Operational risks are risks arising from potential inadequate information systems and system, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The Executive Committee and Senior Management are responsible for managing operational risk exposures and apply a number of techniques to efficiently manage such risk, among these are enumerated below:

- i) Key Risk Indicators (KRIs) are used to monitor the operational risk profile of the Bank of each business unit, and alert the management of impending problems in a timely manner;
- ii) Internal loss information is collected, reported and utilized to model operational risk; and
- iii) Review of product and operating manuals, policies, procedures, and circulars, thus allowing the establishment of desired operational risk management practices in all business units.

a. Strategic Risk

Risk on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsive to industry changes. It is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

b. Reputation Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships, or services, or to continue servicing existing relationships. This risk can expose the Bank to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels or processes may generate adverse public opinion such that it seriously affects the Bank's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance. Thus, the Bank adopted a reputation risk management framework to manage such risk.

c. Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Management uses a legal review process as the primary control mechanism for legal risk. Such as legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal counsels.

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Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Bank by maintaining of high level regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing period compliance testing on branches and head office units, and reporting compliance findings to the Board of Directors.

The Bank is regulated by the BSP. There are also other regulatory bodies of the Bank such as the SEC and the Philippine Deposit Insurance Corporation (PDIC).

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.

4.5 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was enacted in September 2001 and was amended by RA Nos. 9194, 10167, 10365 and 10927 in 2003, 2012, 2013 and 2017, respectively. Furthermore, terrorist financing was criminalized in RA No. 10168. Under the AMLA, as amended, in order to prevent money laundering and financing activities, the Bank is required to (1) identify its customers, (2) report covered transactions and suspicious transactions to the Anti-Money Laundering Council (AMLC) and (3) retain customer identification records and transactional documents for a specified period.

On January 27, 2011, the BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Program (MTPP) designed according to the Bank's corporate structure and risk profile. Further amendments to the regulations on Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) were promulgated thru BSP Circular Nos. 950 and 1022 in March, 2017 and November, 2018, respectively.

The Board approved the MTPP setting forth Bank's AML/CFT policies and procedures. Under the MTPP, each business unit is required to verify the true identity of a customer based on official or other reliable identification documents or records before an account may be opened. Furthermore, the Bank is required to risk profile its customers to low, normal or high with corresponding due diligence of reduced, average or enhanced. Decisions to enter into business relationship with a high-risk customer require senior management approval.

Under the reporting requirement, the Bank submits Covered Transaction Reports (CTRs) to the Anti-Money Laundering Council (AMLC) involving single transaction in cash or other equivalent monetary instruments in excess of P0.5 Million within one banking day. The Bank also submits Suspicious Transaction Reports (STRs) to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious.

As for record keeping requirements, the Bank safe keeps, as long as the account exists, all the Know-Your-Customer (KYC) documents involving clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. On the other hand, all records of accounts with court cases must be kept until there is a final resolution.

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The Bank's Compliance Officer monitors AMLA compliance and conducts regular compliance testing of business units and regularly reports to the Board of Directors results of monitoring of AMLA compliance.

Capital Risk Management and Regulatory Capital

The Bank adopted the capital management policy in order to maintain a strong capital base aimed to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing capital requirements, the BSP mandates the Bank to maintain a prescribed risk-based capital adequacy ratio of qualifying capital to risk weighted assets. The Bank, being a stand-alone rural bank, is required under BSP regulations to comply with qualifying capital account of the Bank should not be less than an amount equal to 10% of its risk weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 (core) capital and Tier 2 (supplementary) capital elements, net of the required deductions from capital.

The Bank's Tier 1 (core) capital is the sum of:

- a. Paid-up capital;
- b. Retained earnings – free;
- c. Undivided profits;

Less:

- i., Deferred tax asset; and
- ii. Goodwill

The Bank's Tier 2 capital consists of general loan loss provision, limited to 1% of gross risk assets, and any amount in excess thereof shall be deducted from the total risk weighted assets in computing the denominator of the risk-based capital ratio.

Risk weighted assets is the sum of the Bank's credit risk weighted assets and operational risk weighted assets.

Capital adequacy and the use of regulatory capital are monitored monthly 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.

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The following are the risk-based capital adequacy ratios and Net Tier 1 capital ratios of the Bank as of December 31, 2020 and 2019:

	2020	2019
Net Tier 1 Capital	₱ 300,463,761	₱ 302,632,853
Net Tier 2 Capital	3,048,739	3,048,739
Total Qualifying Capital	<u>303,512,500</u>	<u>305,681,592</u>
Risk Weighted Assets		
Credit Risk Weighted Assets	1,111,913,139	1,517,847,013
Operational Risk Weighted Assets	212,305,449	200,476,364
Total Risk Weighted Assets	<u>₱ 1,324,218,588</u>	<u>₱ 1,718,323,377</u>
Capital Adequacy Ratios:		
Total Qualifying Capital expressed as percentage of total risk-weighted assets	22.92%	17.79%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	22.69%	17.61%

The amount of retained earning funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

As of December 31, 2020 and 2019, the Bank has satisfactorily complied with the regulatory capital adequacy ratio.

Furthermore, rural banks, with head office in first class municipality and have at least ten (10) branches, are required under BSP regulations to comply with the minimum capital requirement of P 30 Million. The Bank has complied with the minimum capital requirement at the end of each reporting period.

Information regarding the Bank's "leverage ratio" and "total exposure measure" as of December 31, 2020 and 2019 is shown below:

	2020	2019
Capital exposure measure (Tier 1 capital)	₱ 300,463,761	₱ 302,632,853
Total Exposure measure	1,983,858,591	2,078,574,188
Leverage ratio	15.15%	14.56%

	2020	2019
On balance sheet exposures	₱ 1,977,527,365	₱ 2,073,177,824
Off balance sheet exposures (Note 38)	6,331,226	5,396,364
Derivative exposures	-	-
Securities Financing Transactions	-	-
Total Exposure measure	<u>₱ 1,983,858,591</u>	<u>₱ 2,078,574,188</u>

As of December 31, 2020 and 2019, the Bank's leverage ratio and total exposure measure is in compliance with the regulatory requirements.

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8. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

2020	Carrying Value	Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets					
Cash and cash equivalents	26,855,937	-	26,855,937	-	26,855,937
Due from Bangko Sentral ng Pilipinas	35,156,458	-	35,156,458	-	35,156,458
Due from other banks	474,958,937	-	474,958,937	-	474,958,937
Investments at amortized cost	836,702,971	-	836,702,971	-	836,702,971
Loans and receivables - net	389,872,042	-	389,872,042	-	389,872,042
Other assets*	26,472,698	-	26,472,698	-	26,472,698
Total	1,790,019,043	-	1,790,019,043	-	1,790,019,043
Liabilities & Equity					
Deposit liabilities	1,612,569,119	-	1,612,569,119	-	1,612,569,119
Bills payable	15,000,000	-	15,000,000	-	15,000,000
Lease liabilities	1,791,115	-	1,791,115	-	1,791,115
Other liabilities**	19,814,347	-	19,814,347	-	19,814,347
	1,649,174,581	-	1,649,174,581	-	1,649,174,581

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2020	Carrying Value	Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets					
Cash and cash equivalents	24,003,809	-	24,003,809	-	24,003,809
Due from Bangko Sentral ng Pilipinas	51,784,358	-	51,784,358	-	51,784,358
Due from other banks	820,385,387	-	820,385,387	-	820,385,387
Investments at amortized cost	499,957,564	-	499,957,564	-	499,957,564
Loans and receivables - net	485,908,112	-	485,908,112	-	485,908,112
Other assets*	23,145,716	-	23,145,716	-	23,145,716
Total	1,905,184,946	-	1,905,184,946	-	1,905,184,946
Liabilities & Equity					
Deposit liabilities	1,712,458,117	-	1,712,458,117	-	1,712,458,117
Bills payable	10,000,000	-	10,000,000	-	10,000,000
Lease liabilities	-	-	-	-	-
Other liabilities**	22,271,529	-	22,271,529	-	22,271,529
Total	1,744,729,646	-	1,744,729,646	-	1,744,729,646

*Excluding non-financial assets amounting to ₱17,106,074 and ₱17,739,837 for the years 2020 and 2019, respectively

**Excluding non-financial liabilities amounting to ₱4,801,070 and ₱5,845,558 for the years 2020 and 2019, respectively

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9. CASH AND OTHER CASH ITEMS

The account consists of the following:

	2020	2019
Cash on hand and in vault	₱ 16,984,337	₱ 12,310,827
Cash in ATM	9,858,600	11,291,000
Checks and other cash items	13,000	401,982
Total	₱ 26,855,937	₱ 24,003,809

Cash on hand and in vault includes USD denominated bills amounting to \$9,446 in 2020 and \$5,676 in 2019 with equivalent peso value of ₱453,748 and ₱288,023, respectively, under the custody of the cashiers and tellers. Cash in ATM refers to amount of cash in the automated teller machines as of end of reporting period. Checks and other cash items refer to the total amount of checks and other cash items received after the selected clearing cut-off time until the close of the year-end regular banking day. Checks and other cash items are included in the computation of cash and cash equivalents for cash flow statement purposes.

10. DUE FROM BANGKO SENTRAL NG PILIPINAS (BSP)

'Due from BSP' account represents the aggregate balance of noninterest-bearing peso demand deposit account with the BSP which the Bank maintains primarily to meet reserve requirements.

As of December 31, 2020 and 2019, Due from BSP amounting to ₱35,156,458 and ₱51,784,358, respectively, were set aside as reserves for deposit liabilities, as reported to the BSP.

