

**RIZAL
MicroBank**

A Thrift Bank of RCBC



ANNUAL REPORT 2019
PAVING THE WAY FOR A
SUSTAINABLE FUTURE

THE RCBC BRAND

Our brand is aligned with the strategy of the parent bank, using the “Blue Hexagon” corporate logo.

The Blue Hexagon is the corporate logo of the Yuchengco Group of Companies, of which RCBC is the financial services arm of the conglomerate. It was conceived with synergy in mind; with its six interlocking trapezoidal fields representing the conglomerate’s founding businesses: life insurance, non-life insurance, banking and finance, investments, transportation and communication, and manufacturing and construction. The design gives the impression of a dynamo spinning on its hub—dynamic and ever-moving. The hexagon is viewed as a celestial sphere that radiates power, energy, and productivity.

For the past 59 years, RCBC has proudly used the Blue Hexagon to symbolize its union with the YGC conglomerate. However, the bank recognizes the need to be a dynamic brand that will resonate not just with its traditional corporate clients, but with the retail consumers as well. Thus, in 2017, RCBC embarked on a brand refresh.

The new RCBC is anchored on the mission to maintain and further strengthen the Bank’s relevance among Filipino depositors amidst the changing banking landscape and shifting dynamics. This is the Bank’s way to refresh and re-energize its services to serve its loyal customers who have stood with them all these years. At the same time, this was also RCBC’s way to expand its presence among the younger Filipino depositors.

Having built a solid foundation of service and trust through the years, RCBC embodied these values as cornerstones in making its brand meaningful to consumers in the financial services sector. Bringing to life messages on customer service became central to the Bank’s campaign, anchoring it in the reality that client relationships are at the heart of RCBC.

This message ultimately found its expression in the tagline “We believe in you,” – a line encapsulating RCBC’s vision not for itself but for the people it serves. It became a clear message that this is not about the Bank, but what the Bank can do for you. It is rooted in a unique insight about what makes strong relationships; about how, working together with its clients, the Bank can be a strong partner in creating possibilities with them through its line-up of financial products and services.

“We Believe In You” is a statement inspired by hours of talking to customers and listening to their needs. It amplifies the importance that the Bank has placed in building great customer relationships. It understands that every Filipino works hard in order to achieve their dreams. It is RCBC’s commitment that it will be there to provide its clients with the right financial tools to help them achieve their dreams.



ABOUT THE COVER

In 2019, Rizal MicroBank transitioned its vision from providing financial credit to micro and small entrepreneurs to leading the way in making financial access work for people. Gearing towards financial inclusion requires investing in various strategic initiatives that would strengthen the bank’s capacity to develop customer-centric products, worthy of providing access and usage to the unbanked and underserved market.

Our objective was simple: lay the groundwork so we can move more efficiently in the years to come. Sustainability is our dream, not just for the institution but for our clients and the common Filipino.

And in 2019, RMB took its first steps towards that aspiration.

OUR VISION. OUR MISSION

Leading the way in making financial access work for small people, producing high impact and sustainable results.

OUR CORE VALUES



Malasakit



Integrity



Committment



Resoucefulness



Oneness

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CORPORATE PROFILE



CORPORATE PROFILE

Rizal MicroBank, Inc. – A Thrift Bank of RCBC (RMB) operates as a subsidiary of Rizal Commercial Banking Corporation (RCBC). RCBC is majority-owned by the Yuchengco Group of Companies (YGC), one of the oldest and largest conglomerates in Southeast Asia.

RMB began its operations in August 2010 through its first branch in Koronadal, South Cotabato. Two years later, it acquired the branch licenses of another RCBC subsidiary, Pres. Jose P. Laurel Rural Bank, which had operations in Southern Tagalog, Luzon. Presently, RMB operates nationwide with a total of 18 branches and five branch-lite units.

In 2019, RMB shifted its vision from becoming the go-to financial partner of the micro and small entrepreneurs towards leading the way in making financial access work in the hopes of producing sustainable and impactful results for our target market. Our goal is to provide not only innovative products but more importantly, customer-centric products that would make financial services accessible to the unbanked and underserved markets in the country.

Such transition remained grounded on our core values, aptly encapsulated in the acronym “MICRO”:

Malasakit – We are driven by our mission to serve our customers for the inclusive development of our nation out of our care for their hopes and dreams. “Malasakit” is a value shared by both the Bank, as an organization, and its employees, as manifested in their everyday work.

Integrity – We are trustworthy in dealing with our customers and we are transparent in everything that we do.



Commitment – We are committed to provide excellent service, to develop the competence of our people, and to build loyalty and value for RMB and our customers.

Resourcefulness – We are resourceful in responding to the needs of our customers, and in achieving the desired results and objectives of the company while upholding ethics.

Oneness – We are united as a team as we work together across Luzon, Visayas and Mindanao.

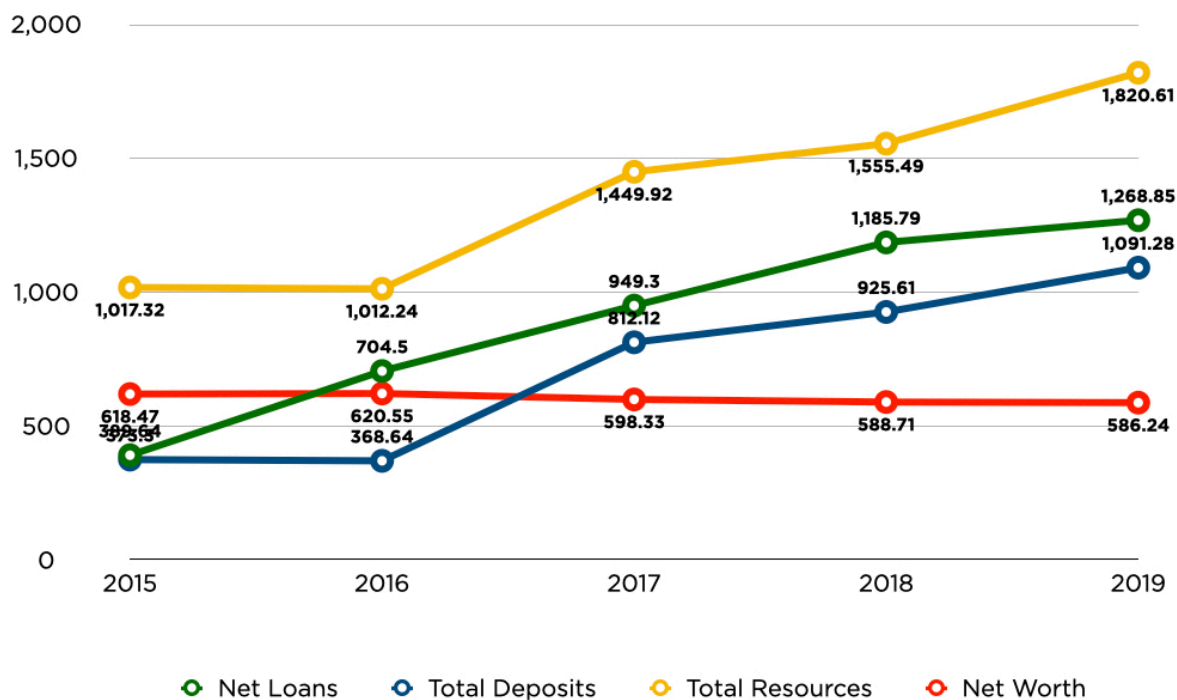
Our Board of Directors, comprised of professionals with competencies and experience in the disciplines of banking, accounting, economics, law, agri-business, and development finance, are leading the Bank in its efforts to positively contribute to the welfare of the ordinary Filipinos. Alongside our parent bank, RMB will continuously fulfill its mission of bringing financial services closer to the homes of the unbanked and underserved communities in the Philippines.

FINANCIAL HIGHLIGHTS AND RATIOS

	Audited	
	2019	2018
Profitability for the Year		
<i>in million pesos</i>		
Total Net Interest Income	181	167
Total Non-Interest Income	51	56
Total Non-Interest Expense	204	186
Allowance for Credit Losses	14	6
Net Income (Loss)	9	27
Selected Balance Sheet Data		
<i>in million pesos</i>		
Liquid Assets	317	211
Gross Loan and Receivables	1,350	1,266
Total Resources/Assets	1,821	1,555
Deposits	1,091	926
Networth	586	589
Selected Ratios		
Return on Equity	1.48%	4.56%
Return on Assets	0.51%	1.80%
Capital Adequacy Ratio	29.46%	35.40%
Cost-to-Income Ratio	90.98%	91.60%
Loan to Deposit Ratio	120%	133%
Net Interest Margin	11.85%	12.43%
Non-Performing Loan - Gross Ratios	11.03%	5.65%
Non-Performing Loan - Net Ratios	6.61%	0.07%
Non-Performing Assets (NPA) Ratios	5.50%	0.72%
Non-Performing Loans (NPL)	151.44	70.74

FINANCIAL HIGHLIGHTS AND RATIOS

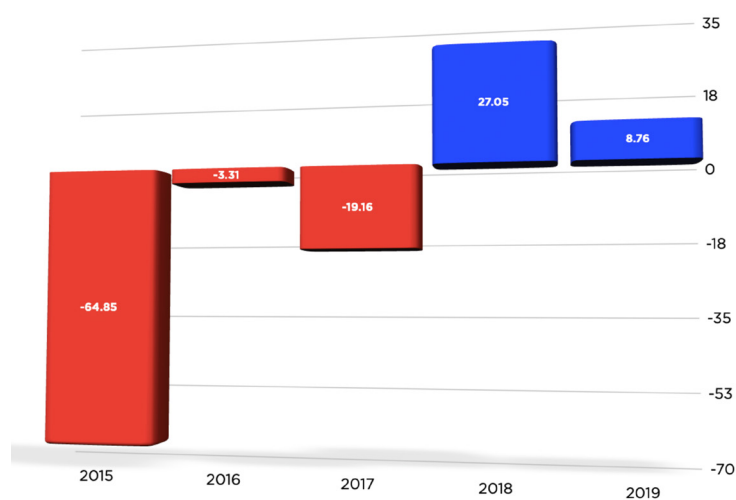
FINANCIAL POSITION



TOTAL RESOURCES, LIABILITIES & NET WORTH

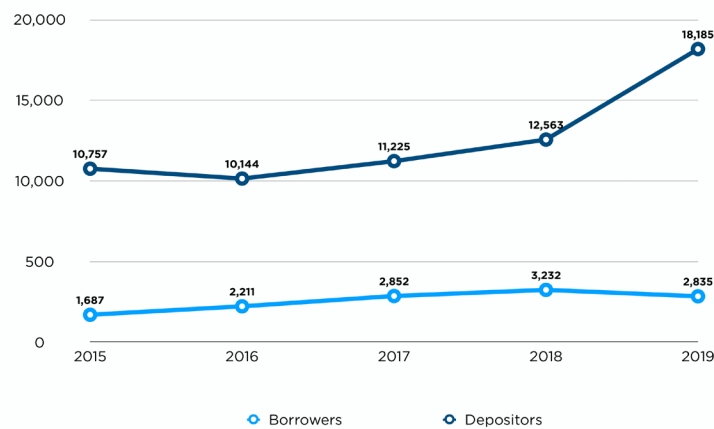


NET INCOME (LOSS)

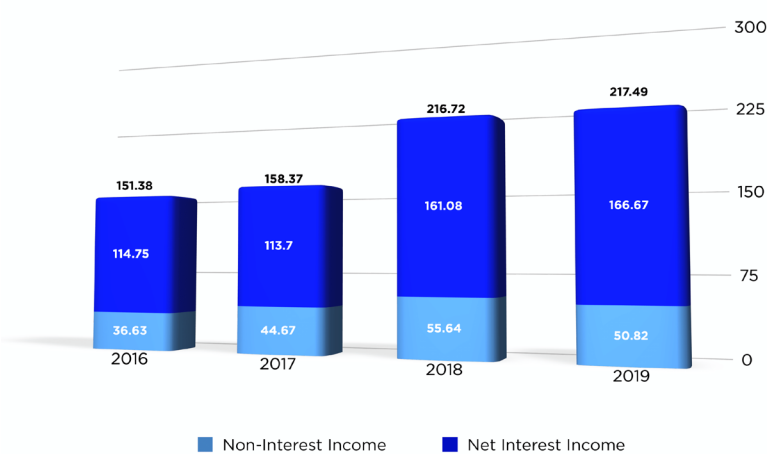


FINANCIAL HIGHLIGHTS AND RATIOS

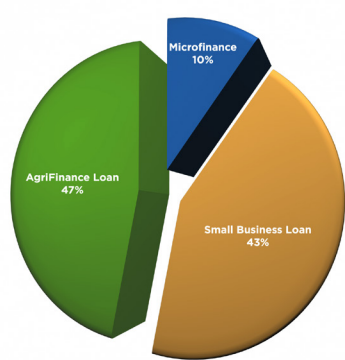
ACTIVE BORROWERS AND DEPOSITORS



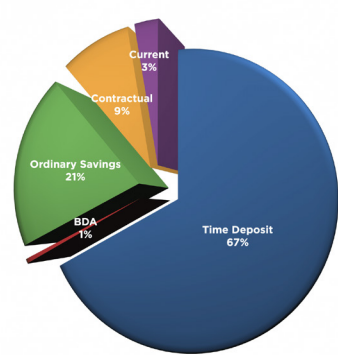
GROSS INCOME



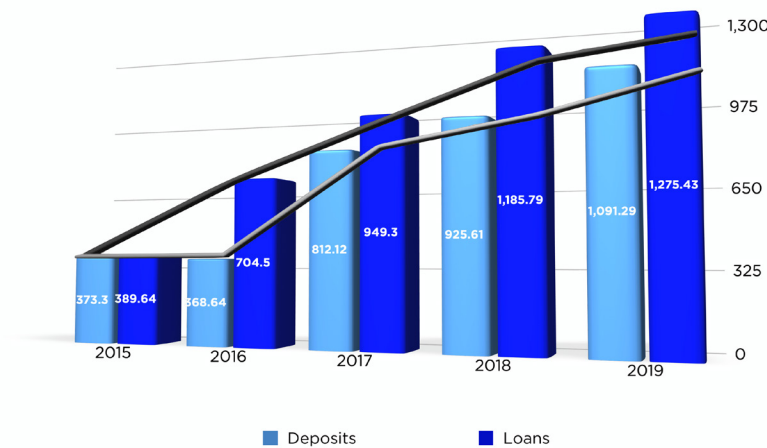
LOAN PORTFOLIO



DEPOSIT MIX



LOAN AND DEPOSIT GROWTH



REVIEW OF OPERATIONS



REVIEW OF OPERATIONS

FINANCIAL PERFORMANCE

Rizal MicroBank (RMB) sustained its profitability in 2019, ending the fiscal year with a net income after tax of P8.70 Million. While it is noticeable that there has been a significant decrease from 2018's net income, it is noteworthy that such decline can be primarily attributed to the loan loss provision set as a result of the Taal Volcano eruption in 2020 – an unfortunate event that negatively affected the Bank's trade areas in Batangas. Despite this and other challenges that hounded RMB in 2019, its financial performance is a testament to its resilience and drive to positively contribute to the welfare of its internal and external stakeholders.

Loan releases and portfolio grew minimally at 3.43% and 3.94% respectively, with RMB disbursing P1.84 Billion in loans to 2,835 active borrowers by year-end. The minimal increase in loans and receivables did not however hinder the bank from growing its assets, which stood at P1.82 Billion or a 17% jump from its asset size in the previous year.

The cautiousness exercised by the Branch Banking Group in its lending activities, given the prevalence of pyramid scams stalled RMB's ability to maintain its impressive performance in loan disbursements in 2018. However, it was a necessary step to protect the Bank from the adverse repercussions associated with lending to individuals participating in such schemes. In spite of such measures, loan portfolio of P1.27 Billion yielded an interest income of P221.82 Million. The strict imposition of a minimum 10% interest rate across all products catalyzed the Bank's ability to register an 18% growth rate in this aspect.

Total liabilities also increased to P1.23 Billion or by 28% YOY.

Deposits continue to be the main source of loanable funds for the bank as it represents 88% of the total liabilities. In 2019, deposits grew to P1.09 Billion, 67% of which came from time deposits whose market interest rates surged to 6%. This resulted to the doubling of the Bank's interest expense from P21.07 Million to P41.15 Million by the end of the year.

Total capital slightly decreased from P588.71 Million to P586.24 Million, largely due to the increase in the bank's general loan loss reserves, and revaluation reserves. Further, the bank maintains its capital above regulatory standards under BASEL III, with a qualifying capital of 29.46% and Common Equity Tier 1 of 28.74%, minimums of which are 10% and 6% of risk-weighted assets respectively.

OPERATIONAL PERFORMANCE

With focus towards financial inclusion, Bank's transition as an institution required agility and flexibility in operations, without sacrificing the production and quality of its loan and deposit portfolios. With 2018 serving as a benchmark in terms of its operations, RMB persisted in improving its services further thus encapsulating the essence of being the financial partner not just of Filipino micro and small entrepreneurs, but also of the unbanked and underserved populations in the country.

The launch of Pangarap Savings and Munting Pangarap Savings, the Bank's Basic Deposit Account (BDA) products for adults and school-age children is a manifestation of the Bank's commitment to service the abovementioned market segments. As a financial inclusion product, these accounts feature P50 as initial deposit and no maintaining balance, and merely require the presentation of only one valid ID, in compliance with BSP Circular 992. The accessibility and conduciveness of the product resonated with 4,129 customers who have all opened a BDA account with RMB. As of December 31, 2019, the bank's BDA products produced an outstanding balance of P5.73 Million.

Generating low-cost funds has also been valuable to the bank's lending operations as it enabled RMB to slowly shift its deposit mix in favor of Time Deposits; by year-end, 33% of the deposits are from CASA and while the remaining 67% are from Time Deposits. Sustaining the promotion of the BDA, alongside the Ordinary Savings and Contractual Savings products, whose value is at P226.11 Million and P94.59 Million respectively, would eventually allow the expansion of the Bank's net interest margin.



REVIEW OF OPERATIONS

In the meantime, the Bank's drive to continuously support the branches' loan generation necessitated the need to produce Time Deposits accounts, thus rationalizing the increase of this product's portfolio to P734.29 Million or a 24% YOY growth.

While loan growth remained flat in 2019, it did not diminish RMB's efforts to service micro and small Filipino entrepreneurs. As of December 31, 2019, RMB's loan portfolio mix was as follows: 10% microfinance, 43% small business and 47% agricultural loans. The Bank's goal is to expand its reach further into markets that are untapped by major players in the industry via digital financial technology solutions.

A key initiative implemented in 2019 was the migration to a cloud-based core banking system (CBS), with RMB being the first thrift bank in the country to utilize such a model. In partnership with Nextbank, this software-as-a-service system paves the way for RMB to integrate new banking platforms that would be beneficial to the market it has committed to serve. One of these innovative solutions would be the Agency Banking program, to be launched in 2020. This allows the Bank to grow its distribution channel by partnering with local merchants who will service financial transactions on behalf of RMB.

RMB has also taken steps to strengthen its positioning within the microfinance and agricultural industries. The Bank established a Microfinance Department to fully focus on servicing the capital requirements of micro entrepreneurs, and in anticipation of the additional clients acquired via our partner agents. The Bank was also chosen by the Asian Development Bank (ADB), in partnership with Bangko Sentral ng Pilipinas (BSP), to participate in the pilot run of the Agricultural Value Chain Financing project. Lending based on a value chain perspective would mitigate institutional risks present within agricultural segments and industries. The program would equip RMB with tools that would fortify its assessment of potential clients in specific agricultural commodities.

The diversity of the Bank's strategic initiatives are all directed towards operationalizing its vision of making financial access work, and in doing so, producing sustainable impact among common people in the country. As an institution, it takes pride in improving the lives of its clients through the financial resources accorded to them.

It was only fitting that we ended 2019 with Mr. Eduardo Azores, a microenterprise client of RMB Koronadal in South



Cotabato, being awarded as the National Winner of the 17th Citi Microentrepreneurship Awards (CMA), jointly presented by Citi Foundation, BSP and Microfinance Council of the Philippines. The CMA recognizes outstanding microentrepreneurs across the Philippines who have shown grit and tenacity in growing their businesses while uplifting the lives of their families and communities. Mr. Azores is the first client of RMB to win the National Award, and the third client to be recognized by the award-giving body.

The achievements of Mr. Azores and that of other ordinary Filipino entrepreneurs who work tirelessly to build a better future for themselves and their families inspire us in the Bank to pursue our purpose. As we venture into our 10th year as a financial institution, we remain grounded as we pursue the goal of fulfilling dreams through financial access – a mission which we aim to continuously fulfill for years to come.

RISK MANAGEMENT FRAMEWORK

RISK MANAGEMENT CULTURE AND PHILOSOPHY

RMB has kept its focus on two critical market segments, namely the micro and small entrepreneur. While these naturally encompass a wide range of business activities, the Bank has chosen to spend more time working with those involved in agricultural value chain activities. Traditionally, these are largely underserved by the formal financial services community since their activities are in the rural countryside. As such, agency banking has become the delivery mechanism of choice for RMB.

In the nine years since inception, RMB Management has embraced the following precepts:

- Prudential risk-taking and proactive exposure management for sustainable growth, capital adequacy and profitability
- Alignment of standards with internationally accepted practices and regulations in the daily conduct of risk and performance management
- A commitment to develop risk awareness across all operating units, promoting the highest standards of ethics and integrity, establishing a culture that emphasizes the importance of the risk process, sound internal control, and advocating the efficient use of capital

The primary mission of RMB is to increase profitability of micro-entrepreneurs and small businessmen. This is achieved through a painstaking study of the intricacies of each business encountered via solicitation in the field. On a daily basis, RMB's Loan Account Specialists (LAS) are sent out to seek micro and small enterprises that will benefit from an infusion of working capital. They have been carefully trained to analyze cash flows and its effects on the business of additional borrowing. While the focus is on the business condition, the household is closely examined since earnings are naturally redirected towards education, medical bills, utilities and other expenses of the immediate and extended family.

Towards the end of 2019, Loan Account Specialists were equipped with Android tablets running credit scoring software for new loan applicants to streamline client acquisition. The green light to begin loan processing can happen within 30 minutes of completing the loan application. Upon qualifying, the Loan Account Specialists can proceed with client and background interviews. This minimizes energy and time-consuming effort on ineligible applicants.

As a contribution to financial inclusion, RMB has vigorously implemented an agricultural value chain financing program in the countryside. In 2020, a formal manual will be

institutionalized as a result of a pilot program in the said field, in partnership with BSP and ADB. Further to financial inclusion efforts, an Agency Banking Initiative was implemented to bring financial services where it is needed most, in the communities where the unbanked live. Strong linkages with local businesses have provided agent platforms that provide these with increased customer traffic and fee-based income from banking transactions performed on RMB's behalf. Needless to say, Risk Awareness has been top-of-mind in the development and implementation of these processes.

RISK APPETITE AND STRATEGY

Loans Account Specialists have clear marching orders. Seek out micro and small entrepreneurs who indicate an interest in borrowing additional working capital. Immerse themselves in the day-to-day operational subtleties while remaining focused on the big picture. Look at the family's requirements that will impact on the financial condition of the business. Establish the optimal amount of borrowing that will generate the greatest profitability based on existing conditions. Finally, answer the question – if this were your own money, would you be willing to lend it to the loan applicant?

The most important Key Risk Indicator for RMB's loan products is Portfolio-At-Risk (PAR). This is a red flag that signals possible errors in estimations of the optimal amount of debt the business should have taken on. This is measured as a missed payment of one day on any loan amortizations that are due. RMB's most successful business advisers have large portfolios with zero PAR. It is this zero-tolerance for delinquency that the Bank strives to impart on its operations group.

RMB has no appetite to lend to businesses involved in any vices. RMB avoids lending for consumption purposes. It protects itself from risks by limiting credit concentration to the current percentages per type of industry while attempting to grow its loan book.

RMB accepts short and medium-term deposits from the public. These are either lent out or placed in short term deposits with the BSP or the National Treasury. RMB does not lend to other Financial Institutions unless they are part of the RCBC group. At best, RMB maintains CASA deposits (for liquidity purposes) with other leading commercial banks in areas where there are no RCBC or RSB branches available.

ROLES AND RESPONSIBILITIES

BOARD OF DIRECTORS

The Board of Directors (BOD) responsibilities are to:

RISK MANAGEMENT FRAMEWORK

- Approve the risk management framework which covers the risk management principles, strategies, policies, process and controls recommended by Chief Risk Officer.
- Define the risk philosophy, strategy, risk appetite and tolerances
- Delegate risk management authority
- Approve appropriate thresholds or limits and set out policy in resolving the limit breaches
- Ensure that there is an established communication process of Risk Framework, risk appetite and tolerance from Senior Management to the first line process owners.

RISK OVERSIGHT COMMITTEE (ROC)

The Risk Management Department reports directly to the Risk Oversight Committee (ROC) of the Bank.

The ROC shall advise the Board of Directors on the bank's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the bank.

CHIEF RISK OFFICER (CRO)

The CRO shall be responsible for overseeing the risk management function and shall support the Board of Directors in the development of the risk appetite and risk appetite statement of the bank, and for translating the risk appetite into a risk limits structure. The CRO shall likewise propose enhancements to risk management policies, processes, and systems to ensure that the bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

Further, the CRO shall be directly responsible in supervising the Operational Risk Management and Credit Risk Management Units of the bank.

OPERATIONAL RISK MANAGEMENT UNIT (ORMU)

The responsibilities of the ORM Unit are to:

- Define and establish Operational Risk Management methodology tools and risk reporting system.
- Challenge the effectiveness of risk identification, assessment, control monitoring and reporting activities across the Bank
- Consolidate and report to the BOD all identified risk

and risk incidents or issues of process owners reported to ORM unit.

- Propose proper policies and procedures to the BOD and Senior Management relating to Operational Risk Management and controls;
- Cascade operational risk management activities throughout the organization and facilitate training of the Business Units in proper assessment of ORM issues.
- Ensure that established risk controls are compliant with the applicable laws and regulations
- Oversee implementation of internal controls
- Report to BOD and Senior Management on the Bank's operating risk profile, the effectiveness of controls and alignment with risk tolerance and risk appetite

CREDIT RISK MANAGEMENT UNIT (CRMU)

The responsibilities of the CRM Unit are to:

- Establish an appropriate credit risk environment and ensure that the bank is operating under a sound credit granting process
- Maintain bank's appropriate credit administration, measurement, monitoring process and control process
- Propose credit policies and procedures to the BOD and Senior Management relating to credit Risk Management and controls;
- Ensure that established credit risk controls are compliant with applicable laws and regulations
- Report to BOD and Senior Management on the Bank's credit risk profile, the effectiveness of controls and alignment with risk tolerance and risk appetite

RISK MANAGEMENT POLICY

Credit Risk

The Bangko Sentral has laid down the building blocks for the implementation of the Philippine Financial Reporting Standard 9 (PFRS 9) with the issuance of enhanced standards on credit risk management in 2014 and amendment of the definitions of past due and non-performing loans in 2017. In particular, Circular No. 855 (2014) emphasizes the importance of effective governance structure and risk management process

RISK MANAGEMENT FRAMEWORK

in lending operations. It highlights that instituting sound credit risk management practices is a fundamental overlay in recognizing adequate and timely allowance for credit losses. The credit risk management guidelines also explicitly set forth the Bangko Sentral's expectations on the adoption of sound loan loss methodologies that consider expected credit losses (ECL). Circular No. 941 (2017), on the other hand, aligns the regulatory definitions of past due, non-performing, and restructured accounts with international benchmarks. The said issuance aims to clearly distinguish performing from non-performing accounts and promote consistent recognition of default across the industry.

The Credit Management Unit of RMB is responsible for the implementation of these credit risk management standards. Throughout the year, strict alignment with Circular 941 in terms of past due and nonperforming loans classification was done. In the provisioning for allowance for credit losses, RMB has also complied with the RCBC-wide Expected Credit Loss (ECL) methodology.

The ECL model considers past events, current conditions, and forecasts of future economic conditions in determining the allowance for credit losses. In contrast to Philippine Accounting Standards (PAS) 39, the ECL model requires early recognition of allowance for credit losses even before objective evidence of impairment becomes apparent. Thus, credit impairment is recognized over the life of the financial asset through stages: Stage 1, 2 and 3.

Stage 1 is when credit exposures are considered "performing" and bears no significant increase in credit risk from initial recognition, or paving the way for the account to be classified as low credit risk. Stage 2 is when credit exposures are considered "under-performing" or when accounts are not yet non-performing but has a significant increase in credit risk from initial recognition. Lastly, Stage 3 is when credit exposures have objective evidence of impairment and are therefore considered as "non-performing"

The adoption of the ECL results in higher provisions especially upon first implementation as compared to the older regime under PAS 39. The increase came from Stage 1 and Stage 2 accounts. Facilities and credit exposures in Stage 1 are now required to be provided with a 12-month ECL while those classified under Stage 2 are already provided with lifetime ECL.

The ECL is a strict regime which pushed the bank further to enhance its credit risk management activities particularly with Portfolio-at-Risk reduction. It can be penal in terms of additional provisioning if the quality of loan portfolio of the bank continues to deteriorate or when PARR continues to increase, thus affecting the bank's financial performance results.

Market Risk Policy

Investments are limited to overnight and term deposit placements with BSP Treasury or Bureau of Treasury Instruments, and RCBC and its subsidiaries for term placements. Deposits with other BSP Supervised Financial Institutions (BSFI) are limited to demand or savings accounts and are strictly monitored by Treasury in terms of amounts. All deposits and investments require vetting by the Board of Directors, and each placement is individually approved.

Interest Rate Risk

All deposit products of RMB have a maturity of two years or less. All loan products have fixed interest rates for the term of the loan. Investments in other FI's or the National Government is limited to a maximum of 7-day terms. It is therefore the Bank's policy to find a balance between immunized earnings and economic value. This is communicated to the Executive Committee (Execom) monthly and to the Risk Oversight Committee and Board quarterly. Any divergence from approved lending rates requires authorization from the Branch Banking Group, President and confirmation of the Execom and/or Board.

Operational Risk Management

Operational Risk Management Unit is tasked with the following concerns:

1. Business Continuity Management – reviews and validates Business Impact Analysis, Business Continuity Plans and Risk Assessment submitted by the BCP Leaders per office/branch on an annual basis. In addition, results of Call Tree Exercises during localized and bank wide incidents such as earthquakes, typhoons and mass transport strikes and monitoring of Emergency Go-Bags are reported to the Chief Risk Officer. Also performs Disaster Recovery testing by switching to our offsite backup servers. Updates on possible pandemic outbreaks are issued as merited and earthquake preparedness on at least an annual basis .
2. Risk and Control Self-Assessment – conducted on a per business unit and department basis annually. The Operational Risk Management Unit ensures that all processes and control measures are included in the RCSA. These are submitted for checking and consultation to the Chief Risk Officer who then submits to the parent bank for consolidation on an enterprise-wide basis.
3. Incident / Loss Events Reporting – ensures that all incidents and loss events are documented and reported

RISK MANAGEMENT FRAMEWORK

to Senior Management. A risk assessment is provided to support any investigation relative to the reported incident. This is performed on a monthly basis even if there is nothing to report, simultaneously with the Reports on Crimes and Losses and Status of all Legal Cases. All reports from Branches and Departments are consolidated and assessed wherein results are incorporated in the RCSA.

4. Stress Testing – Performed at the Credit, Market and Operational Risk levels.

5. Data Privacy – The Risk Department ensures that the Bank conforms to the guidelines set by the National Privacy Commission. It commits to provide training and support to its personnel who handle data, so they can confidently and consistently comply with laws and best practices related to data privacy. It requires that permission is obtained from the clients to collect their data and likewise, demands commitments from its employees to protect this data. Bank policies and procedures are put in place to protect data privacy and systems are designed with safeguards for the same. Only closed systems are used to prevent outside parties' access to RMB databases.

6. Consumer Protection – ensures that the Branch and Other Departments are following the policies and procedures in reporting complaints. Consumer Complaints are reported to the Chief Risk Officer, Management Committee, Executive Committee, Risk Oversight Committee and the Board. Simultaneous with Loss Events Reports, these are submitted monthly even if there is nothing to report.

Consumer education is also a priority, and product roll-outs involve communicating to clientele the vagaries of their financial transactions and how they can be impacted on by these. Product material is also reviewed by the Department for alignment with prudential regulations covering clarity and brevity of product descriptions.

7. Other required monitoring and reporting to the parent bank

- a. Business Continuity Management
- b. Risk and Control Self-Assessment
- c. Loss Events Reporting
- d. Stress Testing
- e. Data Privacy
- f. Consumer Protection
- g. Other required monitoring and reporting to the parent bank

departments accomplish the ISRA on an annual basis for review by the ORM Unit. The unit ensures that all processes, threats, control measures and mitigation plans are covered in the ISRA. Final results of the risk assessment is submitted to the Chief Risk Officer for further evaluation and reporting. Training and updates on Information Security is likewise a priority since this is a constantly and quickly evolving field.

AML RISK MANAGEMENT FRAMEWORK

RMB's Board of Directors and Senior Management exercise active oversight on the bank's compliance with anti-money laundering and anti-terrorist financing laws, rules and regulations. The board has appointed a Chief Compliance Officer (CCO) who has a direct reporting line to the board through the Audit Committee. The CCO is primarily responsible for the implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program (MTPP).

The MTPP is comprehensive and risk-based, geared towards the promotion of high ethical and professional standards so that the bank may not be used, intentionally or unintentionally, for money laundering and terrorist financing. The Board requires an annual review of policies and procedures covering the Bank's MTPP to ensure their relevance and compliance with prevailing standards.