Based on BSP Circular No. 1063 series of 2019, the prescribed rate of the required reserves against deposit liabilities of rural banks is 3% for demand, savings and time deposits. In 2020, the BSP reduced this reserve requirements to 2% through BSP Circular No. 1092. The rates of required reserve against deposit liabilities decreased effective April 3, 2020. These reserve requirements of the BSP pertain to the Due from BSP account. Due from BSP account is a non-interest bearing account that also serves as clearing account in interbank claims. The table below shows total required reserves and available reserves, i.e. Due from BSP:

	Rates	2020	2019
Demand Deposit	2%/3%	5,363,953	11,339,837
Savings Deposit	2%/3%	21,664,503	31,651,124
Time Deposit	2%/3%	5,553,389	8,382,783
Total Required Reserves		₱ 32,581,845	₱ 51,373,744
Available Reserves		₱ 35,156,458	₱ 51,484,358

As of December 31, 2020 and 2019, the Bank is in compliance with the reserve requirements.

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11. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2020	2019
Private Banks		
Commercial Banks	256,077,660	646,528,063
Rural and Thrift Banks	101,419,473	21,607,173
Government Banks		
Land Bank of the Philippines	117,461,704	152,250,151
Total	₱ 474,958,837	₱ 820,385,387

Due from other banks includes US currency deposits amounting to \$ 8,921 with equivalent peso value of ₱429,304 in 2020 and \$12,274 with equivalent peso value of ₱622,806 in 2019

Annual interest rates on due from other banks range from 0% to 5.75% p.a. in 2020 and 0% to 5.7% p.a. in 2019. For the years ended, December 31, 2020 and 2019, the interest income earned on due from other banks amounted to ₱ 5,771,358 and ₱12,307,312 (see Note 24), respectively, and are included as part of interest income in the statement of comprehensive income.

12. FINANCIAL ASSETS AT AMORTIZED COST

This account consists of government securities purchased from commercial banks, quoted in an active market and stated at amortized cost. Discount and premium recognized are amortized based on effective interest method. These have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity to collect principal and /or interests. The term of these investments ranges from within one (1) year to ten (10) years. The balance of this account is composed of the following:

As of December 31, 2020				
Counterparty	Type	Fair Value	Premium/(Discount)	Amoritized Cost
Commercial Banks	RTB/ TB	₱ 571,462,462	₱ (6,613,153)	₱ 564,849,309
Commercial Banks	REPO	140,291,592	-	140,291,592
Land Bank of the Phils.	10-yr Agra Bonds	138,360,281	(6,798,211)	131,562,070
Total		₱ 850,114,336	₱ (13,411,364)	₱ 836,702,971

As of December 31, 2019				
Counterparty	Type	Fair Value	Premium/(Discount)	Amoritized Cost
Commercial Banks	RTB/ TB	₱ 366,962,463	₱ (6,769,140)	₱ 360,193,323
Land Bank of the Phils.	10-yr Agra Bonds	147,442,612	(7,678,371)	139,764,241
Total		₱ 514,405,075	₱ (14,447,511)	₱ 499,957,564

Classified as financial assets at amortized cost, these quoted treasury bills and bonds have fixed annual interest rates ranging from 1% to 8% in 2020 and 3.15% to 10.00% in 2019. On the other hand, LBP 10-year Agra Bonds bear market interest rates based on average 91-day treasury bills of the auction immediately preceding end of quarter and payable every semester. Interest earned for the years 2020 and 2019 amounted to ₱18,919,678 and ₱21,255,084 (see Note 24), respectively and is shown as part of interest income in the statements of comprehensive income.

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13. LOANS AND RECEIVABLES - NET

The account consists of the following:

	2020	2019
Receivables from customers		
Loans and discounts	₱ 406,162,084	₱ 496,189,659
Unamortized discounts	(216,469)	(59,743)
Amortized cost	405,945,615	496,129,916
Allowance for credit losses		
Specific	(42,185,610)	(48,633,796)
General	(3,048,739)	(3,048,739)
Total	(45,234,349)	(51,682,535)
Net carrying values	360,711,266	444,447,381
Accrued interest receivable	5,042,612	8,113,065
Allowance for credit losses	-	-
Sales contract receivable	37,327,195	44,690,555
Allowance for credit losses	(13,209,031)	(11,342,889)
Loans and receivables - net	₱ 389,872,042	₱ 485,908,112

The following table shows the receivables from borrowers, net of unamortized discount and before allowance for credit losses, classified as to terms, as at December 31:

Classified as to Terms:	2020	2019
Short term (1 year or less)	₱ 63,083,999	₱ 64,245,993
Medium term (over 1 year to 5 years)	326,729,900	414,815,373
Long term (over 5 years)	16,131,716	17,068,550
Total	₱ 405,945,615	₱ 496,129,916

Loans and receivables bear annual interest rates ranging from 6% to 70 % per annum, in 2020 and 2019. Interest earned from loans and receivables for the years 2020 and 2019 amounted to ₱ 82,894,077 and ₱108,448,022, respectively, and is included as part of interest income in the statements of comprehensive income.

As of December 31,2020 and 2019, loans amounting ₱15 Million and ₱10 million, respectively, are pledged as collateral to secure borrowings under rediscounting privileges (see Note 19).

Furthermore, as at December 31, 2020 and 2019, housing loans amounting to ₱9,928,686 and ₱7,956,271, respectively, are secured by real estate mortgage and further guaranteed by the Home Guaranty Corporation.

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Accrued Interest Receivable on Financial Assets

Breakdown of accrued interest receivable on financial assets, gross of allowance for credit losses, as of December 31, follows:

	2020	2019
Financial assets at amortized cost	₱ 4,883,645	₱ 3,582,764
Due from other banks	158,967	1,140,068
Loans and discounts	-	3,390,233
Total	₱ 5,042,612	₱ 8,113,065

Sales Contract and Receivable (SCR)

SCR represents the balance due from the buyer of investment properties on installment basis. At the time of sale of said acquired asset on installment, the Bank still retains the title of the sold property and will only be transferred to the buyer upon full payment of the agreed selling price.

This account, gross of allowance, consists of as at December 31:

	2020	2019
Performing	₱ 17,751,343	₱ 30,401,640
Non-performing	19,575,852	14,288,915
Total	₱ 37,327,195	₱ 44,690,555

SCR is considered non-performing in case of non-payment of any amortization due. According to BSP Regulations, an SCR which has been classified "Substandard" and considered non-performing due to non-payment of any amortization due, may only be upgraded/ restored to unclassified and/or performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established.

SCR bears annual interest rate of 20% per annum in 2020 and 2019. Interest earned from SCR for the years 2020 and 2019, amounted to ₱4,422,272 and ₱7,017,835, respectively, and are included as part of interest income (loans and discounts) in the statement of comprehensive income.

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Movements during 2020 for loans and receivables (net of unamortized discount) from customers follow:

2020	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Total
Agricultural and agrarian loans				
Balance at January 1, 2020	8,663,688	2,115,928	6,651,005	17,430,621
New assets originated or purchased	10,050,000	-	-	10,050,000
Assets derecognized or repaid	(5,674,531)	(1,979,096)	(1,526,904)	(9,180,531)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(6,082,468)	6,082,468	-	-
Transfers to/(from) Stage 2	-	-	-	-
Transfers to/(from) Stage 3	-	(6,082,468)	6,082,468	-
Others	-	-	-	-
Commercial Loans				
Balance at January 1, 2020	289,996,892	23,859,001	55,780,031	369,635,924
New assets originated or purchased	236,475,140	-	-	236,475,140
Assets derecognized or repaid	(274,084,315)	-	(50,440,008)	(324,524,323)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(93,465,771)	93,465,771	-	-
Transfers to/(from) Stage 2	(26,793,317)	26,793,317	-	-
Transfers to/(from) Stage 3	-	(93,465,771)	93,465,771	-
Others	-	-	-	-
Other type of loans				
Balance at January 1, 2020	123,228,496	2,961,165	35,677,331	161,866,992
New assets originated or purchased	51,727,600	-	-	51,727,600
Assets derecognized or repaid	(9,104,284)	-	(56,061,717)	(65,166,001)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(70,986,402)	70,986,402	-	-
Transfers to/(from) Stage 2	(13,436,249)	13,436,249	-	-
Transfers to/(from) Stage 3	-	(70,986,402)	70,986,402	-
Others	-	-	-	-
	220,514,479	67,186,564	160,614,379	448,315,422

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Movements during 2020 of allowance for credit and impairment losses follow:

2020	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Total
Agricultural and agrarian loans				
Balance at January 1, 2020	45,201	585,970	2,911,716	3,542,887
New assets originated or purchased	30,356	-	-	30,356
Assets derecognized or repaid	-	-	-	-
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	-	-	-	-
Transfers to/(from) Stage 2	-	(527,694)	527,694	-
Transfers to/(from) Stage 3	-	-	-	-
Others	-	-	1,944,626	1,944,626
Commercial Loans				
Balance at January 1, 2020	561,485	4,907,200	28,989,981	34,458,666
New assets originated or purchased	-	-	-	-
Assets derecognized or repaid	-	-	(4,201,884)	(4,201,884)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(797,154)	797,154	-	-
Transfers to/(from) Stage 2	-	149,016	(149,016)	-
Transfers to/(from) Stage 3	-	-	-	-
Others	-	-	-	-
Other type of loans				
Balance at January 1, 2020	780,048	1,080,880	21,247,765	23,108,693
New assets originated or purchased	-	-	-	-
Assets derecognized or repaid	(19,231)	(73,136)	(347,597)	(439,964)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	-	-	-	-
Transfers to/(from) Stage 2	-	-	-	-
Transfers to/(from) Stage 3	-	-	-	-
Others	-	-	-	-
	600,705	6,919,390	50,923,285	58,443,380