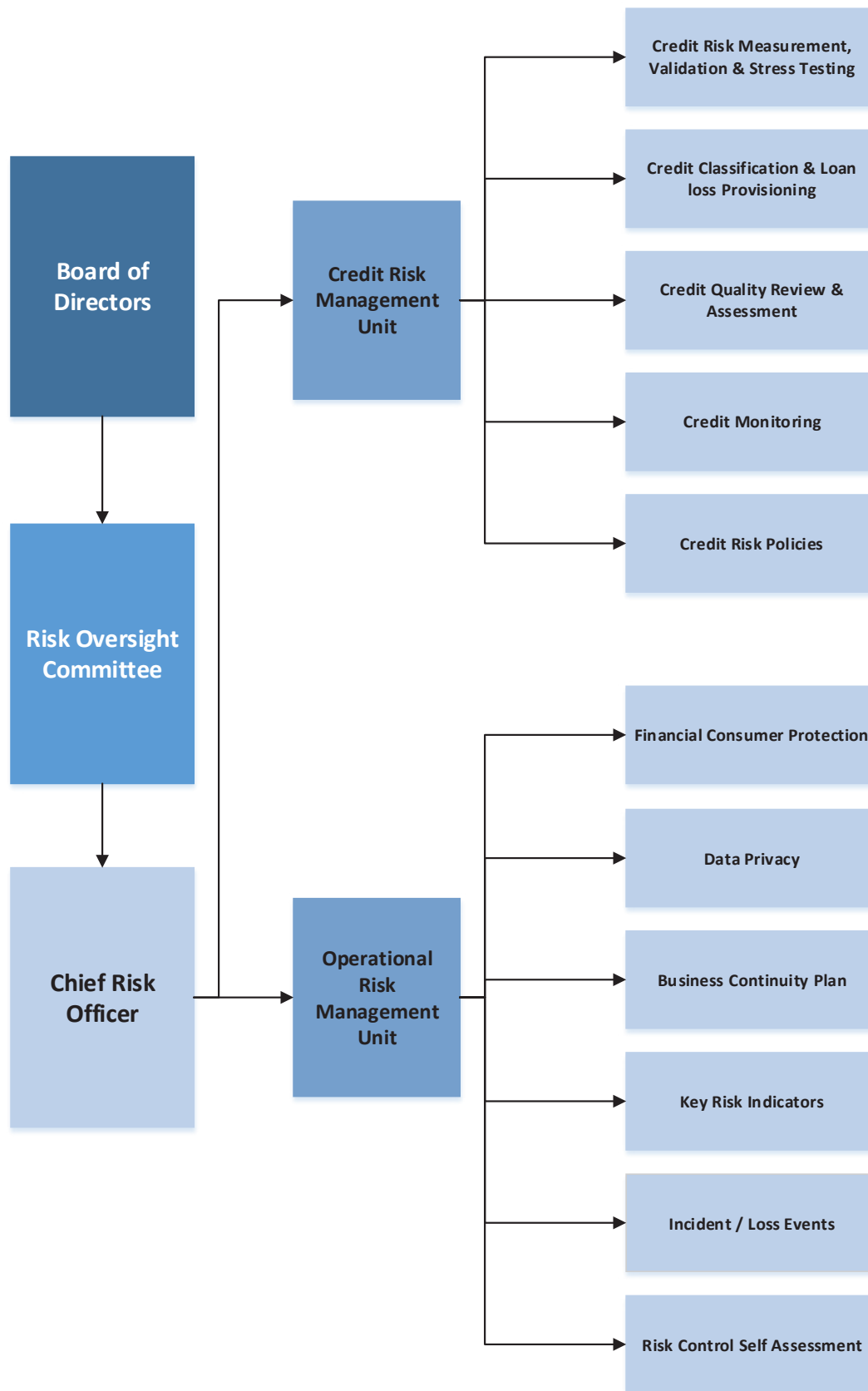
RMB's compliance with AMLA is built upon a sound and rigorous "Know Your Client" (KYC) program. Composed of money laundering control policies and procedures, KYC is used to determine the true identity of a client and the type of activity that is normal and expected, and to detect any activity that may be considered unusual in relation to the client's profile. This also involves proper and regular monitoring of transactions.

To control and reduce risks associated with money laundering and terrorist financing, an automated system of identifying unusual or suspicious patterns of account activity has been established. Any unusual/suspicious transactions are reported to the AML Committee of the Bank for its evaluation and final determination of whether the suspicion is based on reasonable grounds, for possible reporting to Anti-Money Laundering Council (AMLC).

Regular training of all Bank officers and employees is conducted to enable them to fulfill their obligations under the MTPP and AMLA, as amended, and its Revised Implementing Rules and Regulations (RIRR).

Finally, the Bank's Internal Audit Department is responsible for the periodic and independent evaluation of the bank's compliance with AMLA. It also evaluates compliance with the rules/procedures on covered and suspicious transaction reporting and record keeping and retention, as well as the adequacy and effectiveness of other existing internal controls associated with money laundering and terrorist financing.

RISK GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE



CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

The corporate governance of Rizal MicroBank is anchored on the principles of fairness, responsibility, transparency and accountability. The Board of Directors is committed to these principles to guide the Bank in the pursuit of its corporate goals through policies and practices that are consistent with applicable banking laws, rules, regulations and industry best practices.

The Board of Directors is primarily responsible for overseeing the management and governance of the Bank. It is responsible for monitoring the performance of Senior Management to ensure the effective implementation of the bank's strategic objectives, risk strategy, corporate governance, and corporate values. Its principal objective is to protect the interests of its stakeholders and create value for them.

The Board is composed of nine members who are elected by the stockholders. There are three independent directors which constitute 1/3 of the total number of board members, which is the minimum requirement of the BSP.

The President is the only executive director of the Bank. This ensures the independence of the Board from the views of senior management. Majority of the non-executive directors are seasoned bankers, thus possessing the qualifications and stature that enable them to effectively participate in the deliberations of the Board.

The directors elected in the annual meeting of the stockholders serve a one-year term and until their successors are elected and qualified. Any vacancy in the board occurring for any reason other than by removal of a director by the stockholders or by the expiration of term may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum. A director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor.

SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

1) The Corporate Governance Committee shortlists all candidates nominated to become members of the Board of Directors in accordance with the qualifications and disqualifications enumerated in the Bank's Manual of Corporate Governance and the prevailing BSP regulations. The Committee likewise reviews and evaluates the qualifications of persons nominated to officership positions requiring appointment by the Board of Directors.

2) The following factors are considered by the Committee in determining whether a person is fit and proper for the position of a director:

- a) integrity/probity;
- b) physical/mental fitness;
- c) relevant education/financial literacy/ training;
- d) possession of competencies relevant to the job, such as knowledge/experience, skills, diligence, and independence of mind; and
- e) availability of time to fully carry out responsibilities.

3) In determining the optimum number of positions which a nominee may hold, the Committee considers the following guidelines:

- a) nature of the business of the corporations where he is a director;
- b) age of the Director;
- c) number of directorships/active memberships and officerships in other corporations or organizations; and
- d) possible conflict of interest.

4) For officership positions, the following factors are considered in determining whether the person is fit and proper to be an officer:

- a) integrity/probity;
- b) education/training;
- c) possession of competencies relevant to the function, such as knowledge and experience, skills and diligence

BOARD'S OVERALL RESPONSIBILITY

The Board is responsible for approving the Bank's strategic objectives and business plans, taking into consideration the Bank's long-term financial goals, risk tolerance level, and effective management of risks. It has established a system of measuring performance against targets through regular monitoring and has ensured that actions are taken to correct shortfalls.

The Board also ensures that the Bank observes a high standard of integrity in its dealings with the public. It sets the tone of good governance at the top by upholding sound corporate values, codes of conduct and instilling the culture of compliance in itself, the senior management and other employees. It oversees the implementation of the Bank's whistleblowing policy which aims to inculcate moral uprightness among bank personnel and give them the confidence to raise

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concerns related to fraud or irregularity in the workplace.

The board is also responsible for the selection of members of senior management and heads of control functions, and the monitoring of their performance.

At the same time, the Board is responsible for approving and overseeing the implementation of the Bank's corporate governance framework. This involves defining the governance structure and practices such as:

- The conduct of regular board meetings that promote critical discussion of issues,
- Creation of board-level committees, development of policies on internal and external commitments of directors,
- Access of directors to financial information, performance evaluation of the board, the committees, the President, and the individual directors;
- Development of remuneration and retirement policies, corporate governance policies, and policies on the handling of related party transactions.

As discussed, the board is responsible for approving and overseeing the implementation of the bank's risk governance

framework. This involves defining the risk appetite; adherence to the risk appetite statement, risk policy and risk limits; policies and procedures on risk management; and defining the organizational responsibilities following the three lines of defense framework: the business units, the risk management and compliance functions, and the internal audit functions.

Finally, the Bank continuously provides products and services that support the national economy.

THE CHAIRMAN OF THE BOARD

The Chairman leads the Board of Directors. He is mainly responsible for the proper governance of the Bank and decides on all matters included in the agenda of the stockholders and BOD meetings. He is responsible for ensuring the effective functioning of the board, including maintaining a relationship of trust with board members. He encourages and promotes regular attendance and active participation and involvement in critical discussions, and enables the discussion of dissenting views during deliberations. He ensures that all members of the Board are given sufficient information and time to study carefully and responsibly issues that are taken up in board meetings.

BOARD COMPOSITION

Name of Director	Type of Directorship (executive, non-executive, independent)	Principal stockholder represented if nominee	Number of years served as director	Number of direct and indirect shares held	Percentage of shares held to total outstanding shares
Eugene S. Acevedo	Non-executive	n/a	5 months (appointed on 08/02/19)	1	0%
Gil A. Buenaventura	Non-executive	n/a	3 years (7/2016 - 7/2019)	1	0%
John Thomas G. Deveras	Non-executive	n/a	11	1	0%
Raymundo C. Roxas	Executive	n/a	4	1	0%
Wilfredo B. Domo-Ong	Independent	n/a	7	1	0%
Meliza H. Agabin	Independent	n/a	7	1	0%
Jose Vicente C. Bengzon III	Independent	n/a	6.5	1	0%
Alfredo S. Del Rosario	Non-executive	n/a	3	1	0%
Dennis C. Bancod	Non-executive	n/a	10	1	0%
Zenaida F. Torres	Non-executive	n/a	9	1	0%

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LIST OF BOARD-LEVEL COMMITTEES

Audit Committee

Name of Directors	Audit Com number of meetings	
	Attended	%
John Thomas G. Deveras	4	100%
Wilfredo B. Domo-ong	4	100%
Meliza H. Agabin	4	100%
Jose Vincent C. Bengzon III	2	50%
Zenaida F. Torres	4	100%

The Audit Committee is composed of five members of the Board of Directors, all of whom are non-executive directors. Three are independent directors, including the Chairman. They possess accounting, auditing or related financial management expertise/ experience.

The members of the Audit Committee are:

- Wilfredo B. Domo-ong – Chairman, independent director
- Meliza H. Agabin – member, independent director
- Jose Vicente C. Bengzon III– member, independent director
- John Thomas G. Deveras – member
- Zenaida F. Torres - member

The core responsibilities of the Audit Committee include the following:

- To oversee bank's financial reporting policies, practices and control to ensure the preparation of reports that are accurate, complete, and timely.
- To oversee the internal and external audit functions. It is responsible for setting up the internal audit department and the appointment of the internal auditor and the independent external auditor who both report directly to the audit committee. It likewise reviews and approves the engagement contract with the external auditor.
- To monitor and evaluate the adequacy and effectiveness of the Bank's compliance, internal control and risk management systems. It ensures that a periodic review of said systems is done at least annually to identify weaknesses and evaluate their robustness considering the bank's risk profile and strategic direction.
- To review and approve the audit scope and frequency to ensure that the scope covers areas specifically prescribed by the Bangko Sentral and other regulators. Based on the audit reports, it ensures that Senior Management

is taking the necessary measures to correct the weaknesses, violation of policies, banking laws, rules and regulations, and other issues cited by auditors

- To have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meeting.
- To establish and maintain whistleblowing mechanisms by which officers and staff can, without fear of reprisal, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to a person or independent entity which has the authority to rectify the anomaly. It ensures that channels and procedures are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of the reported irregularity.

Corporate Governance Committee

Name of Directors	Corp Gov number of meetings	
	Attended	%
Wilfredo B. Domo-ong	3	100%
Meliza H. Agabin	3	100%
Jose Vincent C. Bengzon III	1	33%
Alfredo S. Del Rosario	2	67%
Zenaida F. Torres	3	100%

The Corporate Governance Committee is composed of five members of the Board of Directors, all of whom are non-executive directors. Three are independent directors, including the chairperson. The committee has a written charter that describes the duties and responsibilities of its members.

The members of the Corporate Governance Committee are as follows:

- Meliza H. Agabin – Chairperson, independent director
- Jose Vicente C. Bengzon III– member, independent director
- Wilfredo B. Domo-ong – member, independent director
- Alfredo S. Del Rosario – member
- Zenaida F. Torres - member

The functions of the Corporate Governance Committee include the following:

- To oversee the periodic performance evaluation of the

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Board and its committees and executive management, and to conduct an annual self-evaluation of its performance.

- To oversee the continuing education of directors, and thus, ensure the allocation of adequate time and resources.
- To make recommendations to the Board of Directors regarding board committees assignments, as well as succession plans for the board members and senior officers.
- To oversee the design and operation of the remuneration and incentives policy to ensure that it operates and achieves the goals as planned.
- To review and evaluate the qualifications of candidates nominated to become members of the Board of Directors and persons nominated to officership positions requiring appointment by the Board.

Risk Oversight Committee

Name of Directors	Risk Oversight number of meetings	
	Attended	%
John Thomas G. Deveras	3	100%
Wilfredo B. Domo-ong	3	100%
Meliza H. Agabin	3	100%
Jose Vincent C. Bengzon III	1	33%
Zenaida F. Torres	3	100%

The Risk Oversight Committee is composed of five members of the Board of Directors, all of whom are non-executive directors. Three are independent directors, including the chairperson. The members of the Risk Oversight Committee possess a range of expertise as well as adequate knowledge on risk management issues and practices that enable them to develop appropriate strategies for preventing or mitigating losses.

The members of the Risk Oversight Committee are as follows:

- Jose Vicente C. Bengzon III- Chairman, independent director
- Meliza H. Agabin – member, independent director
- Wilfredo B. Domo-ong - member, independent director
- John Thomas G. Deveras – member
- Zenaida F. Torres - member

In general, the Risk Oversight Committee is responsible for

the development and oversight of the bank's risk management program.

The core responsibilities of the Risk Oversight Committee include the following:

- To oversee the risk management framework of the Bank. It periodically reviews the risk management processes and ensures that appropriate measures are being taken to attain a judicious balance between risk and reward in both current and new business activities.
- To define the risk appetite and review the risk profile of the Bank to ensure that the risk is not higher than the risk appetite determined by the board. It ensures that the current and emerging risk exposures are consistent with the bank's strategic direction and overall risk appetite.
- To oversee the risk management function. It is responsible for the appointment of the Chief Risk Officer. It ensures that the risk management function has adequate resources to enable it to oversee the risk-taking activities of the bank.
- To report regularly to the Board of Directors on the Bank's over-all risk exposure and actions taken to mitigate the risks, and to recommend further action or plans as necessary.

Related Party Transactions Committee

Name of Directors	RPT number of meetings	
	Attended	%
Wilfredo B. Domo-ong	2	100%
Meliza H. Agabin	2	100%
Jose Vincent C. Bengzon III	1	50%

The Related Party Transactions (RPT) Committee is composed of three (3) members of the Board of Directors, all of whom are independent directors. The committee ensures that related party transactions are conducted at arm's length basis or on terms no less favorable to the Bank than terms available to any unrelated third party under the same or similar circumstances.

The members of the RPT committee are as follows:

- Meliza H. Agabin - Chairman, independent director
- Jose Vicente C. Bengzon III – member, independent director

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- c) Wilfredo B. Domo-ong – member, independent director

The duties and responsibilities of the RPT Committee include the following:

- To evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, transactions are monitored, and subsequent changes in relationships with counterparties are captured.
- To evaluate material related party transactions to ensure that the terms and conditions are also available to unrelated parties under similar circumstances.
- To ensure transparency and full disclosure of RPT transactions to the BSP.
- To report to the board of directors on a regular basis, the status and aggregate exposures to each related party and the total amount of exposures to all related parties.
- To ensure that policies and procedures are in place for the regular reporting by banking units of their existing RPTs as well as potential RPTs.
- To ensure that transactions with related parties, including write-off of exposures are subject to periodic independent review or audit.
- To oversee the implementation of the system of identifying, monitoring, measuring, controlling and reporting RPTs.

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Name of Directors	Board		Audit Committee		Corp Gov Committee		Risk Oversight		RPT Committee	
	Number of meetings		Number of meetings		Number of meetings		Number of meetings		Number of meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Eugene S. Acevedo**	3 of 3	100%								
Gil A. Buenaventura*	3 of 4	75%								
John Thomas G. Deveras	6	86%	4	100%			3	100%		
Raymundo C. Roxas	7	100%								
Wilfredo B. Domo-ong	7	100%	4	100%	3	100%	3	100%	2	100%
Meliza H. Agabin	7	100%	4	100%	3	100%	3	100%	2	100%
Jose Vicente C. Bengzon III	4	57%	2	50%	1	33%	1	33%	1	50%
Alfredo S. Del Rosario	4	57%			2	67%				
Redentor C. Bancod	4	57%								
Zenaida F. Torres	7	100%	4	100%	3	100%	3	100%		
Total Number of Meetings Held During the Year	7	100%	4	100%	3	100%	3	100%	2	100%

shaded – not a Committee member

*Term ended in July 2019

**Elected at the August 2, 2019 meeting

PERFORMANCE ASSESSMENT PROGRAM

The Board of Directors conducts an annual self-assessment of the Board as a whole, of themselves as individual members and as members of the Board committees. Each member of the committee assesses the performance of the other members and the committee as a whole. This includes an evaluation of the exercise of independent judgment, integrity and objectivity of each member and of the Board as a whole.

The Board likewise assesses the performance of the President.

Although the Bank is not a listed corporation, the assessment of the Audit Committee's performance complies with SEC Memorandum Circular No. 4, s. 2012 - "Guidelines for the Assessment of the Performance of Audit Committees of Companies Listed in the Exchange." The performance of the External Auditor is also subject to assessment.

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ORIENTATION AND EDUCATION PROGRAM

Due to the heightened regulatory demands and more competitive market, Rizal Microbank is committed to provide effective learning and development programs for its employees as well as for its directors, as it is constantly challenged to deal and cope with the demands and pressure brought by rapidly changing environment.

The Human Resources Department, in coordination with Senior Management, is focused on providing various skills-based training programs to continue building capacity and strengthening employee competencies. The internal training programs enabled employees to enhance their Marketing, Sales and Management, Product and Technical Knowledge, which includes the new core banking system, Customer Centricity, Risk Management, Security Awareness and Regulatory Compliance. Some employees were sent to various external training programs to learn technical business writing, audit standards and occupational safety and health. Also, electronic learning sessions on Anti-Money Laundering, Information Security Awareness, Data Privacy Act and Financial Consumer Protection were conducted for all employees. Newly onboarded employees were made to undergo an Employee Orientation Program to equip them with product and technical knowledge, as well as bank's policy awareness and information on regulatory compliance.

Rizal Microbank Directors and Senior Officers attended 2019's Corporate Governance Training. This is one of the learning opportunities for directors and executives to update and refresh their knowledge which will enable them to fulfill their roles. Directors also received briefings on relevant policies and updates on certain BSP regulation and circulars, as well as the bank's strategic initiatives and plans.

RETIREMENT AND SUCCESSION POLICY

The elected directors shall hold office for a term of one year and until their successors shall have been duly elected and qualified. To add, Rizal Microbank's three independent directors have been observing the term limits stated in the Bangko Sentral ng Pilipinas' Circular No. 969 dated 22 August 2017.

For Senior Management officers of the Bank, the retirement date shall be one day after the 60th birthday, and completion of at least ten years of credited service for the purpose of qualification for retirement benefit.

In terms of succession, the Human Resources Department, in consultation with the President, enhanced the Bank's

performance management process to identify opportunities and performance gaps. This provides reference for middle and senior management in reviewing and identifying internal candidates as potential successors to fill the senior leadership positions.

REMUNERATION POLICY

To encourage sustainable value creation within the organization, Rizal Microbank, Inc. is committed to provide compensation consistent with performance standards, the requirements of the law, and in a range that is competitive with the other thrift or rural banks across the country.

The Board of Directors has the authority to determine the amount and structure of the director's fees and other compensation, as well of the President's. Each director is entitled to receive fees and per diems for his or her services as a director, as stated in RMB's by-laws, for each occasion of attendance at meetings of the Board or of Board Committee. This is applicable as well for directors who are compensated as full-time officers of the RCBC Group.

For Senior Management, Officers and Staff, the President, in coordination with Human Resources Department, ensures that the pay appropriately reflects the Bank's financial performance and individual job performance. The Bank also ensures that it offers competitive compensation package which is aligned with performance standards and has pay differentials for different types of work and job levels based on the board approved salary structure. On top of that, the Bank provides incentives and rewards for performing employees which contributed to the overall business objectives and targets.

POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS

Related Party refers to:

- a) Directors, Officers, Stockholders, and Related Interests DOSRI as defined under BSP regulations;
- b) Close family members of the Bank's directors, officers and stockholders;
- c) The Bank's subsidiaries, affiliates and any party that the Bank exerts direct/indirect control over or that exerts direct/indirect control over the Bank;
- d) Corresponding persons in affiliated companies which refer to the DOS of the companies and their relatives within the second degree of consanguinity and affinity;

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e) Other members of the Yuchengco Group of Companies (YGC) that are not classified as DOSRI, subsidiary or affiliate.

f) Entities with direct or indirect linkages to the Bank

g) Members of the Advisory Board of the Bank; and

h) Subsidiaries of related parties.

- The Bank's Code of Conduct shall include a provision mandating all employees to report any potential related party transactions.

- To ensure fairness and arm's length terms of RPTs, the Bank shall set parameters for selecting similarly situated non-related party accounts for benchmarking purposes, and shall put in place an effective price discovery mechanism.

- Business units handling accounts/transactions of a related party, as well as officers and employees who may be a party in a related party transaction have the responsibility to notify the Compliance Office of such transactions as soon as they become aware of it. Also, non-related parties with outstanding transactions who subsequently become related must likewise be reported to the Compliance Office.

- The Compliance Office shall conduct a preliminary review of a proposed transaction submitted by business unit to ensure compliance with BSP rules and regulations, and then forward it to the Management Committee or the RPT Committee, depending on the materiality of the amount of the transaction.

- The business units of the Bank shall maintain and regularly update their inventory of related parties and related party transactions. The inventory shall reflect the names of the related parties, relationship, and present employment/affiliation (for natural persons). The business units shall also monitor the status and aggregate exposure to each related party as well as the total amount of exposure to all related parties.

- The business units shall submit a quarterly report to the Compliance Office which contains the updated inventory and exposures to related parties. This, in turn, shall be reported by the Compliance Office to the RPT Committee.

Materiality Threshold and Approvals of RPTs

Transactions with related parties involving amounts of at least Pesos: Five Million (P5,000,000.00) shall be considered material RPTs.

The Board of Directors shall delegate to a Management Committee the review and approval of Related Party Transactions where the amount involved is below the materiality threshold of Pesos: Five Million (P5,000,000.00), unless the transaction requires board approval (e.g. loan and/or credit accommodations to DOSRI, subsidiaries and affiliates; real estate transactions with DOSRI; cross-selling and outsourcing), in which case, the transaction shall be submitted to the RPT Committee for its evaluation and endorsement to the Board for approval.

Related Party Transactions where the amount involved is at least Pesos: Five Million (P5,000,000.00) shall be evaluated by the RPT Committee and endorsed to the Board for approval. Transactions with DOSRI regardless of amount shall likewise be reviewed and endorsed by the Committee for Board approval.

Related Party Transactions where the amount involved is at least Pesos: Five Million (P5,000,000.00) and all DOSRI transactions regardless of amount, shall be approved by the Board upon endorsement by the RPT Committee. In determining whether to approve a Related Party Transaction, the Board shall be guided by the report of the RPT Committee as well as any other relevant information that may be made available to it upon its request.

Related Party Transactions that were approved by the Management Committee shall be subject to Board confirmation.

Bank's Responsibilities on Disclosure of RPTs

- To submit quarterly reports on material related party transactions to the parent Bank's RPT Committee for consolidation with the parent Bank's own report to the BSP. Material RPTs are transactions involving amounts of Php5,000,000 and above.

- To disclose all RPTs in the Bank's financial, operational, and annual reports as well as in the reports filed with the applicable regulatory body to the extent required by applicable rules and regulations.

- To disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

- To adequately disclose in its Annual Report its policies and procedures for managing Related Party Transactions, including managing conflicts of interest or potential conflicts of interest, and responsibility of the RPT Committee.

SELF-ASSESSMENT FUNCTION

The Internal Audit Function

The Bank maintains an Internal Audit function which aims to add value and improve the organization's operations. Internal auditing is an independent, objective assurance and consulting activity designed to help the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. It ascertains the adequacy and effectiveness of the Bank's management over risks, control and process. Internal Audit shall provide reasonable assurance that internal controls of the bank are in place.

The Board of Directors through the Audit Committee provides authority to Internal Audit to have unrestricted access to all bank records, physical properties, personnel and functions. Further, the Board allows Internal Audit to seek any other information from any Bank officer and employee and other external sources. The established authority is used solely in relevance to the performance of the engagement.

The Bank's Internal Audit Function encompasses the assessment, evaluation and contribution to the improvement of governance, risk management and control processes. Thus, the Internal Audit examines all business systems, processes, operation, function and activities within the Bank, which includes:

1. Assisting the Bank in identifying and evaluating significant risk exposures and contribute to the improvement of risk management and control systems.
2. Evaluating the risk exposures and adequacy of controls relating to and encompassing the Bank's governance, operations and information systems regarding the:
 - a. Reliability and integrity of financial and operational information
 - b. Effectiveness and efficiency of operations
 - c. Safeguarding assets
 - d. Compliance with laws, regulations and contracts
3. Ascertaining whether objectives and goals established by management conform to those of the Bank and whether they are being met.

Internal Audit reports directly and functionally to the Bank's Board of Directors through its Audit Committee and administratively to the Bank's President. The Audit Committee

performs oversight functions over the Bank's internal and external auditors including external service providers of permitted outsourced audit activities. It ensures that the internal and external auditors act independently of each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions. The Audit Committee likewise reviews the reports submitted by the internal and external auditors as well as those submitted by external service providers.

The Compliance Function

The Compliance Function is an independent function that identifies, assesses, mitigates, advises on, monitors and reports on the Bank's business and compliance risks, i.e. the risk of legal or regulatory sanctions, financial loss, or reputational loss a bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.

It has the authority, on its own initiative, to communicate with any staff member and obtain access to all operational areas as well as any records or files necessary to enable it to carry out its duties and responsibilities. It is free to investigate possible breaches of the compliance manual and report on any irregularities or breaches of laws, rules and regulations discovered without fear of retaliation or disfavor from management or other affected parties.

Role of the Compliance Office:

1. To oversee the design of an appropriate compliance system, promote its effective implementation, and address breaches that may arise and ensure a bank-wide compliance culture such that compliance standards are understood and observed by all bank associates.
2. To monitor bank's compliance with relevant banking laws, rules and regulations including the Anti-Money Laundering Act (AMLA) to maintain a high degree of regulatory compliance, thus, avoiding penalties/sanctions from regulatory agencies.
3. To ensure the integrity and accuracy of all documentary submissions to BSP through independent validation, and timely and accurate submission of all reports to regulators.
4. To conduct preliminary evaluation of suspicious transaction reports and convene the Anti-Money Laundering (AML) Committee of the Bank when necessary for the final

determination of the grounds for reporting to the AMLC.

5. To identify and assess material breaches of the compliance program, conduct investigations of possible breaches and properly address these within the mechanisms defined by the Compliance Program, and perform risk-based compliance testing and other procedures to ensure the effectiveness of the compliance program in achieving its objectives.

6. To monitor corrections of all the exceptions noted during BSP audit and compliance testing on units to ensure no recurrence of findings.

7. To ensure timely dissemination of BSP circulars and other regulatory issuances to all concerned units.

8. To provide periodical and regular compliance reports that will:

a. Provide the Board of Directors through the Audit Committee with Quarterly Activity Reports of the Compliance Office to apprise them of the Bank's state of compliance, and the impact of violation of banking laws, rules and regulations;

b. Provide concerned officers of business centers/ departments with the report on the results of monitoring and risk-based compliance review conducted by the Compliance Office.

c. Provide Senior Management and the Board of Directors through the Audit Committee, with the BSP Reports of Examination (Head Office and branches) together with the replies/action taken to correct them by the concerned units.

DIVIDEND POLICY

In accordance with Bank's policy, dividends may be declared annually or oftener as the Board of Directors may determine. The board shall declare dividends only from the surplus profits of the Bank after making proper provisions for the necessary reserves in accordance with banking laws, and rules and regulations of the Bangko Sentral ng Pilipinas.

No dividends were declared by the Bank during the year.

CONSUMER PROTECTION PRACTICES

Board of Directors and Senior Management

The Board of Directors is primarily responsible for

approving and overseeing the implementation of the Bank's consumer protection policies adopting a mechanism to ensure compliance therewith. It is also responsible for developing and maintaining a sound Consumer Protection Risk Management System (CPRMS) and monitoring and overseeing, thru the Risk Oversight Committee, the performance of Senior Management in managing the day to day consumer protection activities of the Bank.

Senior Management, on the other hand, is responsible for developing policies and procedures on consumer protection which are compliant with the requirements of the BSP and existing consumer protection laws, rules and regulations, ensuring their faithful implementation by all Bank officers and staff, and performing other duties and responsibilities delegated by the Board with regard to financial consumer protection.

The Consumer Protection Risk Management System

The Consumer Protection Risk Management System (CPRMS), which is part of the bank-wide Risk Management System of RMB, provides the foundation for Bank's adherence to consumer protection standards of conduct, and compliance with consumer protection laws, rules and regulations. It is proportionate to the nature and scope of operations, size, and risk profile of the Bank.

The Bank's CPRMS has the following components:

1. Board and Senior Management Oversight of the CPRMS – The Board and Senior Management are responsible for reviewing on a periodic basis the effectiveness of the CPRMS, including how findings are reported and the timeliness of said reports to the Board/Risk Oversight Committee, and whether the audit mechanisms in place enable adequate oversight.
2. Compliance Program - The Compliance Office has integrated the Consumer Protection Compliance Program into the over-all compliance program of the Bank. It forms part of the monitoring, testing, and reporting activities of the Compliance Office.
3. Policies and Procedures – The bank's consumer protection policies and procedures are compliant with the requirements of existing laws, rules and regulations on consumer protection. These are embedded in the Bank's business operations, reviewed periodically and kept updated as these serve as reference by employees in their day-to-day activities.
4. Internal Audit Function - The Internal Audit Department reviews Bank's consumer protection practices, adherence to internal policies and procedures, and compliance with

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existing laws, rules and regulations on financial consumer protection.

5. Risk Management Function - The Risk Management Department (RMD) provides guidance to business units in accomplishing the Risk and Control Self-Assessment (RCSA) for consumer protection as a mechanism to identify, measure, and monitor inherent consumer protection compliance risks, and evaluate Bank's procedures to control and mitigate these risks.
6. Training - The Human Resources Department provides personnel whose roles and responsibilities involve customer interaction, with adequate training on the proper implementation of written policies and procedures on consumer protection

Consumer Assistance Management System

The Bank has developed a Manual of Consumer Assistance Policies and Procedures (complaints handling manual) to provide consumers with a mechanism through which they can seek redress for their complaints/concerns regarding the Bank's products and services.

RMB has designated all of its branch cashiers as Customer Assistance Officers reporting to the Risk Management Department. This structure was given approval by the BSP in November 2017. The Board has direct oversight on Consumer Protection and is responsible for seeing that RMB Senior Management and staff are responsive to Consumer concerns. All branches of RMB have clearly marked feedback boxes and are provided pen and paper for writing in any customer complaints. All branches likewise have a standee with a photograph, name, number and email address of the Customer Assistance Officer of the branch and the contact details of the Chief Risk Officer. This additional channel to the Chief Risk Officer, who is in charge of Consumer Protection for the bank, is provided as an option to bank's clientele if for any reason they do not want to submit a complaint to the branch personnel. On a monthly basis, the Risk Management Department requires submission of Consumer Complaints Reports on a nil reporting basis, to ensure that the Complaints Handling Manual of RMB is followed to the letter. Any incidents reported will be relayed to the Risk Oversight Committee and the Board of Directors during its Quarterly meetings. Since implementation in February 2016, the system is effective in receiving customer queries and feedback, which were endorsed to the appropriate offices for their respective actions.

The following table shows the timelines imposed by the bank on the handling of customer complaints:

PROCESSING OF COMPLAINT	SIMPLE *	COMPLEX *
Acknowledgment	Within 2 days**	Within 2 days**
Processing and resolution (assess, investigate and resolve)	Within 7 days**	Within 45 days**
Communication of Resolution	Within 2 days from date of resolution	Within 2 days from date of resolution

* Simple complaint/request – a complaint/request where frontline staff solution or immediate explanation or action can be rendered.

* Complex complaint/request – a complaint/request which needs assessment, verification, or investigation with third party intervention.

** Reckoned from date of receipt of complaint

MAJOR STOCKHOLDER OF RIZAL MICROBANK

Rizal Commercial Banking Corporation, Filipino, 98.03% ownership of shares with voting rights.



BOARD OF DIRECTORS



EUGENE S. ACEVEDO

Chairman, Non-Executive Director

55 years of age, Filipino

BS Physics (Magna Cum Laude), University of San Carlos; Masters in Business Management, Asian Institute of Management

Mr. Acevedo is the President and Chief Executive Officer of Rizal Commercial Banking Corporation. Previous to this, he held senior leadership positions in three banking organizations. As a Managing Director with Citibank, he was Regional Head of Derivatives Structuring based in Singapore, Country Treasurer for the Philippines and Hong Kong, and Global Markets Head for Hong Kong/ Taiwan/ Macau.

He was President and CEO of Philippine National Bank. Before becoming a banker, Mr. Acevedo was a Lecturer at the University of the Philippines - National Institute of Physics. He is an Outstanding Alumnus Awardee of the University of San Carlos where he graduated BS Physics, magna cum laude, as a DOST scholar. He finished his Masters in Business Management at the Asian Institute of Management where he was the Javier Nepomuceno Scholar. He also took the Advanced Management Program at the Harvard Business School.

He is a Fellow of the Institute of Corporate Directors, Trustee and Executive-in-Residence of the Asian Institute of Management, and Trustee of De La Salle John Bosco College, where he graduated high school valedictorian.



JOHN THOMAS G. DEVERAS

Vice Chairman, Non-Executive Director

57 years of age, Filipino

BS Management Engineering, Ateneo De Manila University; Masters in Business Administration, University of Chicago

Mr. John Thomas G. Deveras assumed the Presidency of the Bank in 2009. In 2012, he relinquished the position and was appointed as Vice Chairman of the Board and Chairman of the Executive Committee. He is currently the Head of Strategic Initiatives and Asset Management & Remedial Group of RCBC. He is also Chairman/Director of RCBC Rental Corporation, RCBC Leasing and Finance Corporation, and Niyog Property Holdings, Inc.

Before joining the RCBC Group, Mr. Deveras worked as an Investment Officer of the International Finance Corporation (IFC). Prior to that, he was Senior Vice President/Head, Remedial Management Group of the Philippine National Bank (PNB) and President of PNB Capital.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2016.

BOARD OF DIRECTORS



RAYMUNDO C. ROXAS
President, Executive Director
52 years of age, Filipino

BS Psychology (Cum Laude), Lyceum of the Philippines; AB Philosophy, San Pablo Major Seminary

Mr. Raymundo C. Roxas has been with the Bank since March 2009. He started as a Microfinance Consultant in March 2009, rose to the position of Head of Operations in December 2009, and finally was appointed as the Bank's President on March 21, 2016.

Before joining the Bank, he worked as Regional Manager of the United States Agency for International Development-Rural Bankers Association of the Philippines Microenterprise Access to Banking Services Program (USAID-RBAP MABS), Chief Commercial Officer of ACCION International-Inner Mongolia, and Microfinance Department Head & Technical Assistant to the General Manager of First Isabela Cooperative Bank, Inc.

He successfully completed the Middle Management Development Course conducted by RCBC & De La Salle University Professional School, and the Leadership Development Program conducted by RCBC & John Clements Consultancy.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2016. In 2000, he participated in the Bank Management Development Course conducted by the University of Asia and the Pacific sponsored by the People's Credit and Finance Corporation. In 2007, he attended the ACCION International Management Orientation Training in Lima, Peru.