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Movements during 2019 for loans and receivables (net of unamortized discount) from customers follow:

2019	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Total
Agricultural and agrarian loans				
Balance at January 1, 2019	10,584,935	7,423,629	3,197,315	21,205,879
New assets originated or purchased	20,648,000	-	-	20,648,000
Assets derecognized or repaid	(12,629,036)	(5,307,701)	(6,486,522)	(24,423,259)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(9,940,213)	9,940,213	-	-
Transfers to/(from) Stage 2	-	-	-	-
Transfers to/(from) Stage 3	-	(9,940,213)	9,940,213	-
Others	-	-	-	-
Commercial Loans				
Balance at January 1, 2019	286,303,894	40,873,317	68,365,135	395,542,346
New assets originated or purchased	294,141,602	-	-	294,141,602
Assets derecognized or repaid	(251,029,847)	(17,014,317)	(47,299,418)	(315,343,582)
Amounts written off	-	-	(4,704,443)	(4,704,443)
Transfers to/(from) Stage 1	(39,418,756)	39,418,756	-	-
Transfers to/(from) Stage 2	-	-	-	-
Transfers to/(from) Stage 3	-	(39,418,756)	39,418,756	-
Others	-	-	-	-
Other type of loans				
Balance at January 1, 2019	99,870,887	4,926,526	47,804,122	152,601,535
New assets originated or purchased	158,699,712	-	-	158,699,712
Assets derecognized or repaid	(75,474,630)	(1,965,361)	(71,994,263)	(149,434,254)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(59,867,472)	59,867,472	-	-
Transfers to/(from) Stage 2	-	-	-	-
Transfers to/(from) Stage 3	-	(59,867,472)	59,867,472	-
Others	-	-	-	-
	421,889,076	28,936,093	98,108,367	548,933,536

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Movements during 2019 of allowance for credit and impairment losses follow:

2019	Stage 1	Stage 2	Stage 3	Total
	Collective	Collective	Collective	
Agricultural and agrarian loans				
Balance at January 1, 2019	62,086	1,384,426	2,609,836	4,056,348
New assets originated or purchased	-	-	-	-
Assets derecognized or repaid	-	-	(513,462)	(513,462)
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(16,885)	16,885	-	-
Transfers to/(from) Stage 2	-	(815,342)	815,342	-
Transfers to/(from) Stage 3	-	-	-	-
Others	-	-	-	-
Commercial Loans				
Balance at January 1, 2019	1,983,276	13,872,900	17,849,098	33,705,274
New assets originated or purchased	-	-	-	-
Assets derecognized or repaid	-	-	-	-
Amounts written off	-	-	(4,704,443)	(4,704,443)
Transfers to/(from) Stage 1	-	-	-	-
Transfers to/(from) Stage 2	493,388	(493,388)	-	-
Transfers to/(from) Stage 3	-	(15,845,326)	15,845,326	-
Others	-	7,373,014	-	7,373,014
Other type of loans				
Balance at January 1, 2019	931,986	1,528,386	19,398,997	21,859,369
New assets originated or purchased	-	-	-	-
Assets derecognized or repaid	-	-	-	-
Amounts written off	-	-	-	-
Transfers to/(from) Stage 1	(151,938)	151,938	-	-
Transfers to/(from) Stage 2	-	(599,444)	599,444	-
Transfers to/(from) Stage 3	-	-	-	-
Others	-	-	1,249,324	1,249,324
	3,301,913	6,574,049	53,149,462	63,025,424

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14. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The composition of and movements in this account for 2020 are as follows:

2020				
	Beg. Balance Dec. 31, 2019	Addition	Transfer (Disposal)	End Balance Dec. 31, 2020
Cost				
Land	₱ 11,298,088	₱ -	₱ -	₱ 11,298,088
Bank Premises - Buildings	58,865,660	751,278	27,299	59,644,237
Furniture, Fixtures & Equipment	13,409,465	334,649	(4,121)	13,739,993
Other Equipment	5,472,633	595,697	848	6,069,178
IT Equipment	23,094,244	968,429	(152,791)	23,909,882
Transportation Equipment	13,000,639	3,192,613	(334,062)	15,859,190
Leasehold Improvements	679,273	-	-	679,273
Total	₱ 125,820,002	₱ 5,842,666	₱ (462,827)	₱ 131,199,841
Accumulated depreciation				
Bank Premises - Buildings	₱ 35,960,118	₱ 2,553,000	₱ 27,299	₱ 38,540,417
Furniture, Fixtures & Equipment	12,521,478	457,587	(4,121)	12,974,944
Other Equipment	4,789,471	361,456	850	5,151,777
IT Equipment	17,368,801	2,000,447	(152,791)	19,216,457
Transportation Equipment	9,951,635	1,695,051	(334,062)	11,312,624
Leasehold Improvements	328,291	70,195	-	398,486
Total	₱ 80,919,794	₱ 7,137,736	₱ (462,825)	₱ 87,594,705

The composition of and movements in this account for 2019 are as follows:

2019				
	Beg. Balance Dec. 31, 2018	Addition	(Disposal)	End Balance Dec. 31, 2019
Cost				
Land	₱ 11,298,088	₱ -	₱ -	₱ 11,298,088
Bank Premises - Buildings	60,358,234	-	(1,492,574)	58,865,660
Furniture, Fixtures & Equipment	12,937,050	472,415	-	13,409,465
Other Equipment	5,400,300	159,335	(87,002)	5,472,633
IT Equipment	19,855,970	3,415,326	(177,052)	23,094,244
Transportation Equipment	14,192,930	483,977	(1,676,268)	13,000,639
Leasehold Improvements	679,273	-	-	679,273
Total	₱ 124,721,845	₱ 4,531,053	₱ (3,432,896)	₱ 125,820,002
Accumulated depreciation				
Bank Premises - Buildings	₱ 35,021,682	₱ 2,431,010	₱ (1,492,574)	₱ 35,960,118
Furniture, Fixtures & Equipment	12,097,473	424,005	-	12,521,479
Other Equipment	4,567,054	289,864	(67,447)	4,789,471
IT Equipment	15,814,677	1,731,176	(177,052)	17,368,801
Transportation Equipment	9,452,092	2,175,811	(1,676,268)	9,951,635
Leasehold Improvements	251,714	76,577	-	328,291
Total	₱ 77,204,693	₱ 7,128,442	₱ (3,413,341)	₱ 80,919,794

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The carrying values of bank premises, furniture, fixtures, and equipment as at December 31, follows:

		2020		2019
Land	P	11,298,088	P	11,298,088
Bank premises - buildings		21,102,820		22,905,542
Furniture and fixtures		765,048		887,986
Other equipment		917,403		683,162
Information technology (IT) equipment		4,693,425		5,725,444
Transportation equipment		4,546,566		3,049,004
Leasehold improvements		280,786		350,982
Total	P	43,604,136	P	44,900,208

Under Section 109 of the MORB, investments in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As at December 31, 2020 and 2019, the Bank has satisfactorily complied with this requirement.

As of December 31, 2020 and 2019, there is no property, plant and equipment of the Bank that is pledged as security for liabilities nor restrictions on title thereon.

The Bank disposed certain fully depreciated property and equipment during the year. Gain on disposal of said assets amounted to nil in 2020 and ₱14,367 in 2019, and were included as part of gain on sale of non-financial assets in the statements of income.

15. INVESTMENT PROPERTIES - NET

Investment properties consist entirely of real estate properties and improvements thereon acquired in settlement of loans and receivables. The gross carrying amounts, accumulated depreciation and allowance for impairment of investment properties, and its net carrying amounts at the beginning and end of 2020 and 2019 are shown below:

2020	Land	Buildings	Others Properties	Total
Cost				
Balance, January 1	94,605,338	37,602,325	180,000	132,387,663
Additions	8,007,295	16,612,423	-	24,619,718
Transfer (disposal)	(3,166,406)	(1,421,123)	-	(4,587,529)
Balance, December 31	99,446,227	52,793,625	180,000	152,419,852
Accumulated depreciation				
Balance, January 1	-	(18,245,347)	-	(18,245,347)
Additions	-	(3,941,064)	-	(3,941,064)
Transfer (disposal)	-	1,192,308	-	1,192,308
Balance, December 31	-	(20,994,103)	-	(20,994,103)
Allowance for impairment losses				
Balance, January 1	(13,220,862)	(2,056,555)	(180,000)	(15,457,417)
Additions	(99,053)	(246,568)	-	(345,621)
Reversal	61,006	-	-	61,006
Balance, December 31	(13,258,909)	(2,303,123)	(180,000)	(15,742,032)
Carrying Amount	86,187,318	29,496,399	-	115,683,717

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2019	Land	Buildings	Others Properties	Total
Cost				
Balance, January 1	92,197,389	37,771,339	180,000	130,148,728
Additions	17,582,399	1,824,177	-	19,406,576
Adjustment	8,468,286			8,468,286
Transfer (disposal)	(23,642,736)	(1,993,191)	-	(25,635,927)
Balance, December 31	94,605,338	37,602,325	180,000	132,387,663
Accumulated depreciation				
Balance, January 1	-	(16,297,093)	-	(16,297,093)
Additions	-	(3,120,457)	-	(3,120,457)
Transfer (disposal)	-	1,172,203	-	1,172,203
Balance, December 31	-	(18,245,347)	-	(18,245,347)
Allowance for impairment losses				
Balance, January 1	(24,283,099)	(2,056,555)	(180,000)	(26,519,654)
Provision (Note 23)	-	-	-	-
Reversal	11,062,237	-	-	11,062,237
Balance, December 31	(13,220,862)	(2,056,555)	(180,000)	(15,457,417)
Carrying Amount	81,384,476	17,300,423	-	98,684,899

Fair values of investment properties amounted to ₱384.61 Million and ₱398.58 Million as of December 31, 2020 and 2019, respectively.

Gain on sale of investment properties amounted to ₱9,104,139 and ₱22,196,226 in 2020 and 2019, respectively, and are presented as part of gain on sale of non-financial assets under other income in the statement of comprehensive income.

Direct expenses incurred from these properties amounted to ₱1,485,049 in 2020 and ₱2,387,441 in 2019 are reported under litigation expenses (see Note 27) as part of operating expenses in the statement of comprehensive income.

16. RIGHT-OF-USE ASSET – NET

The composition of and movements in this account as of December 31, 2020 are as follows:

	Building under finance lease	
Cost		
January 1, 2020	₱	3,204,063
Additions		-
December 31, 2020	₱	3,204,063
Accumulated Depreciation		
January 1, 2020	₱	1,078,966
Additions (Note 30)		637,543
December 31, 2020	₱	1,716,509
Carrying amount		
December 31, 2020	₱	1,487,554

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11. OTHER ASSETS – NET

The account consists of the following:

	2020		2019
Accounts receivable - net	₱ 25,666,527	₱	22,066,902
Goodwill	11,542,141		11,542,141
Computer software-net	3,582,353		4,491,472
Prepaid expenses	1,576,888		1,391,680
Deposit with utility companies	647,688		647,688
Stationery and supplies on hand	278,950		188,503
Sinking Fund - for medical benefits	103,996		374,365
Petty cash fund	52,000		52,000
Documentary and postage stamps	31,171		31,473
Shortage	2,487		4,761
Due from closed banks - net	-		-
Miscellaneous assets	94,571		94,568
Total	₱ 43,578,772	₱	40,885,553

Accounts Receivable

Accounts receivable arising claims from the following sources:

	2020		2019
BancNet, Inc.	₱ 11,091,700	₱	7,669,700
Employees under litigation	7,899,370		7,815,004
CIS Bayad Center, Inc.	5,075,394		4,565,567
Creditable Withholding Taxes	4,364,494		2,365,349
Advances for insurance premiums	1,299,454		852,303
Remittance centers and companies	931,241		1,491,963
SSS - cash bond	500,000		500,000
Advances to Supplier	174,234		97,954
Over-remittance of expanded taxes	113,490		113,490
SSS- maternity benefits	104,335		89,250
Advances to employees	22,500		13,956
50% downpayment for uniforms	-		516,880
Others	471,044		441,037
Total	₱ 32,047,256	₱	26,532,453

Accounts receivable – net

Breakdown of accounts receivable – net, follows:

	2020		2019
Accounts receivable	₱ 32,047,256	₱	26,532,453
Allowance for credit losses	(6,380,729)		(4,465,551)
CIS Bayad Center, Inc.	₱ 25,666,527	₱	22,066,902

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Employees under litigation

This account refers to the claims from two (2) bank personnel who have committed fraud against the Bank. One bank personnel committed the said crime in year 2012 under then Rural Bank of Mendez, Inc. and his case is pending with the Regional Trial Court (RTC) in Naic, Cavite. The other bank personnel committed fraud in 2019, and the Bank has already filed a criminal charge with the RTC. The Bank submitted the required reports on crimes and losses (RCLs) to the BSP in 2012 and in July, 2019, respectively. Full allowance for losses was imposed to the extent of unsecured claims.

Goodwill

Goodwill arose from the acquisition of Rural Bank of Mendez, Inc. in 2016 via the purchase of all assets and assumption of all liabilities. The movements of this account for the years 2020 and 2019 are as follows:

	2020	2019
Beginning balance	₱ 11,542,141	₱ 13,128,747
Add (Deduct):		
Collection of fully provided receivable acquired from RB Mendez	-	(1,586,606)
Ending balance	₱ 11,542,141	₱ 11,542,141

Management estimates the expected cash flows from the branch where the goodwill arises from, and has assessed that the carrying amount of the goodwill is recoverable. Accordingly, no impairment loss is recognized in the statement of comprehensive income in 2020 and 2019.

Computer software

This account refers to computer license software licenses to enable the Bank to utilize information technology assets such as the core banking system, personal computers in its operation. The cost of the licenses is amortized on a straight-line basis for a period ranging from two (2) to five (5) years. Amortization expense on computer software licenses amounted to ₱1,596,005 in 2020 and ₱1,067,810 in 2019. These are included as part of depreciation/amortization expenses under operating expenses in the statement of comprehensive income.

The movement and net carrying values of computer software as of December 31 are presented below:

	2020	2019
Cost		
Beginning balance	₱ 11,380,318	₱ 8,826,418
Additions	686,886	2,553,900
Adjustment	70,053	-
Ending balance	12,137,257	11,380,318
Accumulated Amortization		
Beginning balance	6,888,846	5,821,036
Amortization (Note 30)	1,596,005	1,067,810
Adjustment	70,053	-
Ending balance	8,554,904	6,888,846
Net Carrying Value	₱ 3,582,353	₱ 4,491,472

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18. DEPOSIT LIABILITIES

This account consists of the following:

	2020		2019	
	No. of accounts	Amount	No. of accounts	Amount
Savings deposits	64,752	1,083,225,126	62,792	1,055,037,470
Time deposits	310	277,669,444	344	279,426,097
Demand deposits	1,272	251,674,549	1,330	377,994,550
Total	66,334	₱ 1,612,569,119	64,466	₱ 1,712,458,117

The maturity profile of deposit liabilities as of December 31, follow:

	2020	2019
Within one year	₱ 1,395,523,260	₱ 1,477,363,853
Beyond one year	217,045,859	235,094,264
Total	₱ 1,612,569,119	₱ 1,712,458,117

Hereunder is the breakdown of deposit liabilities by size:

	No. of Accounts	2020	No. of Accounts	2019
₱ 500,000 and below	65,753	₱ 728,061,322	63,905	₱ 764,746,417
More than ₱ 500,000	581	884,507,797	561	947,711,700
Total	66,334	₱ 1,612,569,119	64,466	₱ 1,712,458,117

Savings deposit and demand deposit bear interest rates at 0.08% p.a. in 2020; and 0.10% p.a. in 2019. Time deposit interest rates range from 0.10% p.a. to 1.1% p.a. in 2020; and 0.12% p.a. to 3.1% p.a. in 2019. Interest expense on deposit liabilities in 2020 and 2019 amounted to ₱10,686,926 and ₱10,846,129 (see Note 25), respectively, and were included as part of interest expense in the statement of comprehensive income.

Under existing BSP regulations, deposit liabilities are subject to required reserves computed per Note 10. As of December 31, 2020 and 2019, the Bank is in compliance with these regulations.

19. BILLS PAYABLE

This account represents borrowing with Land Bank of the Philippines under rediscounting privilege and outstanding balance amounted to ₱15,000,000 and ₱10,000,000 as of December 31, 2020 and 2019, respectively.

The movements of this account are as follows:

	2020	2019
Balance, January 1	₱ 10,000,000	₱ 25,000,000
Additions (payments)	5,000,000	(15,000,000)
Balance, December 31	₱ 15,000,000	₱ 10,000,000

The said borrowing is denominated in Philippine pesos with annual interest rates of 5% in 2020 and 4.75% in 2019, and with term of within one (1) year. Total interest expense on bills payable incurred amounted to ₱11,089

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in 2020 and ₱35,944 in 2019 (see Note 25), and is included as part of interest expense in the statement of comprehensive income.

As of December 31, 2020 and 2019, bills payable is collateralized by loans and receivables (see Note 13).

20. LEASE LIABILITIES

The following table summarizes all changes to lease liabilities for the years ended December 31, 2020 and 2019:

	2020	2019
Balance, January 1	₱ 2,238,540	₱ -
Accretion of interest expense (Note 25)	154,311	-
Payments	(601,736)	-
Balance, December 31	₱ 1,791,115	₱ -

21. OTHER LIABILITIES

This account consists of:

	2020	2019
Accounts payable	₱ 14,867,755	₱ 14,391,128
Accrued expenses	2,837,091	6,424,957
Other taxes and licenses payable	2,226,552	3,249,939
Due to Treasurer of the Philippines	1,592,684	1,592,684
Dividends Payable	777,076	-
Accrued interest payable	752,527	906,096
Overages	545,747	515,197
SSS, Philhealth, Pag-IBIG contribution payable	456,946	441,645
Withholding tax payable	421,484	497,624
Unclaimed balances	34,151	34,151
Miscellaneous liabilities	103,404	63,666
	₱ 24,615,417	₱ 28,117,087

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Accounts payable

This account comprises of the following:

	2020		2019
Due to SSS Pensioners	₱ 5,802,776	₱	5,326,053
CIS Bayad Center	2,477,952		2,844,172
Interest Rebate due to various borrowers	1,787,598		1,837,430
Due to BancNet	808,890		587,437
Due to insurance companies	731,320		482,023
Unrecorded Bank Credit - Loan Payments	559,954		526,104
Refundable rental deposit	496,863		509,345
Due to depositors with closed accounts	454,529		456,134
Due to employees	342,753		497,693
Due to Home Guaranty Corp	287,069		251,021
Due to Western Union	150,124		137,746
Due to IT provider	113,400		113,400
Due to directors	88,861		88,861
Others	765,667		733,709
	₱ 14,867,755	₱	14,391,128

Accrued expenses

The breakdown of the account is as follows:

	2020		2019
Beginning Balance	₱ 6,424,957	₱	6,778,612
Accrued profit sharing	2,826,575		19,888,281
Payments made during the year	(6,423,817)		(20,249,168)
Ending balance	₱ 2,827,715	₱	6,417,725
Accrued incentive payable to employees	10,376		7,232
	₱ 2,838,091	₱	6,424,957

Breakdown of accrued profit-sharing is as follows:

	2020		2019
Profit sharing to directors (non-executive directors)	₱ 1,530,520	₱	10,785,264
Profit sharing to regular employees and executive directors	1,295,055		9,103,017
	₱ 2,825,575	₱	19,888,281

Profit sharing or bonus is declared and approved through board resolutions by the Board of Directors on a quarterly basis which is paid partially in the subsequent quarters within the year and fully paid in the month after the end of reference year in accordance with the Bank's By-Laws. Because of the pandemic, the Board decided to defer accrual of profit sharing every quarter but instead recognized the accrual of profit sharing based on the consolidated net income after tax at the end of the year.