REDENTOR C. BANCOD
Non-Executive Director
56 years of age, Filipino

AB Philosophy, University of the Philippines; MS Information Management (candidate), Ateneo De Manila University; Executive MBA, Kellogg School of Business and Hongkong University of Science and Technology; post graduate studies at the Asian Institute of Management.

Mr. Redentor C. Bancod has been a director of the Bank for ten (10) years. He is the Chief of Staff of RCBC and concurrently heads the Information Technology Shared Services Group and Operations Group of RCBC, with the rank of Senior Executive Vice President. He is also a director of RCBC Telemoney Europe, RCBC North America, Inc., RCBC International Finance, Ltd. and RCBC Investment, Ltd.

Before joining the Bank, Mr. Bancod was Vice President and General Manager, Central Systems Asia of Sun Life Financial, Asia and Chief Technology Officer of Sun Life of Canada (Philippines), Inc. He also served as Chief Technology Officer of Equitable-PCI Bank.

In 2013, Mr. Bancod was recognized as one of the top CIOs in Asia by International Data Group (IDG).

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2019.

BOARD OF DIRECTORS



ZENAIDA F. TORRES
Non-Executive Director
65 years of age, Filipino

BSBA Accounting, University of the East, Certified Public Accountant

Ms. Zenaida F. Torres has been a director of the Bank for nine (9) years. She is also a director of Niyog Property Holdings, Inc. and Rizal Equities, Inc. She works as Consultant of the House of Investments, Inc.

She was formerly the Head of Controllership Group of Rizal Commercial Banking Corporation, and director of Manchester Land Properties, Inc.

She attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2019. She also attended the following seminars: IFRS 9-Business Impact and Benefits of Early Adoption, Blue Ocean Strategy, and IFRS vs. Tax Laws and Regulations.



ALFREDO S. DEL ROSARIO, JR.
Non-Executive Director
64 years of age, Filipino

BS Management, Ateneo De Manila University; Masters in Business Administration (Units), Ateneo Graduate School, Juris Doctor (units), Ateneo Law School

BS Management, Ateneo De Manila University; Masters in Business Administration (Units), Ateneo Graduate School, Juris Doctor (units), Ateneo Law School

Mr. Alfredo S. Del Rosario Jr. has been a non-executive director of the Bank for three (3) years. He is a member of the Bank's Executive Committee and the Corporate Governance Committee. He has been President and CEO of Philippine Realty and Development Corporation since 2016.

Mr. Del Rosario was Chairman & President of RCBC-JPL Holding Company, Inc., Director/Vice President of Niyog Property Holdings, Inc., and Executive Vice President for Special Projects of RCBC.

Before joining the Bank, Mr. Del Rosario was Group Head of RCBC with the rank of Executive Vice President. He was also a director of Pres. Jose P. Laurel Rural Bank, Inc.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2019.

BOARD OF DIRECTORS



JOSE VICENTE C. BENGZON III

Independent Director

62 years of age, Filipino

AB Economics and BS Commerce Major in Accounting, De La Salle University; Certified Public Accountant; Masters in Business Administration, J.L. Kellogg School of Management, Northwestern University

Mr. Jose Vicente C. Bengzon III has been an independent director of the Bank for 6 1/2 years. He is the Chairman of the Risk Oversight Committee and member of the Audit and Corporate Governance Committees. He is Vice Chairman/Chairman of the Executive Committee of Commtrend Construction Corporation, Chairman of Vitarich Corporation, and President of UPCC Holdings Corporation. He is senior board adviser to Malayan Bank.

Before joining the Bank, Mr. Bengzon was director of Philippine Al Amanah Bank, Panaro Minerals Phils Ltd., Philippine Business Leaders Forum, Inc., and Panay Railways, Inc. He was Acting Chairman of the Philippine National Construction Corporation, and director of South Tollways, Manila Tollways, CITRA MM Tollways, and Bermaz Auto Philippines.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2016.



MELIZA H. AGABIN

Independent Director

79 years of age, Filipino

AB Economics, University of the Philippines

Ms. Meliza H. Agabin has been an independent director of the Bank for seven (7) years. She is the Chairperson of the Corporate Governance Committee and member of the Audit and Risk Oversight Committees. She is also an independent director of Aurora Bank (A Microfinance Oriented Rural Bank), Dumaguete City Development Bank, and Senior Advisor of Chemonics International.

Before joining the Bank, Ms. Agabin was an Associate of Microfinance Opportunities. She worked at Chemonics International from 1998 to 2012, handling the USAID-supported RBAP MABS Program in various capacities (Senior Microfinance Specialist, Chief of Party, Deputy Chief of Party, Consultant, etc.), and from 2014 to 2015 as Senior Management Advisor with the E-PESO Project, another USAID-assisted activity

She attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2019.

BOARD OF DIRECTORS



WILFREDO B. DOMO-ONG

Independent Director

80 years of age, Filipino

BS Commerce, University of Mindanao and Manuel L. Quezon University; Bachelor of Laws, Manuel L. Quezon University

Atty. Wilfredo B. Domo-ong has been an independent director of the Bank for 7 years. He is the Chairman of the Audit Committee and member of the Corporate Governance and Risk Oversight Committees. He is also a director of First Valley Bank and Card SME Bank.

Before joining the Bank, Atty. Domo-ong was Director of the Department of Rural Banks, Bangko Sentral ng Pilipinas.

Atty. Domo-ong has attended the following trainings/seminars: IT Governance Principles Course (ISACA, Manila Chapter, 18 Jan. 2019); Anti-Money Laundering and Combating the Financing of Terrorism (BAIPHIL, 15 Feb. 2019); Money Laundering and Terrorist Financing Program (NNabong Training Services, 21 Aug. 2019); and the seminar on corporate governance conducted by the Institute of Corporate Directors in 2019.



ATTY. EVA M. SISON

Corporate Secretary

35 years of age, Filipino

AB Management Economics, Ateneo De Manila University; and Juris Doctor, College of Law, University of the Philippines Diliman

Prior to joining RCBC, Atty. Eva Marie M. Sison worked for the Corporate and Investment Banking Group of Citibank Hong Kong performing Anti-Money Laundering-related client due diligence and documentation. She also served as a lawyer for the office of a member of the Board of Trustees of the Government Service Insurance System (GSIS) assigned with legal oversight functions, and under the same office, as a lawyer for the GSIS Family Bank, a subsidiary of GSIS. She also worked as an associate in the Desierto Ammuyutan Purima Desierto Law Office.

EXECUTIVE OFFICERS



RAYMUNDO C. ROXAS

President and Executive Director

EMELITA B. ROCERO

Senior Vice President and Head of
Branches and Lending Operations

MARILYN F. SUAREZ

Vice President and Head of
Treasury Department

ROSITA S. VALENCIA

Assistant Vice President
and Head of Accounting
Department

EXECUTIVE OFFICERS



**JOSEPH DANIEL N.
LUMAIN**

Manager and Head of
Strategic Partnership and
Special Initiatives Department

**MA. BEVERLY
O. UY**

Senior Assistant
Manager and Head
of Human Resources
Department

**ROWLAND V.
MOSCARDON**

Manager and Head of IT
Department

**JEAN MELODY P.
NARANJO**

Assistant Vice President, Chief
Compliance Officer, and Head
of Internal Audit

**MARIANO JOSE R.
LAUREL**

Vice President, Chief Risk
Officer, and Head of Risk
Management Department

EXECUTIVE OFFICERS

RAYMUNDO C. ROXAS

*President,
Executive Director
52 years of age, Filipino*

Mr. Raymundo C. Roxas has been with the Bank since March 2009. He started as a Microfinance Consultant in March 2009, rose to the position of Head of Operations in December 2009, and finally was appointed as the Bank's President on March 21, 2016.

Before joining the Bank, he worked as Regional Manager of the United States Agency for International Development-Rural Bankers Association of the Philippines Microenterprise Access to Banking Services Program (USAID-RBAP MABS), Chief Commercial Officer of ACCION International-Inner Mongolia, and Microfinance Department Head & Technical Assistant to the General Manager of First Isabela Cooperative Bank, Inc.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2016. In 2000, he participated in the Bank Management Development Course conducted by the University of Asia and the Pacific sponsored by the People's Credit and Finance Corporation. In 2007, he attended the ACCION International Management Orientation Training in Lima, Peru.

He successfully completed the Middle Management Development Course conducted by RCBC & De La Salle University Professional School, and the Leadership Development Program conducted by RCBC & John Clements Consultancy.

EMELITA B. ROCERO

*Senior Vice President
Head, Branches and Lending Operations
49 years of age, Filipino*

Ms. Emelita B. Rocero has over 15 years of combined experience in commercial and microfinance lending. Prior to assuming her current position, she was Head of Credit Support and Administration with the rank of Vice President.

Before joining the Bank, she worked under the United States Agency for International Development-Rural Bankers Association of the Philippines Microenterprise Access to Banking Services Program (USAID-RBAP MABS) from year 2000 to 2010, her last position being as a Regional Coordinator for the Visayas. Previous to that, she worked as Consultant/Microfinance Department Head at Valiant Rural Bank, Inc.

She completed the required academic units for her Masters in Business Administration course Major in Corporate Management from the University of Southeastern Philippines, Davao City; and earned her BS degree in Commerce, Major in Accounting from the University of Mindanao, Davao City. She graduated at the

top of her class in the Middle Management Development Program of De La Salle University Center for Professional Development in Business, RCBC Plaza.

MARILYN F. SUAREZ

*Vice President
Head, Treasury Department
59 years of age, Filipino*

Ms. Marilyn F. Suarez has been with the Bank since 1986 as Head of Treasury under the old and new management. The new management took over when the Bank was purchased by RCBC in 2008. She acted as the official representative of Merchants Bank to Bancnet, Inc, where she served as a director for 8 years, from 1999 until April 2008. At present, she is also supervising the Bank's check clearing operations.

She completed the required academic units for her Masters in Business Administration course from the Ateneo Graduate School of Business, and earned her AB degree in English from the University of the East Manila.

ROSITA S. VALENCIA

*Assistant Vice President
Accounting Department Head
55 years of age, Filipino*

Ms. Rosita S. Valencia has been working with the Bank since April 2016, first as Accounting Supervisor of Financial Accounting Unit, and then as Acting Accounting Department Head from May 1, 2017 to July 31, 2017. She became a full-fledged Accounting Department Head on the same year.

Before joining the Bank, she worked in other companies in various capacities such as Accounts Manager of AFAQ Al Musana Trading, Accounting Head of ATT Group of Companies and Accounting Manager of ASTA Medica Philippines.

Ms. Valencia graduated from the University of the East with a Bachelor's Degree in Business Administration Major in Accounting in 1985. She passed the Certified Public Accountant Licensure Examination in 1987. She has been accredited by the Board of Accountancy for Compilation of Financial Statements in Commerce and Industry since December 2016.

JOSEPH DANIEL N. LUMAIN

*Manager
Head, Strategic Partnerships and Special Initiatives Department
26 years of age, Filipino*

Mr. Joseph Daniel N. Lumin has five years of professional experience in strategic management in both the public and private sector.

EXECUTIVE OFFICERS

Prior to joining the bank, he founded a social enterprise that supports more than 100 indigenous weavers across the Philippines. As Chief Operating Officer and Social Enterprise Director from 2014 to 2018, he supervised his company's community development programs, and concurrently served as the Head of Finance and Retail Operations. Previous to that, he served as an Executive Assistant VI under the Strategic Management Group of the Governance Commission for GOCCs, and assisted in the regulation of government-owned financial institutions in the country.

He graduated from the Ateneo de Manila University in 2014 with a Bachelor's Degree in Legal Management, with minor degrees in Development Management and Sociology. He has also earned his Masters degree in Public Management from the same university in 2016.

MA. BEVERLY O. UY

*Senior Assistant Manager
Human Resources Officer
31 years of age, Filipino*

Ms. Ma. Beverly O. Uy has more than ten years of experience in the human resources field with various industries. In 2014, she joined Rizal Microbank as Recruitment and Training Specialist and in 2016, she was appointed as the Human Resources Officer.

Prior to Rizal Microbank, she worked with LTS Pinnacle Holdings, Inc. as Recruitment Specialist, and Convergys Philippines as Applicant Relations Coordinator.

Ms. Uy is a Registered Psychometrician and graduate of Bachelor of Arts Major in Psychology with three units in Human Resource Management at Ateneo de Davao University. She also earned units MS Psychology with specialization in Industrial/ Organizational Psychology in the same institution. Further, she completed the Middle Management Development Program of RCBC's Leadership University in partnership with De La Salle University.

ROWLAND V. MOSCARDON

*Manager
Head, IT Department
48 years of age, Filipino*

Mr. Rowland V. Moscardon has more than 24 years of experience in Information Technology - more than 23 years with Rizal Commercial Banking Corporation and almost 2 years with Union Bank of the Philippines.

Mr. Moscardon has been into project management since 2012, applications development since 2003, IT systems support since 1999 and Information Management Systems since 1996.

Mr Moscardon has been managing the IT projects and supporting the IT requirements of Rizal MicroBank (RMB) since 2012. He has been managing and supporting RMB's Core Banking System (CBS), other application concerns, compliance to IT standards and information securities and various IT infrastructure needs.

Mr. Moscardon's most recent project was the migration of RMB's CBS to cloud-based platform in October 2019.

Prior to being assigned to supporting RMB, Mr. Moscardon was involved in RCBC's migration from Financial Management System (FMS) to Oracle Enterprise in 2011.

Mr. Moscardon was assigned as an Industrial Engineer in the Information Technology Group of the Union Bank of the Philippines in 1994, specifically to assist in the implementation of Systematics.

He graduated from the De La Salle University, Taft, Manila Philippines in 1992 with a Bachelor of Science degree in Industrial Management Engineering minor in Mechanical Engineering.

JEAN MELODY P. NARANJO

*Assistant Vice President
Chief Compliance Officer and
Head, Internal Audit
27 years of age, Filipino*

Ms. Jean Melody P. Naranjo joined the Bank in 2014 as Internal Audit Examiner. She was appointed as Acting Head of Internal Audit in April 2016, and then as full-fledged Head of Internal Audit in October of the same year. In October 2017, she was appointed as Chief Compliance Officer in a concurrent capacity.

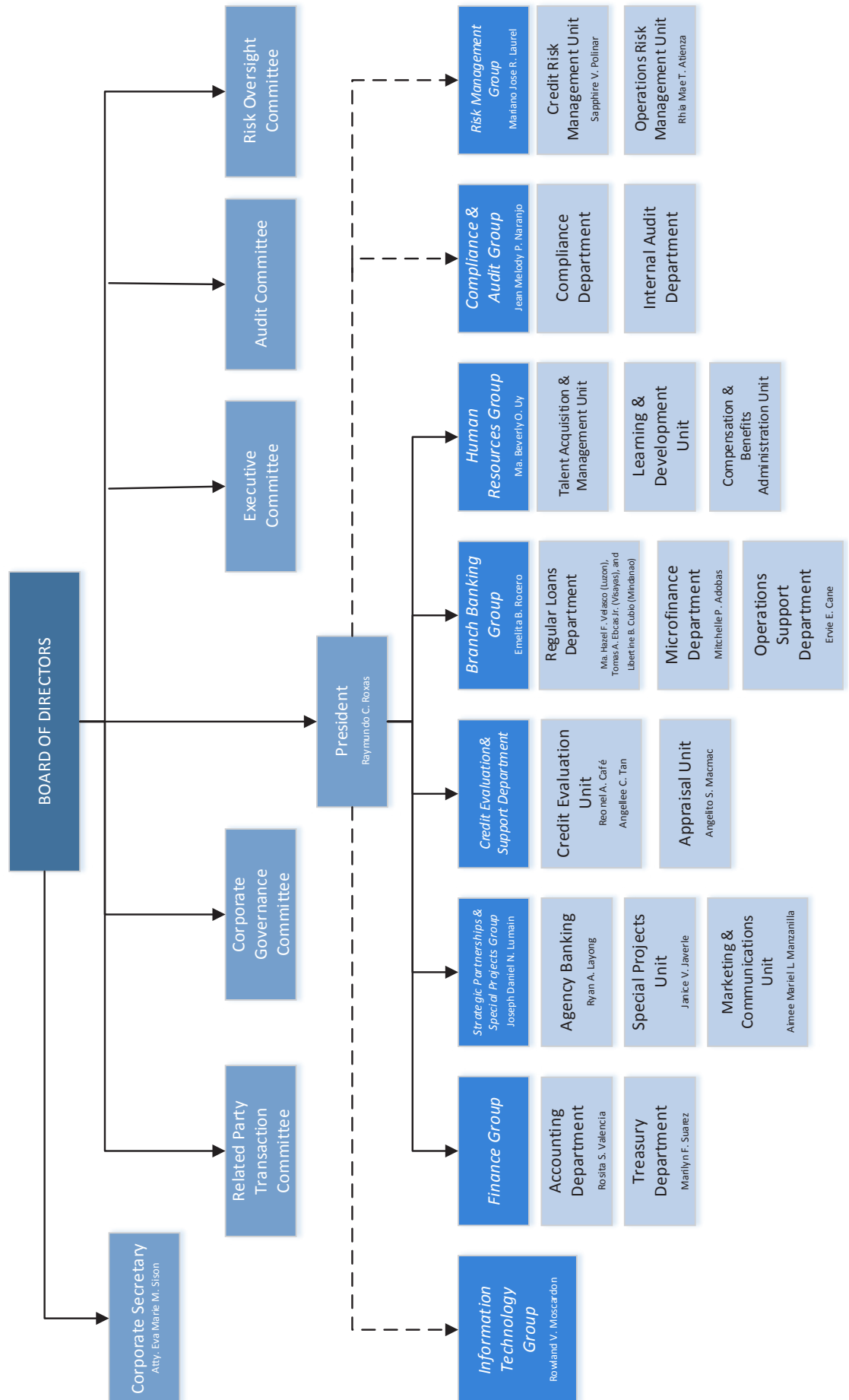
Prior to joining the Bank, she was Part-Time Instructor at the Christian Colleges of Southeast Asia, and Accounting/Audit Staff at Balidio Auditing and Accounting Office. Ms. Naranjo holds a Bachelor's degree in Accountancy from the University of Mindanao and is a Certified Public Accountant.