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The said profit sharing is charged to salaries and other benefits under operating expenses in the statement of comprehensive income (see Note 27)

22. STOCKHOLDERS' EQUITY

Capital Stock

The Bank's authorized capital stock and paid in capital as of December 31, follow:

	2020		2019	
	Common	Preferred	Common	Preferred
Authorized Capital Stock				
Amount	₱ 190,000,000	₱ 10,000,000	₱ 190,000,000	₱ 10,000,000
Number of shares	1,900,000	100,000	1,900,000	100,000
Par value per share	₱ 100	₱ 100	₱ 100	₱ 100
Issued and outstanding				
Amount	₱ 188,879,800	₱ -	₱ 188,879,800	₱ -
Number of shares	1,888,798	-	1,888,798	-

The Bank's preferred stock shall be issued only to PDIC on account of the financial assistance available under the Strengthening Program for Rural Banks (SPRB) in view of the consolidation of Rural Bank of Tanza (Cavite), Inc. and Rural Bank of Teresa (Rizal), Inc. Preferred shares are entitled to dividend rate equal to prevailing 5-year FXTN rate, on gross basis, on the date of PDIC's subscription to the Preferred shares (PS), payable annually to PDIC. Such rate shall be based on PDST-R2 set the previous business day. The PS is redeemable and convertible to common shares starting at the end of the 5th year but not later than the 10th year from issuance of PS. Furthermore, PDIC may exercise put option on the PS.

As of December 31, 2020 and 2019, the Bank did not avail the financial assistance under the SPRB, hence, no preferred stock was subscribed and outstanding.

Additional Paid-in Capital

Pursuant to the Articles and Plan of Consolidation, the excess of net assets of constituent banks over the value of issued shares as of March 31, 2015, was treated as additional paid in capital. The additional paid-in capital was arrived at based on audited financial statements of constituent banks on March 31, 2015, and its balances as of December 31, follow:

	2020	2019
Net Assets	₱ 215,691,631	₱ 215,691,631
Less: Common stock issued at par value	188,879,800	188,879,800
Additional Paid-in Capital	₱ 26,811,831	₱ 26,811,831

Surplus free

On May 16, 2020, the Board of Directors approved the declaration of cash dividends amounting to ₱10.01 Million (or ₱5.30 per share) payable on August 20, 2020 to stockholders of record as of December 31, 2020. There was no cash dividends declaration made in 2019.

This account refers to the accumulated earnings of the Bank composed of previous earnings plus net profits earned and minus dividends declared, if any, during the year. As of December 31, 2020 and 2019, there is no reserve that has been segregated from the Surplus free.

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Movements of the account are presented below:

	2019		2018	
Beginning balance	₱	105,151,298	₱	77,147,077
Add (Deduct):				
Prior period adjustments (Note 35)		(267,745)		
Net income for the year		11,068,277		28,004,221
Cash Dividends declared		(10,010,630)		
Ending balance	₱	105,941,200	₱	105,151,298

23.ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Allowance for credit and impairment losses are composed of the following:

	Notes	2019		2018	
Balance at January 1					
Loans receivable	13	₱	51,682,535	₱	48,057,788
Sales contract receivables	13		11,342,889		10,986,345
Investment properties	15		15,457,417		26,519,654
Accounts receivable	17		4,465,551		4,465,551
Accrued interest receivable	13		-		576,859
			82,948,392		90,606,197
Provision for credit and impairment losses on:					
Loans receivable	13		-		5,847,423
Investment properties	15		345,621		-
Accounts receivable	17		-		1,676,602
			345,621		7,524,025
Reversal/ Adjustment to provision for credit and impairment losses on:					
Loans receivables	13		(6,448,186)		(2,222,676)
Sales contract receivables	13		1,866,142		356,544
Investment properties	15		(61,006)		(11,062,237)
Accounts receivable	17		1,915,178		(1,676,602)
Accrued interest receivable	13		-		(576,859)
			(2,727,872)		(15,181,830)
Balance at January 1					
Loans receivable	13		45,234,349		51,682,535
Sales contract receivables	13		13,209,031		11,342,889
Investment properties	15		15,742,032		15,457,417
Accounts receivable	17		6,380,729		4,465,551
Ending balance		₱	80,566,141	₱	82,948,392

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24. INTEREST INCOME

This account refers to interest earned and/or actually collected for the years 2020 and 2019, from the following financial assets:

	Notes	2019	2018
Loans and receivables	13 ₱	82,894,077 ₱	108,448,022
Investment securities amortized at cost	12	18,919,678	21,255,084
Deposits with other banks	11	5,771,358	12,307,312
Total	₱	107,585,113 ₱	142,010,418

For income tax purposes, interest income from loans and receivables is subject to 30% regular tax rate, while interest income from held-to-maturity financial assets and deposits with other banks is subject to 20% final withholding tax.

25. INTEREST AND FINANCE CHARGES

This account refers to interest payments and accruals on interest bearing financial liabilities as follows:

	Notes	2020	2019
Deposit liabilities	18 ₱	10,686,926 ₱	10,846,129
Bills payable	19	11,089	35,944
Lease liabilities	20	154,311	-
Total	₱	10,852,326 ₱	10,882,073

26. OTHER INCOME

This account, also referred to as non-interest income, is composed of:

	2020	2019
Services charges and commission	₱ 14,539,426 ₱	21,674,833
Gain from sale of non-financial assets	9,104,139	22,210,593
Recovery on charged-off assets	95,891	133,569
Miscellaneous income	4,511,423	4,156,738
Total	₱ 28,250,879 ₱	48,175,733

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Service charges and commission

Details of service charges and commission are as follow:

	2020	2019
Bank commissions on loans	₱ 7,769,157	₱ 12,970,906
Commission on insurance premiums	3,412,400	4,575,394
ATM fees	1,440,783	549,272
Service fees on bills payment services	805,494	1,044,543
Service charges on demand deposit	710,402	1,810,132
Inspection fees	152,660	287,643
Service fees on remittance services	95,341	199,178
Other retail banking fees	153,188	237,764
Total	₱ 14,539,426	₱ 21,674,833

Miscellaneous income

This account consists of the following:

	2020	2019
Penalty on Loans	₱ 1,993,454	₱ 3,218,419
Rental income	2,507,959	936,715
Others	10,010	1,605
Total	₱ 4,511,423	₱ 4,156,738

27. OPERATING EXPENSES

This account is composed of the following:

	Note	2020	2019
Salaries and other benefits		₱ 56,728,077	₱ 73,212,754
Depreciation/ amortization	30	13,313,348	11,316,710
Taxes and licenses		12,247,648	16,579,792
Fees and commission		39,184	17,900
Other administrative expenses		32,605,672	38,546,179
		₱ 114,933,929	₱ 139,673,335

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Salaries and other benefits

The breakdown of salaries and other benefits is presented below:

	Notes	2020	2019
Salaries and wages	₱	34,455,583	₱ 33,415,081
SSS, PHIC, HDMF contribution		3,221,291	3,010,390
13th Month Pay		2,729,746	2,632,481
Profit sharing - employees	21	1,295,055	9,103,017
Medical/ hospitalization expense		1,200,193	881,291
Contribution to Retirement Fund	28	1,121,524	1,540,175
Other fringe benefits		9,472,666	9,915,380
Sub-total - Employees		53,496,057	60,497,815
Profit sharing directors	21	1,530,520	10,785,264
Directors' fees		1,701,500	1,929,675
Sub-total - Directors		3,232,020	12,714,939
Total	₱	56,728,077	₱ 73,212,754

Other Administrative expenses

Expenses classified as administrative expenses are broken down below.