MARIANO JOSE R. LAUREL

*Vice President
Chief Risk Officer/Head, Risk Management Department
57 years of age, Filipino*

Mr. Mariano Jose R. Laurel joined the Bank in 2012 as Treasury Officer, and held that position until his promotion to Chief Risk Officer in 2014. Before joining the Bank, he had 24 years of experience in banking. He was formerly the President of Pres. Jose P. Laurel Rural Bank, Inc. He holds a Masters degree in Management from the Asian Institute of Management, and BS in Business Administration from the College of St. Benilde.

TABLE OF ORGANIZATION



CORPORATE SOCIAL RESPONSIBILITY



SUPPORTING OUR COMMUNITY

Rizal Microbank supports the Department of Education's annual nationwide campaign, the Brigada Eskwela, mobilizing parents, students, and private sector stakeholders to clean, refurbish, and rehabilitate public elementary and high school campuses and facilities for the school year. RMB employees volunteered to clean, paint, and donated school supplies to Macatabo Elementary School.

Macatabo Elementary School is located above the hills of Sitio Sumpitan, Barangay Tawan-tawan, Baguio District, Davao City, a community that the bank has been uplifting since 2018.



Rizal Microbank client wins Citi Microentrepreneurship Award.

Offering food to satisfy people's hunger and a venue for unifying brothers and sisters from different beliefs as they share tables and enjoy meals together earned Eduardo Azores the top spot in the 2019 Citi Microentrepreneurship Awards (CMA), a program funded by the Citi Foundation and hosted in partnership with the Bangko Sentral ng Pilipinas (BSP) and the Microfinance Council of the Philippines, Inc. (MCPI).

The CMA is a signature initiative of the Citi Foundation aimed at generating economic opportunities for low-income people, including youth, around the globe. The awards program provides entrepreneurs with resources to strengthen their business, including access to networks, capital, tools and training; and enables individuals to create economic sustainability for themselves, their families, and their communities.

Eduardo Azores is the owner of Ali-Ali Pastil restaurant that sells the popular pastil in Koronadal City, a Muslim dish made of steamed rice and shredded fish, chicken, or beef wrapped in banana leaves. He started his business in 2013, and has not been spared from dealing with financial and emotional problems. Now, he employs around 45 workers, majority of them are senior citizens and has annual sales of PHP 13.4 million.

Using his loans from Rizal MicroBank as additional capital, Eduardo was able to add more menu items like laing and seafood pastil. He also invested in kitchen equipment and made improvements to his restaurant facilities. Eduardo was also able to open a 24-hour convenience store, a catering business, a lodging inn, and added another branch in Polomolok, South Cotabato.



From left: MCPI Chairperson Eduardo Jimenez, BSP Gov. Benjamin Diokno, CMA national Winner Eduardo Azores, RMB Koronadal Business Manager Vivian Queñequez, RBCB President and CEO Eugene Acevedo, RMB President Raymundo Roxas, and Citi Philippines CEO Aftab Ahmed



CMA national Winner Eduardo Azores' daughters Andrea Mae and Andrea Dyanne



Pastil, a Muslim dish made of steamed rice and shredded fish, chicken, or beef wrapped in banana leaves.

Rizal Microbank drives financial inclusion through Pangarap Savings



Tatay Otoy, client of RMB Davao branch



Nanay Monica, client of RMB San Jose branch

In support of the Bangko Sentral ng Pilipinas' (BSP) thrust towards financial inclusion, RCBC's Rizal Microbank (RMB) remains steadfast in bringing financial products and services to its mandated market segments in a more convenient and accessible manner.

Through RMB's newly-launched Pangarap Savings, over 2,000 individuals have opened a savings account with minimal documentary requirements.

"The project is envisioned to make financial access work for common people, producing high impact and sustainable results. This reflects Rizal Microbank's commitment to improving the lives of the Filipino working class through entrepreneurial assistance, with the goal of providing a world-class and quality banking experience to more people," RMB's President Raymundo C. Roxas said.

Unlike regular savings accounts with limits and barriers to access, Pangarap Savings enables individuals from various backgrounds to open a savings account in a formal banking institution, especially for first-timers.

Tatay Otoy, a client of RMB Davao branch, was one of the first few who applied for a basic deposit account; he shared that his goal is to simply save as much as he can since he does not have any form of pension or insurance. Nanay Monica from San Jose, Occidental Mindoro, likewise expressed her gratitude for tailor-fitting this product to her needs and capabilities, allowing her to save the income she receives from selling snacks and chips in the morning, and balut in the evening.

The BDA-inspired Pangarap savings was immediately subscribed to the community, generating over P1.1 million worth of deposits in 8 days since its launch in June 19, 2019.

"This tells us that when financial products and services are designed and offered around the customers' realities and pain points, easier acceptance and adoption can be expected," Mr. Roxas adds.

CAPITAL STRUCTURE & CAPITAL ADEQUACY

The capital adequacy ratio of the Bank as reported to the BSP as of December 31, 2019 and 2018 under Basel 3 framework are shown in the table below.

(In Millions)

	2019	2018
CET 1 Capital	565	557
Tier 1 Capital	565	557
Tier 2 Capital	14	10
Total Qualifying Capital	579	567
Credit Risk Weighted Assets	1,624	1,333
Market Risk Weighted Assets	-	0
Operational Risk Weighted Assets	343	269
Risk Weighted Assets	1,967	1,602
Total Capital Adequacy Ratio	29.46%	35.40%
Tier 1 Capital Adequacy Ratio	28.74%	34.79%
Common Equity Tier 1 Ratio	28.74%	34.79%
Capital Conservation Buffer	22.74%	28.79%

The regulatory qualifying capital of the Bank consists of Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital less regulatory deductions . The components of qualifying capital as of December 31, 2019 and 2018 are as follows:

	2019	2018
Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital		
Paid up common stock	1,126	1,126
Additional paid in capital	-	-
Retained Earnings	(565)	(585)
Undivided profits	19	24
Other Comprehensive Income		
Net unrealized gains or losses on AFS securities	14	28
Cumulative foreign currency translation	-	-
Remeasurement of Net Defined Benefit Liability/(Asset)	(3)	6
Minority interest in subsidiary financial allied undertaking which are less than wholly owned		
Common Equity Tier 1 (CET1) Capital	591	599

	2019	2018
Less: Regulatory Adjustments to CET1 Capital		
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	-	-
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	-	-
Deferred tax assets	-	-
Goodwill	-	-
Other Intangible Assets	5	8
Defined benefit pension fund assets (liabilities)	-	-

CAPITAL STRUCTURE & CAPITAL ADEQUACY

Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers brokers and insurance companies), after deducting related goodwill, if any	-	-
Other equity investments in non-financial allied undertakings and non-allied undertakings	20	34
Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)	-	-
Total Regulatory Adjustments to CET1 Capital	26	42
Total Common Equity Tier 1 Capital	565	557
Additional Tier 1 (AT1) Capital		
Instruments issued by the bank that are eligible as AT1 Capital	-	-
Less: Regulatory Adjustments to AT1 Capital		
Total Additional Tier 1 (AT1) Capital	-	-
Total Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital	565	557
Tier 2 Capital		
Instruments issued by the bank that are eligible as Tier 2 capital	-	-
General loan loss provision	14	10
Total Tier 2 capital	14	10
Less: Regulatory Adjustments to Tier 2 Capital		
Total Tier 2 Capital	14	10
Total Qualifying Capital	579	567
** Formula as per above Ratios:		
a.) Total Capital Adequacy Ratio = $\frac{\text{Total Qualifying Capital}}{\text{Risk Weighted Assets}}$	$\frac{579}{1,967}$	$\frac{567}{1,602}$
	29.46%	35.40%
b.) Tier 1 Capital Adequacy Ratio = $\frac{\text{Tier 1 Capital}}{\text{Risk Weighted Assets}}$	$\frac{565}{1,967}$	$\frac{557}{1,602}$
	28.74%	34.79%
c.) Common Equity Tier 1 Ratio = $\frac{\text{CET 1 Capital}}{\text{Risk Weighted Assets}}$	$\frac{565}{1,967}$	$\frac{557}{1,602}$
	28.74%	34.79%
d.) Capital Conservation Buffer = $\frac{\text{Common Equity Tier 1 Ratio} - \text{Less: CET 1 of at least 6\% of Risk Weighted Assets}}{\text{Risk Weighted Assets}}$	$\frac{28.74\% - 6\%}{1,967}$	$\frac{34.79\% - 6\%}{1,602}$
	22.74%	28.79%

CAPITAL STRUCTURE & CAPITAL ADEQUACY

Full Reconciliation of all Regulatory Capital Elements and Regulatory Adjustments/Deductions

(In Millions)

	2019					2018				
	BASEL III				FRP	BASEL III				FRP
	FRP	CET1 Capital	Additional Tier 1	Tier 2 Capital		CET1 Capital	Additional Tier 1	Tier 2 Capital	Total Basel III Capital	
FRP Equity Accounts										
Paid in Capital Stock	1,126	1,126	-		1,126	1,126	1,126	-		1,126
Common Stock	1,126	1,126			1,126	1,126	1,126			1,126
Perpetual and Non-Cumulative Preferred Stock	-		-		-	-		-		-
Additional Paid-in Capital	-	-			-	-	-			-
Other Equity Instruments (Hybrid Tier 1)	-				-	-				-
Retained Earnings	(565)	(565)			(565)	(585)	(585)			(585)
Undivided Profits	19	19			19	24	24			24
Other Comprehensive Income	11	11			11	33	33			33
Minority Interest in Subsidiaries (for consolidated report only)										
Total Equity Accounts	591	591	-		591	599	599	-		599
Other Accounts Eligible as Regulatory Capital										
Unsecured Subordinated Debt				-	-			-		-
General Loan Loss Reserves				14	14			10		10
Regulatory Adjustments/Deductions to CET1 Capital										
Total outstanding unsecured credit accommodations, both direct and guarantees granted to subsidiaries and affiliates		-			-		-			-
Deferred tax assets		-			-		-			-
Goodwill		-			-		-			-
Other Intangible Assets		(5)			(5)		(8)			(8)
Defined benefit pension fund assets (liabilities)		-			-		-			-
Other equity investments in non-financial allied undertakings and non-allied undertakings		(20)			(20)		(34)			(34)
Reciprocal investments in common stock of other banks/ quasi-banks and financial allied undertakings including		-			-		-			-
Total Regulatory Capital	591	565	-	14	579	599	557	-	10	567

CAPITAL STRUCTURE & CAPITAL ADEQUACY

Components of Regulatory Capital

Regulatory Capital consist of the sum of the following accounts as reported in the BSP Financial Reporting Package (FRP) which are eligible as Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital guided by Circular No. 781 - Basel III Implementing Guidelines on Minimum Capital Requirements

- a. Paid in Capital Stock
- b. Additional Paid-in Capital Stock
- c. Retained Earnings
- d. Undivided Profits
- e. Other Comprehensive Income
 - Net Unrealized Gains or Losses on AFS Securities
 - Cumulative foreign currency translation
 - Remeasurement of Net Defined Benefit Liability/(Asset) pertains to Reserves on remeasurements of post-employment defined benefit plan comprise of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions and actual return on plan assets
- f. Minority interest in subsidiary banks which are less than wholly-owned.

Tier 2 Capital consists of sum of Unsecured Subordinated Debt and General Loan Loss Reserves, limited to a maximum of 1.00% of credit risk-weighted assets.

Regulatory Adjustments to Capital consists of the sum of the following accounts :

- a. Unsecured credit accommodations
- b. Unsecured loans, other credit credit accommodations and guarantees granted to subsidiaries and affiliates
 - Deferred Tax Assets pertains to the tax impact of deductible temporary differences such as but not limited to provisions for impairment, minimum
- c. corporate income tax and retirement benefits
- d. Goodwill.
- e. Other Intangible Assets consist of computer software.
- f. Defined benefit pension fund assets pertains to the excess of the fair value of the plan assets over the present value of the defined benefit obligation
- g. Investments in equity of unconsolidated subsidiary banks for the solo reporting represents carrying amount as reported in the FRP, net of related goodwill
- h. Other equity investments in non-financial allied undertakings and non-allied undertakings represents investments in various companies .

CAPITAL STRUCTURE & CAPITAL ADEQUACY

Full Reconciliation of Regulatory Capital Elements back to the FRP Balance Sheet in the Audited Financial Statements

(In Millions)

December 31, 2019

Equity Accounts	Audited FS	BSP FRP	Change	Details	Amount
Capital Stock	1,126	1,126	-		
Surplus Reserves	7	7	-		
Revaluation Reserves	16	11	5	To recognize increase in the fair value if equity investments.	5
Surplus Free	(564)	(554)	(10)	To recognize additional provision	(2)
				Security services for Dec. 2019	(0)
				To reclass preoperating expenses to miscellaneous expenses	(1)
				To record lease liability and ROU.	(0)
				To record lease liability and ROU.	(0)
				To record specific loan loss provisions and provision for Laurel branches	(7)
				To record provision for MCIT	(4)
				To record provision for MCIT	4
				To update accrued rent income	0
				Total	(10)
Total Capital	586	591	(5)		

Full Reconciliation of Regulatory Capital Elements back to the FRP Balance Sheet in the Audited Financial Statements

(In Millions)

December 31, 2018

Equity Accounts	Audited FS	BSP FRP	Change	Details	Amount
Capital Stock	1,126.36	1,126.36	-		
Surplus Reserves	12.81	12.81	-		
Revaluation Reserves	20.12	33.45	(13.33)	Adjustment to recognize decline in the fair value of equity investments.	(13)
Surplus Free	(570.58)	(573.41)	2.84	Adjustment to reclass provision for CGT to tax credit.	3
				To adjust provision for minimum corporate income tax.	0
				Total variance	3
Total Capital	589	599	(10)		(10)

CAPITAL STRUCTURE & CAPITAL ADEQUACY

Capital Requirements by type of exposure as of December 31, 2019 and 2018 are as follows:

	December 31, 2019		
	Credit Risk	Market Risk	Operational Risk
	Solo	Solo	Solo
	<i>(in Millions)</i>		
On- Balance Sheet Assets	1,624		
Off- Balance Sheet Assets	-		
Counterparty Risk-Weighted Assets in the Banking & Trading Book	-		
Credit Linked Notes in the Banking Book			
Securitization Exposures			
Market Risk-Weighted Assets		-	
Operational Risk using Basic Indicator Approach			343
Total	1,624	-	343
Capital Requirements	162	-	34

	December 31, 2018		
	Credit Risk	Market Risk	Operational Risk
	Solo	Solo	Solo
	<i>(in Millions)</i>		
On- Balance Sheet Assets	1,333		
Off- Balance Sheet Assets	-		
Counterparty Risk-Weighted Assets in the Banking & Trading Book	-		
Credit Linked Notes in the Banking Book			
Securitization Exposures			
Market Risk-Weighted Assets		0	
Operational Risk using Basic Indicator Approach			269
Total	1,333	0	269
Capital Requirements	133	0	27

Risk weighted on-balance sheet assets covered by credit risk mitigants were based on collateralized transactions as well as guarantees by the Philippine National Government (NG) and those guarantors and exposures with the highest credit rating.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the rating by Standard & Poor's, Moody's, Fitch and Philratings on exposures to Sovereigns, Multilateral Development Banks, Banks, Local Government Units, Government Corporation and Corporates.