	Notes	2020	2019
Security and Janitorial	₱	8,295,082	₱ 8,001,261
Insurance - PDIC		3,411,958	3,031,481
Power, Light & water		3,229,988	3,707,180
Telephone & Communication		3,249,896	3,283,779
Stationery & Supplies		3,133,479	2,465,142
Repairs and Maintenance		1,919,050	2,260,483
Fuel & Lubricants		1,831,162	2,531,992
Litigation and Acquired Assets Expense	15	1,485,049	2,387,441
Insurance - others		1,198,725	1,251,135
Information Technology		1,154,571	565,433
Representation & Entertainment		621,318	1,768,134
Advertising & publicity		467,096	1,270,405
Management and professional fees		452,807	739,068
Travelling		357,592	394,018
Supervision fees		299,534	278,982
Rent	29	207,653	1,030,736
Memberships fees and dues		231,693	334,817
Donations and charitable contributions		129,085	145,810
Fines, penalties and other charges		125,577	1,429,013
Periodicals and Magazines		19,828	28,598
Miscellaneous Expense		784,529	1,641,271
	₱	32,605,672	₱ 38,546,179

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28. RETIREMENT BENEFITS

The Bank's Employees Retirement Plan is non-contributory which provides a retirement benefit equal to one (1) month's final salary for every year of service upon retirement whether for normal, early or late retirement. Benefits are paid in lump sum upon retirement.

The most recent actuarial valuation of plan assets and the present value of the defined benefits obligation were carried out at December 31, 2020 by Actuarial Advisers, Inc. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for purposes of the actuarial valuation were as follows:

	2020	2019
Discount rate	3.96%	7.51%
Salary increase rate	3.00%	3.00%

The components of defined benefit cost included in personal cost under direct costs and operating expenses are as follows:

	2020	2019
Service cost	₱ 1,013,926	₱ 1,540,175
Interest cost	107,598	-
	₱ 1,121,524	₱ 1,540,175

The amount included in the statement of financial position arising from the Bank's obligation in respect of its defined benefit plan is as follows:

	2020	2019
Defined benefit obligation, ending	₱ 21,256,393	₱ 18,832,077
Fair value of plan assets, ending	18,439,844	17,291,902
Funded status - deficit (surplus)	2,816,549	1,540,175
Net defined benefit liability (assets)	₱ 2,816,549	₱ 1,540,175

Movements in the present value of the defined benefit obligation in the current period are as follows:

	2020	2019
Balance, January 1	₱ 18,832,077	₱ 17,291,902
Current service cost	1,013,926	1,540,175
Interest cost	1,298,778	-
Benefits paid from plan asset	(785,877)	-
Loss (gain) - OCI	897,489	-
Net defined benefit liability (assets)	₱ 21,256,393	₱ 18,832,077

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Movements in the fair value of the plan assets in the current period are as follows:

	2020		2019	
Balance, January 1	₱	17,291,902	₱	14,924,931
Interest income		1,298,622		1,226,846
Remeasurement gain/(loss) - plan asset		(904,978)		-
Contributions		1,540,175		1,424,867
Benefits paid from plan asset		(785,877)		(284,742)
Net defined benefit liability (assets)	₱	18,439,844	₱	17,291,902

Movements in the defined benefit cost (income) recognized in other comprehensive income (OCI):

	2020		2019	
Cumulative (gain)/loss in OCI, beginning	₱	-	₱	-
Actuarial (gain)/ loss - DBO		-		-
Remeasurement (gain)/loss - plan assets		(1,695,025)		-
Defined benefit cost (income) in OCI		(1,695,025)		-
Cumulative (gain)/loss in OCI, ending	₱	(1,695,025)	₱	-

Movements in the defined benefit cost (income), net of deferred tax recognized in other comprehensive income (OCI):

	2020		2019	
Cumulative (gain)/loss in OCI, beginning	₱	-	₱	-
Defined benefit cost (income) in OCI		(1,695,025)		-
Less: Deferred tax		-		-
Defined benefit cost (income), net of deferred tax		(1,695,025)		-
Cumulative (gain)/loss in OCI, ending	₱	(1,695,025)	₱	-

Summary of movements in the net defined benefit liability (asset):

	2020		2019	
Net defined liability (asset), January 1	₱	1,540,175	₱	1,424,867
Defined benefit cost - P/L		1,121,524		1,540,175
Defined benefit cost - OCI		1,695,025		-
Contributions		(1,540,175)		(1,424,867)
Balance, December 31	₱	2,816,549	₱	1,540,175

The Bank applied modified retrospective approach in recording its retirement benefits. The prior year financial statements were not stated. The application of PAS 19 were reflected as adjustments in the beginning balances of equity.

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29. LEASE AGREEMENTS

The Bank as a Lessee

The Bank leases the premises of certain branches and branch-lite offices. The lease periods range from less than a year to seven (7) years, renewable upon mutual agreement of the parties. Lease contract includes escalation clause, most of which bears an annual rent increase of 5%. In 2020 and 2019, rent expense recognized in the statement of comprehensive income amounted to ₱207,653 and ₱1,030,736, respectively. In 2020 and 2019, as disclosed in Note 26. In 2020 and 2019, the rent expense represents the leases of 'short-term leases' and 'leases of low-value assets'

Shown below is the maturity analysis of the undiscounted lease payment as of December 31:

	2020	2019
Within one year	₱ 207,653	₱ 1,037,578
After one year but not more than five years	-	2,411,246
Total	₱ 207,653	₱ 3,448,824

Lease liabilities

The Bank entered into lease agreements covering its branch premises which have terms ranging from three to seven years, renewable at the option of the Bank under certain terms and conditions. The lease agreements include provisions for annual escalation rate of 5%.

At reporting date, the Bank had outstanding commitment for future minimum lease payments under non-cancellable finance leases, which fall due as follows:

	2020	2019
Within one year	₱ 704,657	-
After one year but not more than five years	1,086,458	-
Total	₱ 1,791,115	-

The Bank as a Lessor

Operating leases relate to properties of the Bank with average lease terms ranging from three to ten years. The lease agreements include provisions for annual escalation rates ranging from 3% to 10%.

The property rental income earned by the Bank from its properties, all of which is leased out under operating leases, amounting to ₱2,507,959 and ₱936,715 for the years ended 2020 and 2019, respectively, as disclosed in Note 26.

At reporting date, the Bank had outstanding commitments for future minimum lease collections under non-cancellable operating leases, which fall due as follows:

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	2020	2019
Within one year	₱ 2,507,959	₱ 936,715
After one year but not more than five years		2,507,959
Total	₱ 2,507,959	₱ 3,444,674

30. DEPRECIATION AND AMORTIZATION

This account is composed of the following:

	Notes	2020	2019
Bank premises, furniture, fixtures & equipment	14	₱ 7,138,736	₱ 7,128,443
Investment properties	15	3,941,064	3,120,457
Computer software	17	1,596,005	1,067,810
Right-of-use asset	16	637,543	-
Total		₱ 13,313,348	₱ 11,316,710

31. INCOME TAX

Income Tax Expense

Regular corporate income tax (RCIT) is 30% of profit before tax. The bank is also subject to the Minimum Corporate Income Tax (MCIT) which is 2% of gross profit as defined by the Tax Code. The bank is liable whichever is higher between RCIT and MCIT. For the years ended December 31, 2020 and 2019, the Bank's taxable income is subject to MCIT and RCIT, respectively.

MCIT is computed as follows:

	Notes	2020	2019
GROSS INCOME			
Total interest income	24	₱ 107,585,113	₱ 142,010,418
Total other income	26	28,250,879	48,175,734
Total		135,835,992	190,186,152
Less: Non-taxable income (subject to final tax)		(24,691,036)	(33,562,396)
Gross taxable income		111,144,956	156,623,756
Less: Cost of Service			
Interest expense	25	10,852,326	10,882,073
Interest arbitrage		(10,185,052)	(10,882,073)
Interest expense on lease liabilities	25	(154,311)	-
Salaries and other benefits		27,178,727	60,497,815
BSP supervision fees		299,534	278,982
Insurance - PDIC		3,411,958	3,031,481
Total		31,403,182	63,808,278
Gross income for MCIT purposes		79,741,774	92,815,478
MCIT Rate		2%	2%
Minimum corporate income tax	16	₱ 1,594,835	₱ 1,856,310

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RCIT is computed as follows:

	Notes	2020	2019
Profit (loss) before tax per books		₱ 9,704,116	₱ 32,106,718
Add: Non-deductible expense			
Interest arbitrage		10,185,052	10,882,074
Retirement expense	28	1,121,524	-
Provision for credit and impairment losses	15	345,621	7,524,025
Excess charitable contribution		129,085	
Fines and penalties		125,577	1,429,013
PFRS 16 application		24,230	-
Total		21,635,205	51,941,830
Less: Non-taxable income/deductible expense			
Interest income subject to final tax		(24,691,036)	(33,562,396)
Reversal of allowance		(2,666,867)	-
Retirement benefits paid from plan asset		(785,877)	
Bad debts written-off		-	(4,704,443)
Net taxable income		(6,508,575)	13,674,991
RCIT Rate		30%	30%
RCT / Income tax expense		₱ -	₱ 4,102,497

Under existing Tax Code, the Bank may choose either the itemized deduction or optional standard deduction of 40% of gross receipts as deduction in computing taxable income. For the years ended December 31, 2020 and 2019, the Bank opted to claim itemized deductions.

Deferred tax assets

The deferred tax assets include minimum corporate income tax (MCIT) incurred in 2020 and temporary differences attributable to allowance for credit losses in 2019 and previous years. Under the Tax Code, a corporation is liable to pay MCIT computed at 2% of gross income (revenue less cost of sales) if it has negative income tax or the MCIT is higher than the 30% Regular Corporate Income Tax (RCIT). The MCIT shall be used as tax credit if the Bank will be liable for the RCIT thereafter. The deferred tax asset movements during the years ended December 31, 2020 and 2019 are shown below:

	2020	2019
Beginning balance	₱ 6,667,934	₱ 9,134,048
Add (deduct): Tax effects of temporary differences		
Net Operating Loss Carry-Over (NOLCO)	1,952,572	-
Minimum corporate income tax	1,594,835	
Reversal of deferred tax assets during the year	(800,059)	(2,635,810)
Retirement expense	100,694	-
Provision for credit and impairment losses	103,686	169,696
PFRS 16 application	7,269	
	9,626,931	6,667,934

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Income tax payable

Under the Tax Code, the Bank may be subject to Minimum Corporate Income Tax (MCIT) computed at 2% of gross income, as defined under the tax regulations, or to Regular Corporate Income Tax (RCIT) computed at 30% of income after allowable deductions, whichever is higher. The Bank is subject to the MCIT in 2020 and RCIT in 2019.