CAPITAL STRUCTURE & CAPITAL ADEQUACY

Total Credit Risk Exposures by Type, Risk Buckets and Risk Weighted Assets
(In Millions)

Type of Exposures	December 31, 2019						
	Total Exposures*	Credit Risk Mitigants (CRM)	Total Credit Risk Exposure after CRM	0%	20%	Risk Weights 50% 75% 100%	Total Risk Weighted Assets
On-Balance Sheet Exposures							
Sovereigns	145	-	145	145	-	-	-
Banks	157	-	157	157	-	157	157
Government corporations	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	214	214
Housing Loans	-	-	-	-	-	-	1
MSME Qualified portfolio	356	-	356	-	3	356	267
Defaulted exposures	122	-	122	-	-	-	182
Housing Loans	-	-	-	-	-	-	-
Others	122	-	122	-	-	-	182
ROPA	13	-	13	-	-	13	20
All other assets, net of deductions	797	-	797	15	-	782	782
Total on-balance sheet exposures	1,590	-	1,590	161	-	3 356 1,153	1,624
Off-balance sheet exposures							
Direct credit substitutes	-	-	-	-	-	-	-
Transaction-related contingencies	-	-	-	-	-	-	-
Trade-related contingencies	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total off-balance sheet exposures	-	-	-	-	-	-	-
Counterparty Risk-Weighted Assets in the Banking Book							
Counterparty Risk-Weighted Assets in the Trading Book							
Derivatives - interest rate contracts	-	-	-	-	-	-	-
Derivatives - exchange rate contracts	-	-	-	-	-	-	-
Credit Derivatives	-	-	-	-	-	-	-
Total counterparty RWA in trading book	-	-	-	-	-	-	-
Risk-Weighted Amount of Credit Linked Notes in the Banking Book							
Risk-Weighted Securitization Exposures							
Total	1,590	-	1,590	161	-	3 356 1,153	1,624
Deductions from Capital							
General loan loss provision (in excess of the amount permitted to be included in Tier 2)	-	-	-	-	-	-	-
Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination	-	-	-	-	-	-	-
Total, net of deductions	1,590	-	1,590	161	-	3 356 1,153	1,624

* Principal amount for on-balance sheet and credit equivalent amount for off-balance sheet, net of specific provision

CAPITAL STRUCTURE & CAPITAL ADEQUACY

Total Credit Risk Exposures by Type, Risk Buckets and Risk Weighted Assets

(In Millions)

Type of Exposures	Total Exposures*	Credit Risk Mitigants (CRM)	Total Credit Risk Exposure after CRM	December 31, 2018						Total Risk Weighted Assets
				Risk Weights						
				0%	20%	50%	75%	100%	150%	
On-Balance Sheet Exposures										
Sovereigns	106	-	106	106	-	-		-		-
Multilateral Development Banks										
Banks	95		95		-	-		95		95
Interbank call loans										
Local government units	-		-			-				-
Government corporations	-	-	-		-	-		-		-
Corporates	235	-	235		-	-		235	-	235
Housing Loans	3	-	3			3				1
MSME Qualified portfolio	429		429				429			322
Defaulted exposures	35		35					-	35	52
Housing Loans	-		-					-		-
Others	35		35						35	52
ROPA	11		11						11	17
All other assets, net of deductions	622		622	10	-			612		612
Total on-balance sheet exposures	1,535	-	1,535	116	-	3	429	941	46	1,333
Off-balance sheet exposures										
Direct credit substitutes	-		-					-		-
Transaction-related contingencies	-		-					-		-
Trade-related contingencies	-		-					-		-
Others	0		0	0						
Total off-balance sheet exposures	0		0	0				-		-
Counterparty Risk-Weighted Assets in the Banking Book										
Counterparty Risk-Weighted Assets in the Trading Book										
Derivatives - interest rate contracts	-		-		-	-		-		-
Derivatives - exchange rate contracts	-		-		-	-		-		-
Credit Derivatives	-		-		-	-	-	-	-	-
Total counterparty RWA in trading book	-		-		-	-		-		-
Risk-Weighted Amount of Credit Linked Notes in the Banking Book										
Risk-Weighted Securitization Exposures										
Total	1,535	-	1,535	116	-	3	429	941	46	1,333
Deductions from Capital										
included in Tier 2)										
asset accounts based on the latest report of examination										
Total, net of deductions	1,535	-	1,535	116	-	3	429	941	46	1,333

* Principal amount for on-balance sheet and credit equivalent amount for off-balance sheet, net of specific provision

CAPITAL STRUCTURE & CAPITAL ADEQUACY

Total Credit Risk Exposures by Asset Type, Risk Buckets and Risk Weighted Assets
(In Millions)

On-Balance Sheet Assets	December 31, 2019									Total Risk Weighted Assets
	Principal Amount	Credit Risk Mitigants	Total Credit Risk Exposure	Risk Weights						
				0%	20%	50%	75%	100%	150%	
Cash on Hand	15		15							
Checks and Other Cash Items	-		-		-					-
Due from Bangko Sentral ng Pilipinas (BSP)	85		85		85					
Due from Other Banks	157		157		-	-		157		157
Financial Assets Designated at Fair Value Available-for-Sale (AFS) Financial Assets										
Held-to-Maturity (HTM) Financial Assets	-	-	-	-	-	-		-	-	-
Unquoted Debt Securities Classified as Loans										
Loans and Receivables	1,265	1,265	1,265			3	356	785	122	1,236
Loans and Receivables Arising from Repurchase Sales Contract Receivable (SCR)	61	-	61		61	-	-	-	-	-
Real and Other Properties Acquired	14		14					14	-	14
Other Assets	13		13						13	20
	197		197					197		197
Total Risk-weighted On-Balance Sheet Assets	1,807	1,265	1,807	161	-	3	356	1,153	135	1,624

CAPITAL STRUCTURE & CAPITAL ADEQUACY

Total Credit Risk Exposures by Asset Type, Risk Buckets and Risk Weighted Assets

	December 31, 2018									
	Principal Amount	Credit Risk Mitigants	Total Credit Risk Exposure	Risk Weights					Total Risk Weighted Assets	
				0%	20%	50%	75%	100%		150%
Cash on Hand	10		10	10						
Checks and Other Cash Items	-		-	-	-					-
Due from Bangko Sentral ng Pilipinas (BSP)	74		74	74						
Due from Other Banks	95		95	95	-	-		95		95
Financial Assets Designated at Fair Value										
Available-for-Sale (AFS) Financial Assets										
Held-to-Maturity (HTM) Financial Assets	-	-	-	-	-	-		-	-	-
Unquoted Debt Securities Classified as Loans	-	-	-					-		-
Loans and Receivables	1,159	-	1,159			3	429	692	35	1,068
Loans and Receivables Arising from Repurchase	32	-	32	32	-	-	-	-	-	-
Sales Contract Receivable (SCR)	19		19	19				19	-	19
Real and Other Properties Acquired	11		11	11					11	17
Other Assets	135		135	135				135		135
Total Risk-weighted On-Balance Sheet Assets	1,535	-	1,535	116	-	3	429	941	46	1,333

CAPITAL STRUCTURE & CAPITAL ADEQUACY

Market Risk Weighted Assets

(In Millions)

	2019		2018	
	Notional Amount	Market Risk Weighted Assets (MRWA)	Notional Amount	Market Risk Weighted Assets (MRWA)
Using Standardized Approach				
Interest Rate Exposures	-	-	-	-
Equity Exposures	-	-	-	-
Foreign Exposures	-	-	-	-
Options	-	-	-	-
Total	-	-	-	-

Operational Risk-Weighted Assets under Basic Indicator Approach

(Based on 3 year Average Gross Income)

	Nature of Item	
	2019	2018
Net interest income	142	110
Other non-interest income	41	33
Gross Income	183	143
Capital Requirements	343	269

AUDITED FINANCIAL STATEMENT





Rizal Microbank, Inc. – A Thrift Bank of RCBC

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Rizal Microbank, Inc. - A Thrift Bank of RCBC** (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, and for the years ended December 31, 2019, and 2018, 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 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 to do so.

The Board of Directors is responsible for overseeing the Bank'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.

Punongbayan and Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

Eugene S. Acevedo
Chairman of the Board

Raymundo C. Roxas
President

Rosita S. Valencia
Officer-in-Charge
Signed this 23rd day of June

Report of Independent Auditors

The Board of Directors

Rizal Microbank, Inc. – A Thrift Bank of RCBC

(A Subsidiary of Rizal Commercial Banking Corporation)

Andarizal Center, Rizal Street corner
Anda Street, Barangay 3-A, Davao City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rizal Microbank, Inc. – A Thrift Bank of RCBC (the Bank), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 20 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulation (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. Moreover, the supplementary information required by the Bangko Sentral ng Pilipinas as disclosed in Note 26 to the financial statements is presented for purposes of additional analysis. Such supplementary information is the responsibility of management. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO



By: Anthony L. Ng
Partner

CPA Reg. No. 0109764
TIN 230-169-270
PTR No. 8116552, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 1638-A (until May 29, 2020)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-038-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 20, 2020

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<u>RESOURCES</u>			
CASH	8	P 15,166,503	P 9,843,449
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	84,851,141	74,206,429
DUE FROM OTHER BANKS	8	156,906,896	94,803,723
LOANS ARISING FROM REVERSE REPURCHASE AGREEMENTS	8	60,525,480	32,000,000
LOANS AND RECEIVABLES - Net	9	1,268,846,908	1,185,788,941
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	10	160,371,092	95,297,019
INVESTMENT PROPERTIES - Net	11	33,551,865	23,333,720
OTHER RESOURCES - Net	12	<u>40,392,485</u>	<u>40,215,404</u>
TOTAL RESOURCES		<u>P 1,820,612,370</u>	<u>P 1,555,488,685</u>
<u>LIABILITIES AND EQUITY</u>			
DEPOSIT LIABILITIES	13	P 1,091,287,534	P 925,610,763
ACCRUED INTEREST AND OTHER EXPENSES	14	21,144,991	15,825,627
OTHER LIABILITIES	15	<u>121,943,297</u>	<u>25,342,831</u>
TOTAL LIABILITIES		<u>1,234,375,822</u>	<u>966,779,221</u>
EQUITY			
Capital stock	16	1,126,358,000	1,126,358,000
General loan loss reserves	2	1,742,962	7,351,563
Surplus reserves		5,461,189	5,461,189
Revaluation reserves		16,443,073	20,116,612
Deficit	2	(<u>563,768,676</u>)	(<u>570,577,900</u>)
TOTAL EQUITY		<u>586,236,548</u>	<u>588,709,464</u>
TOTAL LIABILITIES AND EQUITY		<u>P 1,820,612,370</u>	<u>P 1,555,488,685</u>

See Notes to Financial Statements.

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	Notes	2019	2018
INTEREST INCOME			
Loans and receivables	9	P 211,729,465	P 185,155,724
Due from Bangko Sentral ng Pilipinas and other banks	8	3,658,066	2,702,803
Others		<u>6,437,341</u>	<u>26,528</u>
		<u>221,824,872</u>	<u>187,885,055</u>
INTEREST EXPENSE			
Deposit liabilities	13	36,578,842	20,184,192
Others	15, 19	<u>4,570,123</u>	<u>889,479</u>
		<u>41,148,965</u>	<u>21,073,671</u>
NET INTEREST INCOME		180,675,907	166,811,384
IMPAIRMENT LOSSES	9	<u>14,001,464</u>	<u>5,730,691</u>
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		166,674,443	161,080,693
OTHER OPERATING INCOME	17	50,820,424	55,638,945
OTHER OPERATING EXPENSES	18	(<u>204,438,498</u>)	(<u>185,708,016</u>)
INCOME BEFORE TAX		13,056,369	31,011,622
TAX EXPENSE	20	<u>4,354,477</u>	<u>3,963,141</u>
NET INCOME		<u>8,701,892</u>	<u>27,048,481</u>
OTHER COMPREHENSIVE LOSS			
Items that will not be reclassified subsequently to profit or loss			
Fair value gain (loss) on financial assets through other comprehensive income	12	5,450,101	(13,379,694)
Remeasurements of retirement benefit plan	19	(<u>9,123,640</u>)	<u>8,857,263</u>
		(<u>3,673,539</u>)	(<u>4,522,431</u>)
TOTAL COMPREHENSIVE INCOME		<u>P 5,028,353</u>	<u>P 22,526,050</u>

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Notes	Capital Stock	Deficit	General Loan Loss Reserves	Surplus Reserves	Revaluation Reserves			
						Remeasurements of Retirement Benefit Plan	Unrealized Fair Value Gains	Total	Total Equity
Balance at January 1, 2019		P 1,126,358,000	(P 570,577,900)	P 7,351,563	P 5,461,189	P 5,878,594	P 14,238,018	P 20,116,612	P 588,709,464
As previously reported	16	-	(-	-	-	-	-	(
Effect of adoption of Philippine Financial Reporting Standards (PFRS) 16, <i>Leases</i>	2	1,126,358,000	(7,501,269)	7,351,563	5,461,189	5,878,594	14,238,018	20,116,612	7,501,262)
As restated		-	(578,079,169)	(7,351,563)	-	-	-	-	581,208,195
Appropriation	16	-	5,608,601	5,608,601	-	-	-	-	-
Net income for the year		-	8,701,892	-	-	-	-	-	8,701,892
Other comprehensive income (loss) for the year		-	-	-	-	(9,123,640)	5,450,101	(3,673,539)	(3,673,539)
Balance at December 31, 2019		P 1,126,358,000	(P 563,768,676)	P 1,742,962	P 5,461,189	(P 3,245,046)	P 19,688,119	P 16,443,073	P 586,236,548
Balance at January 1, 2018		1,126,358,000	(595,760,488)	5,485,670	5,461,189	(2,978,669)	27,617,712	24,639,043	566,183,414
Appropriation	16	-	(1,865,893)	1,865,893	-	-	-	-	-
Net income for the year		-	27,948,481	-	-	-	-	-	27,948,481
Other comprehensive income (loss) for the year		-	-	-	-	8,857,263	(13,379,694)	(4,522,431)	(4,522,431)
Balance at December 31, 2018		P 1,126,358,000	(P 570,577,900)	P 7,351,563	P 5,461,189	P 5,878,594	P 14,238,018	P 20,116,612	P 588,709,464

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		P 13,056,369	P 31,011,622
Adjustments for:			
Interest income	8, 9	(221,824,872)	(187,885,055)
Interest received		218,551,108	185,518,341
Interest expense	15, 19	41,148,965	21,073,671
Interest paid		(37,385,535)	(19,499,561)
Depreciation and amortization	18	30,441,165	17,767,287
Impairment losses	9	14,001,464	5,730,691
Dividend income	12	(1,262,000)	(1,262,000)
Loss (gain) on sale of bank premises, furniture, fixtures and equipment	17	588,945	(13,478,258)
Operating profit before working capital changes		57,315,609	38,976,738
Increase in loans and receivables		(93,785,667)	(254,786,440)
Increase in investment properties		(10,218,145)	(11,070,605)
Increase in other resources		(1,140,382)	(4,582,819)
Increase in deposit liabilities		165,676,771	113,491,970
Increase in accrued interest and other expenses		5,023,785	4,712,723
Increase (decrease) in other liabilities		(5,127,631)	4,275,677
Cash generated from (used in) operations		117,744,340	(108,982,756)
Cash paid for final taxes	20	(727,666)	(542,064)
Net Cash From (Used in) Operating Activities		117,016,674	(109,524,820)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of bank premises, furniture, fixtures and equipment	10	(28,699,493)	(28,125,148)
Acquisitions of computer software	12	(1,825,764)	(5,930,820)
Cash dividends received	12	1,262,000	1,262,000
Proceeds from disposal of bank premises, furniture, fixtures and equipment	10	1,131,224	18,760,305
Net Cash Used in Investing Activities		(28,132,033)	(14,033,663)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable	15	30,000,000	-
Payments of lease liability	15	(12,288,222)	-
Net Cash From Financing Activities		17,711,778	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		106,596,419	(123,558,483)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	8		
Cash		9,843,449	10,862,118
Due from Bangko Sentral ng Pilipinas		74,206,429	83,938,321
Due from other banks		94,803,723	156,178,326
Loans arising from reverse repurchase agreement		32,000,000	83,433,319
		210,853,601	334,412,084
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	8		
Cash		15,166,503	9,843,449
Due from Bangko Sentral ng Pilipinas		84,851,141	74,206,429
Due from other banks		156,906,896	94,803,723
Loans arising from reverse repurchase agreement		60,525,480	32,000,000
		P 317,450,020	P 210,853,601

Supplemental Information on Non-cash Investing Activities –

- (1) In 2019, the Bank recognized right-of-use assets and lease liabilities amounting to P9.73 million and P9.59 million, respectively, which is presented as part of Bank Premises, Furniture, Fixtures and Equipment and Other Liabilities, respectively (see Notes 10 and 15).
- (2) As of December 31, 2019 and 2018, the Bank has outstanding sales contract receivable amounting to P14.00 million and P17.22 million arising from the disposal of land and building in 2018 (see Notes 9 and 10).

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Merchants Savings and Loan Association, Inc. (the Bank) was incorporated in the Philippines on December 15, 1976. The Bank is licensed and authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a thrift bank and it focuses mainly in providing loans to microenterprise and small business operators as well as value chain players in the agricultural sector. As a thrift bank, the Bank, with prior Monetary Board approval, may also engage in trust, quasi-banking, and money market operations and act as collection agent/official depository for government and commercial entities. It has also the authority to accept foreign currency deposits.

On March 22, 2011, the Bank secured the approval of the BSP to operate under its new trade name, Rizal Microbank – Thrift Bank. On November 18, 2015, the Board of Directors (BOD) approved the change in corporate name of the Bank from Merchants Savings and Loan Association, Inc. to Rizal Microbank – A Thrift Bank. The BOD subsequently amended and approved the corporate name to Rizal Microbank – A Thrift Bank of RCBC on April 27, 2018. The Securities and Exchange Commission (SEC) approved the Amended Articles of Incorporation and Amended By-Laws bearing its new corporate name on June 25, 2019.

The Bank's BOD and stockholders approved on January 27, 2012 and April 27, 2012, respectively, the amendment to the Bank's Articles of Incorporation to include the secondary purpose to sell, solicit or market insurance products and services as an insurance agent or broker especially for microinsurance products issued by life and non-life insurance companies as authorized by the Insurance Commission and in accordance with the rules and regulations of the BSP.

The Bank is a subsidiary of Rizal Commercial Banking Corporation (RCBC or the Parent Company), an entity incorporated and domiciled in the Philippines. RCBC is a universal bank engaged in all aspects of banking. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury and trust and custodianship services. RCBC is 41.66% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC or the ultimate parent company), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

On April 27, 2018, the Bank's BOD approved the transfer of the Bank's registered office and principal place of business to Andarizal Center, Rizal Street corner Anda Street, Barangay 3-A, Davao City from Edes 2 Bldg. JP Laurel Avenue (Acacia Section) corner Villa, Abrille St., Davao City. The change in address was approved by the SEC and Bureau of Internal Revenue (BIR). The registered office of RCBC is located at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City, while PMMIC is located at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

As of December 31, 2019, the Bank has 18 branches (including its head office) in the areas of Batangas, Laguna, Mindoro, Palawan, Cebu, Davao and South Cotabato. Also, as of December 31, 2019, the Bank has four micro banking offices in Oriental Mindoro, Batangas, Davao del Norte and South Cotabato.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2019 (including the comparative financial statements as of and for the year ended December 31, 2018) were authorized for issue by the Bank's BOD on February 20, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income, expense and other comprehensive income or loss in a single statement of comprehensive income.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

2.2 *Adoption of New and Amended PFRS*

(a) *Effective in 2019 that are Relevant to the Bank*

The Bank adopted for the first time the following PFRS, amendments, interpretations and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty over Income Tax Treatments
Annual Improvements to PFRS (2015-2017 Cycle)		
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends

Discussed below and in the succeeding pages are the relevant information about these pronouncements.