Income tax payable balances as of December 31 are computed as follows:

	2020	2019
MCIT	₱ 1,594,835	₱ 1,856,310
RCIT	-	4,102,497
RCIT / MCIT (whichever is higher)	1,594,835	4,102,497
Less: Tax credit		
Quarterly tax payments	(797,476)	(3,255,243)
Creditable tax withheld on ROPA	-	(627,738)
Balance as of December 31	₱ 797,359	₱ 219,516

32. EARNINGS AND BOOK VALUE PER SHARE

The earnings per share is computed as follows:

	2020	2019
Net income after taxes for the year	₱ 11,068,277	₱ 28,004,221
Less: Preference dividends for the current year	-	-
Net income to common shares	11,068,277	28,004,221
Weighted average number of shares		
Outstanding and issued shares	1,888,798	1,888,798
Less: treasury shares	-	-
	1,888,798	1,888,798
Earnings per share	₱ 5.86	₱ 14.83

The book value per share is computed as follows:

	2020	2019
Total equity	₱ 319,937,806	₱ 320,842,928
Less: Preference dividends for the current year	-	-
Net income to common shares	319,937,806	320,842,928
Weighted average number of shares		
Outstanding and issued shares	1,888,798	1,888,798
Less: treasury shares	-	-
	1,888,798	1,888,798
Book value per share	₱ 169.39	₱ 169.87

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33. 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. Directors, Officers, Stockholders and Related Interests (DOSRI)
3. Post-employment benefit plan

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 position of Vice-president up to President to constitute key management personnel for purposes of PAS 24. The compensation of key management personnel included under 'Salaries and other benefits' in the statements of income are as follows:

		2020		2019
Short term employee benefits	P	3,679,923	P	5,510,015
Post-employment benefits		119,991		129,708
Total	P	3,799,914	P	5,639,723

Loans to related parties

The Bank has loan transactions with related parties such as stockholders and key management personnel. Loans to key management personnel are granted through the BSP-approved financial assistance program for officers and employees, and are not subject to individual and aggregate ceilings required for loans granted to DOSRI under BSP regulations.

The following are the Bank's related party transactions by category of related party as of December 31, 2020 and 2019:

Category	Amount	December 31, 2020		Nature
		Outstanding	Balance	
Stockholder				
Loans and Receivable	P	P	304,022	With annual fixed interest rate of 9.25% and maturity of 5 years.
Repayments		191,923		
Key Management Personnel				
Loans and Receivable			93,858	Employee loan under BSP approved plan at 12% and maturity of 3 years.
Repayments		60,459		
Total	P	252,382	P	397,880

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December 31, 2019				
Category	Amount	Outstanding Balance	Nature	
Stockholder				
Loans and Receivable	₱	₱	495,945	With annual fixed interest rate of 9.25% and maturity of 5 years.
Repayments	733,535			
Key Management Personnel				
Loans and Receivable		154,316	Employee loan under BSP approved plan at 12% and maturity of 3 years.	
Repayments	295,438			
Total	₱	1,028,973	₱	650,262

DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2020 and 2019. Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 18).

Transactions with Retirement Fund

The Bank's transactions with its retirement fund for the years ended December 31, 2020 and 2019 relate to the contributions and benefits paid out of the plan to the Bank's employees as disclosed in Note 27.

The following retirement plan assets are placed in the Trust Department of a Universal Bank comprising of the following:

	2020	2019
Deposit in banks	₱ 2,319	₱ 2,255
Investments	18,357,697	17,175,844
Other receivables	97,149	130,107
Accrued payables	(17,321)	(16,304)
Total	₱ 18,439,844	₱ 17,291,902

The retirement fund neither provides any guarantee or surety for any obligations of the Bank nor its investments by any restrictions or liens.

34. EVENTS AFTER THE REPORTING PERIOD

Continuing COVID-19 pandemic

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. The Bank has taken a number of measure to monitor and mitigate the effects of COVID-19, such as safety and health measures for its people (such as social distancing and working from home) and securing the supply of services that are essential to its operations. At this stage, the impact on the Bank's business and results has not been significant and based on the Bank's experience to date, it expects this to remain the case.

As the Bank operates, it has found increased demand for its services and expects this to continue. The Bank will continue to follow the various government policies and advice and, in parallel, it will do its utmost to continue its operations in the best and safest way possible without jeopardizing the health of its people.

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Effectivity of CREATE Law

Applying the provisions of the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Act) passed into law on March 26, 2021, the Bank would have been subject to lower regular corporate income tax rate of 25% effective July 1, 2020.

Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the corporate income tax rate of the Bank for the year 2020 is 27.5%. This will result in lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020, amounting to ₱418,770. The reduced amounts were reflected in the Bank's 2020 annual income tax return. For financial reporting purposes, the Bank will recognize the changes in the 2021 financial statements.

This will result in lower Minimum Corporate Income Tax (MCIT) as of December 31, 2020 and provision for deferred income tax for the year ended by ₱418,770 and ₱30,914, respectively. The Bank will recognize these reductions in the 2021 financial statements.

Statement of financial position:

	Amount using the regular income tax rate	Amount after the application of CREATE Law	Reduction of Income Tax
ASSETS			
Deferred tax assets - net	₱ 9,626,931	₱ 9,596,017	₱ 30,914
LIABILITIES			
Income tax payable	₱ 797,359	₱ 378,589	₱ 418,770

Statement of comprehensive income

	Amount using the regular income tax rate	Amount after the application of CREATE Law	Reduction of Income Tax
PROVISION FOR (BENEFIT FROM) INCOME TAX			
Current	₱ 1,594,836	₱ 1,176,065	₱ 418,771
Deferred	(2,958,997)	(2,928,083)	(30,914)
	₱ (1,364,161)	₱ (1,752,018)	₱ 387,857
NET INCOME	₱ 11,068,277	₱ 11,456,133	₱ (387,856)

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35. PRIOR PERIOD ADJUSTMENT

This account consists of the following adjustments to retained earnings.

	2020	2019
Application of PAS 19	₱ 1,695,025	₱ -
Application of PFRS 16	267,745	-
Total	₱ 1,962,770	₱ -

36. RECLASSIFICATION OF COMPARATIVE AMOUNTS

Certain amounts in the 2020 comparative financial statements and note disclosures have been reclassified to conform to the current year's presentation. Details are as follows:

Old Classification	New classification	Amount
Held-to-maturity financial assets	Financial assets at amortized cost	499,957,564
Other assets - net	Deferred tax assets	6,667,934
Operating expenses	Provision for credit and impairment losses	7,524,025
Other liabilities	Retirement liabilities - net	1,540,175
Social security expense	SSS, PHIC, HDMF contribution	3,010,390

Management believes that the above reclassifications resulted to a better presentation of accounts and did not have any impact on prior year's profit or loss.

37. APPROVAL OF FINANCIAL STATEMENTS

These financial statements for the year ended December 31, 2020 were approved and authorized for issuance by the Board of Directors (BOD) on April 24, 2021.

The BOD is still empowered to make amendments on the financial statements even after the date of issue.

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38. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR 1074

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

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

Financial Performance Indicators

The following are the financial performance indicators of the Bank:

	2020		2019	
	Amount	Ratio	Amount	Ratio
Return on average equity				
Net Profit	11,068,277	3.45%	28,004,221	9.13%
Average total equity	320,390,368		306,840,818	
Return on average assets				
Net Profit	11,068,277	0.55%	28,004,221	1.42%
Average total assets	2,025,352,595		1,970,159,638	
Net Interest Margin				
Net Interest Income	96,732,787	5.43%	131,128,345	7.58%
Average interest earning assets	1,780,455,277		1,730,501,399	

Capital Instruments

The Banks capital instruments consist of the following:

As of December 31, 2020 and 2019, the Bank has outstanding capital stock, as follows:

	2020		2019	
	Common	Preferred	Common	Preferred
Authorized Capital Stock				
Amount	₱ 190,000,000	₱ 10,000,000	₱ 190,000,000	₱ 10,000,000
Number of shares	1,900,000	100,000	1,900,000	100,000
Par value per share	₱ 100	₱ 100	₱ 100	₱ 100
Issued and outstanding				
Balance at beginning				
and end of the year	₱ 188,879,800	₱ -	₱ 188,879,800	₱ -
Number of shares	1,888,798	-	1,888,798	-

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Concentration of Credit Exposures

As at December 31, 2020 and 2019, information on concentration of credit as to industry of loans and discounts (at amortized cost and before allowance for credit losses) follows:

	2020		2019	
	Amount	%	Amount	%
Real estate, renting & building	₱ 123,524,254	30.43%	₱ 172,805,263	34.83%
Wholesale & retail	92,953,501	22.90%	122,246,919	24.64%
Other community, social	68,073,124	16.77%	89,545,884	18.05%
Transportation, storage	27,797,006	6.85%	39,521,945	7.97%
Construction	52,575,198	12.95%	27,556,798	5.55%
Agri. Hunting & forestry	18,300,091	4.51%	17,430,621	3.51%
Household consumption	13,660,541	3.37%	11,425,418	2.30%
Hotel & restaurant	3,755,403	0.93%	7,646,409	1.54%
Health & social work	3,115,298	0.77%	4,706,127	0.95%
Education	1,126,849	0.28%	3,244,533	0.65%
Water	1,005,089	0.25%	-	0.00%
Manufacturing	59,261	0.01%	-	0.00%
Total	₱ 405,945,615	100.00%	₱ 496,129,916	100.00%

The BSP considers that loan concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds thirty percent (30%) of total loan portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Breakdown of Total Loans as to Security and Status

As to Security

The following table shows the secured and unsecured portions of receivables from borrowers, net of unamortized discount and before allowance for credit losses, as at December 31:

	2020		2019	
	Amount	%	Amount	%
Secured				
DOSRI- secured by non-risk asset ₱	304,022	0.07%	₱ 495,945	0.10%
NON-DOSRI				
REM residential	341,410,049	84.10%	400,759,440	80.78%
REM agricultural	5,777,679	1.42%	3,646,328	0.73%
Other collateral	1,111,531	0.27%	6,302,254	1.27%
REM commercial	-	0.00%	27,893,048	5.62%
	348,603,281	85.87%	439,097,015	88.50%
Unsecured	57,342,334	14.13%	57,032,901	11.50%
Total	₱ 405,945,615	100.00%	₱ 496,129,916	100.00%

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As to Status

The following table shows the receivables from borrowers, net of unamortized discount, classified as to status and loan product as at December 31:

Classified as to status of loans for 2020				
Loan Product	Current	Past Due	Non-Performing	Total
Agra-agri credit				
a. Agrarian reform loans	₱	₱	₱ 213,370	₱ 213,370
b. Other agri credits	6,956,689	136,832	10,993,200	18,086,720
Microfinance	27,402,822		14,209,407	41,612,229
SME Loans				
a. Small enterprise	71,856,445	23,560,391	49,623,492	145,040,328
b. Medium enterprise	32,869,362	27,091,927	31,269,699	91,230,988
Loans to private corporations			3,703,195	3,703,195
Loans for housing purpose	24,972,385	8,450,492	17,742,290	51,165,167
Loans for personal purpose	8,358,965	320,826	4,980,750	13,660,541
Loans for other purpose	25,303,856	7,627,096	8,302,123	41,233,075
Total	₱ 197,720,525	₱ 67,187,564	₱ 141,037,526	₱ 405,945,615

Classified as to status of loans for 2019				
Loan Product	Current	Past Due	Non-Performing	Total
Agra-agri credit				
a. Agrarian reform loans	₱ -	₱ -	₱ 213,370	₱ 213,370
b. Other agri credits	8,663,688	2,115,928	6,437,635	17,217,251
Microfinance	43,802,302	-	4,704,962	48,507,264
SME Loans				
a. Small enterprise	168,672,397	23,859,001	31,901,606	224,433,004
b. Medium enterprise	73,388,558	-	19,173,462	92,562,020
Loans to private corporations	4,133,635	-	-	4,133,635
Loans for housing purpose	47,879,407	943,689	10,382,420	59,205,516
Loans for personal purpose	7,846,553	64,702	3,514,163	11,425,418
Loans for other purpose	28,494,303	1,952,774	7,985,361	38,432,438
Total	₱ 382,880,843	₱ 28,936,094	₱ 84,312,979	₱ 496,129,916

Under BSP Regulations, as a general rule, loans are considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof is considered as past due. However, the said Regulation allows the banks to provide a cure period policy on loan products other than microfinance of not more than thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. For microfinance that features weekly payments, the cure period is for seven (7) days.

The Board of Directors approved the Bank's cure period policy based on collection experience and reasonable judgment that support tolerance of occasional payment delays, provided, however, that the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness. Management regularly reviews the reasonableness of its cure period policy.

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Hence, loans classified as past due are accounts which have been past due from 31 to 90 days, while, non-performing loans include accounts which have been past due for more than ninety (90 days), and accounts in litigation. Furthermore, loans are considered non-performing, even without any missed contractual payments, when it is considered impaired under PFRS-9, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment is unlikely without foreclosure of collateral, if any.

Information on related party loans

As required by BSP, the Bank discloses loan transactions with investees and with certain Directors, Officers, Stockholders, and Related Interests (DOSRI). Existing banking regulations limit loan to individual DOSRI to the total of their respective deposits and book value of their respective equity with the Bank and at least seventy percent (70%) of which must be secured. In the aggregate, loans to DOSRI generally should not exceed total equity or fifteen percent (15%) of total loan portfolio, whichever is lower, and likewise, at least 70% of said aggregate loans must be secured.

On the other hand, existing regulations also require that the aggregate outstanding loans and other credit accommodations granted under the bank's financial assistance program to officers and rank and file, inclusive of those granted to officers in the nature of lease with option to purchase, should not exceed five percent (5%) of the bank's total loan portfolio. Key Management Personnel who availed of the said financial assistance program are considered related parties.

	2020		2019	
	DOSRI Loans	Related party loans (Inclusive of DOSRI Loans)	DOSRI Loans	Related party loans (Inclusive of DOSRI Loans)
Outstanding Loans	₱ 304,022	₱ 397,880	₱ 495,945	₱ 650,262
Percent to total loan portfolio (TLP)	0.07%	0.10%	0.10%	0.13%
Percent of Unsecured DOSRI/Related Party Loans to Total DOSRI/Related Party Loans	0%	23.59%	0%	23.73%
Percent of past due DOSRI/Related Party Loans to Total DOSRI/Related Party Loans	0%	0%	0%	0%
Percent of non-performing DOSRI/Related Party Loan to Total DOSRI/Related Party Loan	0%	0%	0%	0%

Secured Liability and Assets Pledged as Security

The Bank has borrowings from the Land Bank of the Philippines (LBP). The Bank's borrowing from LBP has face value and carrying amount of ₱15 Million and ₱10 Million as of December 31, 2020 and 2019, respectively. The Bank's loans and receivables of the same fair value and carrying amount as that of the borrowing, are pledged to LBP as security for the credit facility availed of.

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Commitments and Contingent Liabilities

Hereunder is a summary of the Bank's commitments and contingencies at their equivalent peso contractual amounts as of December 31:

	2020	2019
Unused Credit Line	₱ 6,329,854	₱ 5,394,890
Items held for safekeeping and as collateral	1,372	1,474
Total	₱ 6,331,226	₱ 5,396,364

39. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS 15-2010

The following is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations (RR) to be disclosed as part of the notes to the financial statements. This supplementary information is not a required disclosure under PFRS.

Taxes and Licenses

The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2020, follow:

	Amount
Gross receipts tax (GRT)	₱ 8,063,223
Documentary stamp tax	2,494,980
Business permit and license	1,249,980
Real property tax	211,283
BIR annual registration fee	6,000
Others	222,182
Total	₱ 12,247,648

The GRT is imposed on interest, fees and commissions from lending activities at 5% or 1% depending on the loan term, and at 7% on non-lending fees and commissions and other items constituting gross income.

	Gross Receipts	Gross Receipts Tax
Income derived from lending activities	₱ 84,586,366	₱ 4,475,749
Others	51,249,628	3,587,474
Total	₱ 135,835,994	₱ 8,063,223

Withholding Taxes

Details of total remittances in 2020 and balances as of December 31, 2020 are as follows:

	Total Remittance	Balance
Final withholding taxes	₱ 2,363,263	₱ 96,611
Withholding tax on compensation & benefits	859,534	157,404
Expanded withholding taxes	365,361	124,778
Total	₱ 3,588,157	₱ 378,793

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Tax Assessments and Cases

As of December 31, 2020, the Bank has not received any final assessment notices from the BIR and it has no tax cases, litigation and/or prosecution in court or bodies outside BIR.

40. DISCLOSURE REQUIREMENTS FOR TAXPAYERS WITH RELATED PARTY TRANSACTIONS UNDER RR 34-2020

Revenue Regulations (RR) No. 34-2020 prescribes the Guidelines and Procedures for the submission of BIR Form No. 1709, Transfer Pricing Documentation (TPD) and other supporting documents, amending for this purpose the pertinent provisions of Revenue Regulations (RR) Nos. 19-2020 and 21-2002, as amended by RR No. 15-2010.

The Bank is not covered by the requirements and procedures for related party transaction provided under this RR.

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II. Compliance with Appendix 125 of the MORB – Disclosure in the Annual Reports and Published Statement of Condition

A. Capital Structure and Capital Adequacy

		2020 (in P Millions)	2019 (in P Millions)
1	Tier 1 capital		
	Paid up common stock	188.880	188.880
	Additional paid in capital	26.812	26.812
	Retained earnings	94.873	77.147
	Undivided Profits	11.068	28.004
	Total Tier 1 Capital	321.633	320.843
2	Tier 2 Capital		
	General Loan Loss Provision	3.049	3.049
3	Deductions from Tier 1 and Tier 2 Capital		
	Unsecured DOSRI	-	-
	Deferred tax asset	9.627	6.668
	Goodwill	11.542	11.542
	Total Deductions	21.169	18.210
4	Total Qualifying Capital	303.513	305.682
5	Capital Requirement for Credit Risk	1,111.913	1,517,847
6	Capital Requirement for Market Risk	-	-
7	Capital Requirement for Operational Risk	212.305	200.476
8	Total Capital Adequacy Ratio	22.92%	17.79%
	Tier 1 Capital Adequacy Ratio	22.69%	17.61%