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Bank's financial statements.

- (ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI). The application of these amendments had no significant impact on the Bank’s financial statements.
- (iii) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and lease liabilities arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Bank has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Deficit for the current period. Accordingly, comparative information were not restated.

The new accounting policies of the Bank as a lessee are disclosed in Note 2.11(a), while the accounting policies of the Bank as a lessor, as described in Note 2.11(b), were not significantly affected.

Discussed below and in the succeeding page are the relevant information arising from the Bank’s adoption of PFRS 16 and how the related accounts are measured and presented on the Bank’s financial statements as at January 1, 2019.

- a. For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.
- b. The Bank recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank’s incremental borrowing rate as of January 1, 2019. The Bank’s weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6%.

- c. The Bank has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Bank also elected to measure the right-of-use assets at its carrying amount as if the new standard had been applied since commencement date, but discounted using the Bank's incremental borrowing rate at the date of application.
- d. The Bank has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:
 - i. application of a single discount rate to a portfolio of leases with reasonably similar characteristics; and,
 - ii. reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at January 1, 2019, Bank has no onerous contracts.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the statement of financial position as at January 1, 2019.

	Notes	Carrying Amount (PAS 17) December 31, 2018	Remeasurement	Carrying Amount (PFRS 16) January 1, 2019
<i>Resources:</i>				
Other resources	c	P 40,215,404	(P 903,411)	P 39,311,993
Bank premises, furniture, fixtures, and equipment – net	c	95,297,019	<u>54,130,085</u> 53,226,674	149,427,104
<i>Liabilities –</i>				
Other liabilities	b	25,342,831	<u>60,727,943</u>	86,070,774
Impact on deficit			(P <u>7,501,269</u>)	

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

	Notes	
Operating lease commitments December 31, 2018 (PAS 17)	22.1	P 77,533,764
Discount using incremental borrowing rate at 6%	2.2(a)(iii)(b)	(<u>16,805,821</u>)
Lease liabilities, January 1, 2019 (PFRS 16)		<u>P 60,727,943</u>

- (iv) IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. The application of this interpretation had no significant impact on the Bank's financial statements.
- (v) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, only PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*, is identified by management to be relevant to the Bank but had no material impact on the Bank's financial statements. The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.

(b) *Effective in 2019 that are not Relevant to the Bank*

The following amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2019 but are not relevant to the Bank's financial statements:

PAS 28 (Amendments)	:	Investment in Associates and Long-term Interest in Associates and Joint Ventures
Annual Improvements to PFRS 2015-2017 Cycle PFRS 3 and PFRS 11 (Amendments)	:	Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Venture
PAS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization

(c) *Effective Subsequent to 2019 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2019, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term 'material' to ensure consistency.
- (ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of an equity for the issuer in accordance with the criteria under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and customers, and loans are recognized when cash is received by the Bank or advanced to the borrowers.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs such as fees and commissions that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FPVL are expensed in profit or loss.

(a) Classification and Measurement of Financial Assets

The classification and measurement of financial assets is driven by the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Bank's classification and measurement of financial assets are described below and in the succeeding pages.

(i) Financial Assets at Amortized Cost

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

- the financial asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect or HTC"); and,
- 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 and are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL).

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank's financial assets measured at amortized cost include those presented in the statement of financial position as Cash, Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreements, Loans and Receivables, and Accrued rent receivables and Rental and other deposits (presented under Other Resources account).

For purposes of cash flows reporting and presentation, cash equivalents comprise of accounts with original maturities of three months or less, including non-restricted balances of Due from BSP, Due from Other Banks, and Loans Arising from Reverse Repurchase Agreements. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2019 and 2018, the Bank has not made such designation.

(ii) Financial Assets at Fair Value Through Other Comprehensive Income

Financial asset is classified and measured at FVOCI if both of the following conditions are met:

- the financial asset is held under a business model whose objective is achieved by both collecting contractual cash flows and selling (“hold to collect and sell”); and,
- the contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity instrument as at FVOCI; however, such designation is not permitted if the equity instrument is held by the Bank for trading. The Bank has designated its equity instrument as at FVOCI when it early adopted PFRS 9 in 2014. The Bank currently has no debt instruments in its FVOCI financial asset classification.

After initial recognition, financial asset at FVOCI is subsequently measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported in Unrealized Fair Value Gains under the Revaluation Reserves account in equity. Upon disposal, the cumulative fair value gains or losses previously recognized in the Revaluation Reserves account is not reclassified to profit or loss, but is reclassified directly to Surplus or Deficit account, while the cumulative fair value gains or losses for debt securities are reclassified to profit or loss.

Any dividends earned on holding equity instruments at FVOCI are recognized in profit or loss when the Bank’s right to receive dividends is established; it is probable that the economic benefits associated with the dividend will flow to the Bank; and the amount of dividend can be reliably measured, unless the dividends clearly represent recovery of a part of the cost of the investment.

(iii) Financial Assets at Fair Value Through Profit or Loss

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Bank has chosen to designate as at FVTPL at initial recognition, or those that do not qualify under the FVOCI or “hold to collect and sell” business model are measured at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Bank currently does not have financial assets at FVTPL.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are measured at fair value. Any gains and losses arising from changes in the fair value of the financial assets at FVTPL category are recognized in profit or loss in the period in which they arise.

(b) Reclassification of Financial Assets

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument’s contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank’s business model will be effected only at the beginning of the next reporting period following the change in the business model.

(c) Recognition of Interest Income Using Effective Interest Rate Method

Interest income on financial assets measured at amortized cost and any interest-bearing debt financial assets classified as at FVTPL, or at FVOCI, is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of effective interest rate. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the instrument; hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income.

The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired (POCI) assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

(d) Impairment of Financial Assets

The Bank recognizes a loss allowance for ECL on all financial assets that are measured at amortized cost and debt instruments classified as at FVOCI. Equity securities, either measured as at FVTPL or designated as at FVOCI, are not subject to impairment.

The Bank measures the ECL of a financial asset in such manner that reflects: (i) the time value of money; and, (ii) reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that affect the collectability of the future cash flows of the financial assets.

The amount of allowance for ECL is updated at the end of each reporting period to reflect the changes in credit risk of the financial asset since initial recognition. The Bank recognizes lifetime ECL when there has been a significant increase in credit risk (SICR) since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the end of the reporting period.

The Bank's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets and definition of default for purposes of determining ECL are further discussed in Note 4.1.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Note 4.1.

The Bank calculates ECL either on an individual or collective basis. For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, collateral type, product type, and historical net charge-offs of the borrowers.

The Bank applies a simplified ECL approach for its accounts receivables wherein the Bank uses a provision matrix that considers historical changes in the behavior of the portfolio of credit exposures based on internally collected data to predict conditions over the span of a given observation period. These receivables include claims from various counterparties, which are not originated through the Bank's lending activities. For these instruments, the Bank measures the loss allowance at an amount equal to lifetime ECL.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account. With respect to any investments in debt securities that are measured at FVOCI, the related loss allowance account is recognized in other comprehensive income and accumulated in the Revaluation Reserves account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(e) *Financial Liabilities at Amortized Cost*

Financial liabilities, which include deposit liabilities, accrued interest and other expenses, and other liabilities (except tax-related payables and post-employment defined benefit obligation), are recognized initially at their fair values and subsequently measured at amortized costs using the effective interest method for maturities beyond one year, less settlement payments. All interest related charges on financial liabilities are recognized as an expense in profit or loss are presented under the Interest Expense account in the statement of comprehensive income.

Deposit liabilities, accrued interest and other expenses, and other liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Bills payable, which is included as part of Other Liabilities account, is recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(f) *Derecognition of Financial Assets*

(i) *Modification of Loans*

When the Bank derecognizes a financial asset through renegotiation or modification of the contractual payment terms of the loans due to significant credit distress of the borrower, the Bank assesses whether or not the new terms are substantially different to the original terms of the instrument.

In making such assessment, the Bank considers, among others:

- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- whether any substantial new terms are introduced that will affect the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate;
- change in the currency the loan is denominated in; and/or,
- insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a new asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether SICR has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount between the old financial asset derecognized and the fair value of the new financial asset are recognized as gain or loss in profit or loss upon derecognition. As to the impact on ECL measurement, the expected fair value of the new financial asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition of Financial Assets Other than Modification

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

(g) Derecognition of Financial Liabilities

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized as gain or loss in profit or loss.

2.4 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Bank currently has legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.5 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment, except land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land held for use in operation or administration is stated at cost less any impairment losses.

The cost of an asset consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	25 years
Furniture, fixtures and office equipment	3 to 10 years
Transportation equipment	5 years

Leasehold improvements are amortized over the estimated useful lives of the improvements of ten years or the terms of the related leases, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes costs of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

The asset's carrying amount is written down immediately to its recoverable amount if its amount is greater than its estimated recoverable amount (see Note 2.14).

The residual values, estimated useful lives, and method of depreciation and amortization of bank premises, furniture, fixtures and equipment are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.6 Investment Properties

Investment properties pertain to parcels of land and building acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dation in payment, which are neither held by the Bank for sale in the next 12 months nor used in the rendering of services or for administrative purposes. This also includes properties held for rental.

Investment properties are stated at cost, less accumulated depreciation and any accumulated impairment losses (see Note 2.14). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are charged against current operations in the period in which these costs are incurred.

Investment properties, including the related accumulated depreciation and any impairment losses, are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized under Other Operating Income account in the year of retirement or disposal.

2.7 Intangible Assets

Intangible assets include computer software used in operations which are accounted for under the cost model and reported under Other Resources account in the statement of financial position. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over the estimated useful lives (ranging from two to five years) as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.14.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.8 Other Resources

Other resources pertain to those assets controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

2.9 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.10 Other Income and Expense Recognition

Revenue is recognized when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contracts from Customers*. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The Bank assesses its revenue arrangement against specific criteria in order to determine if it is acting as a principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements.

Commissions and fees arising from loans, deposits, and other banking transactions are accounted for under PFRS 15. These are recognized as income over time based on agreed terms and conditions with customers which are generally when the services has been performed.

For other income outside the scope of PFRS 15 such gains on sale of properties, these arise from the disposals of bank premises, furniture, fixtures and equipment, investment properties, or assets held-for-sale, if any. The Bank recognizes gain on sale at a point in time, subject to the following additional criteria:

- when control of the asset is transferred to the buyer;
- when the Bank does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold; and,
- when the collectability of the entire sales price is reasonably assured (i.e., when the down payment and/or the portion of the collection of the total contract price represents 20% of the total contract price).

Gain on sale of properties are included as part of Other Operating Income account in the statement of comprehensive income.

2.11 Leases

The Bank accounts for its leases as follows:

(a) *Bank as Lessee*

(i) *Accounting for Leases in Accordance with PFRS 16 (2019)*

For any new contracts entered into on or after January 1, 2019, the Bank considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the Right-of-use asset for impairment when such indicators exist (see Note 2.14).

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or to profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liabilities, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, Right-of-use assets and Lease liabilities have been included as part of Bank Premises, Furniture, Fixtures and Equipment, and Other Liabilities, respectively.

(ii) *Accounting for Leases in Accordance with PAS 17 (2018)*

Leases which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term.

Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease, only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

- there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
- there is a substantial change to the asset.

(b) Bank as Lessor

Leases which transfer to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented at an amount equal to the Bank's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Bank's net investment outstanding in respect of the finance lease, and is included as part of Interest Income on loans and receivables.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term. These are recognized as part of Miscellaneous income under Other Operating Income account in the statement of profit or loss.

2.12 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income as part of income or loss from operations.

2.13 Employee Benefits

The Bank provides retirement benefits to employees through a defined benefit plan and defined contribution plan, as well as other benefits, which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a retirement plan that defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of retirement plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the statement of financial position for defined benefit post-employment plan 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 present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Expense or Interest Income account in the statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a retirement plan under which the Bank pays fixed contributions into an independent entity such as the social security system. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) Short-term Benefits

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before twelve months after the end of the reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Accrued Interest and Other Expenses in the statement of financial position.

(d) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

2.14 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, right-of-use assets, intangible assets (recognized under Other Resources account), investment properties, and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units (CGU)]. As a result, assets are tested for impairment either individually or at the CGU level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount which is the higher of its fair value less cost to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction, while in determining value in use management estimates the expected future cash flows to be generated from the continued use of the asset or CGU, and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each CGU and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds their carrying amount.

2.15 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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.

Changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.16 Related Party Transactions and Relationships

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 to be 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 funded retirement plan.

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

2.17 Equity

Capital stock represents the nominal value of shares that have been issued.

General loan loss reserves pertain to the accumulated amount of appropriation made by the Bank arising from the excess of the one-percent general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* (Circular No. 1011) over the computed allowance for ECL on 'Stage 1' loan accounts.

Surplus reserves pertain to surplus restricted for a particular purpose.

Revaluation reserves comprise of gains and losses arising from the remeasurements of the Bank's retirement benefit plan and fair value changes on its financial asset at FVOCI.

Deficit represents all current and prior period results of operations as disclosed in the profit or loss section of the statement of comprehensive income.

2.18 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

3.1 Critical Management 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 estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Determination of Lease Term of Contracts with Renewal and Termination Options (2019)

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated and the renewal of the contract is not subject to mutual agreement of both parties.

The factors that are normally the most relevant are (a) if there are significant penalties should the Bank pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Bank did not include the renewal period as part of the lease term for leases of its branches and office, due to the provision in its contracts that requires mutual agreement of both parties on the terms and agreements of the renewal and termination of the lease contract.

The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

(b) Evaluation of Business Models Applied in Managing Financial Instruments

The Bank manages its financial assets based on a business model that maintains adequate level of financial assets to match its expected cash outflows, largely in relation to its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, and to manage its working capital.

The Bank's business models reflect how it manages its portfolio of financial instruments, mainly loans and receivable portfolio. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to, taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment and lending strategies.

(c) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

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

In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with an HTC business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in Bank's objective for the business model.

(d) Distinction Between Investment Properties and Owner-occupied Properties

The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the Bank. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the operations of the Bank.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease) then these portions can be accounted for separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in operations or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. As of the end of the reporting period, the Bank has no property comprising a portion that is held for rental or for capital appreciation and with other portions held for use in operation or for administrative purposes.

(e) Classification of Acquired Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale if the Bank expects that the properties will be recovered through sale rather than use, as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial asset. At initial recognition, the Bank determines the fair value of acquired properties through internal and external appraisal depending on the Bank's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property.

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 7.4

(f) Distinction Between Operating and Finance Leases (2018)

The Bank has entered into various lease agreements as either a lessor or 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 agreement. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's judgment, all of its existing lease agreements are determined to be operating lease.

(g) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.9 and relevant disclosures are presented in Note 22.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) Estimation of allowance for ECL on Financial Assets

When measuring allowance for ECL for loans and receivables, management applies judgment in defining the criteria in assessing whether a financial asset has experienced SICR since initial recognition, and in the estimation of the contractual cash flows due from borrower and those that the Bank would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behaviour of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses).

Significant factors affecting the estimates on the ECL model include:

- default history of group of accounts which determines the PD to be assigned to a specific portfolio of loans and receivables;

- criteria for assessing if there has been an SICR and when a financial asset will be transferred between the three stages;
- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis; and,
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties.

The explanation of inputs, assumptions and estimation techniques used in measuring ECL and the analysis of the allowance for ECL on loans and receivables is further discussed in Note 4.1.

(c) *Fair Value Measurement for Financial Assets*

The Bank carries financial asset at fair value which requires judgment and use of accounting estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques (see Note 7).

The amount of changes in fair value would differ if the Bank had utilized different valuation methods and assumptions. Any change in fair value of the financial asset would affect other comprehensive income.

The carrying values of the Bank's financial asset at FVOCI and the amount of fair value changes recognized are disclosed in Notes 7.2 and 12.1.

(d) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, and Computer Software*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment (except for land), right-of-use assets, investment properties, and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties, and computer software are analyzed in Notes 10, 11 and 12.2, respectively. Based on management's assessment as of December 31, 2019 and 2018, there is no change in the estimated useful lives of these assets in both years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Determining Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets 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. As of December 31, 2019 and 2018, deferred tax assets were not recognized in the Bank's financial statements since management believes that those deferred tax assets will not be realized in the future (see Note 20.1).

(f) *Estimation of Impairment Losses of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.14.

The Bank assesses impairment on these non-financial assets and considers the following important indicators:

- significant changes in asset usage;
- significant decline in assets' market value;
- obsolescence or physical damage of an asset;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Bank's overall business; and,
- significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(g) *Determination of Fair Value of Investment Properties*

The Bank's investment properties are composed of parcels of land and building which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed in Notes 7 and 11 is determined on the basis of the appraisals conducted internally by management or where necessary (i.e., as required under the existing regulation of the BSP), by professional appraiser applying the relevant valuation methodologies as discussed therein.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(h) Valuation of Defined Benefit Retirement Obligation

The determination of the Bank's obligation and cost of retirement benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or loss and the carrying amount of the retirement obligation in the next reporting period.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation, as well as the significant assumptions used in estimating such obligation are presented in Note 19.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of financial risks in relation to holding financial instruments. The Bank's risk management process is coordinated with the Parent Company, in close cooperation with the BOD, and focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed to are credit risk, liquidity risk and market risk as described below and in the succeeding pages.

4.1 Credit Risk Management Practices

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending and other activities undertaken by the Bank.

The Bank manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The Risk Oversight Committee is responsible for the development and oversight of the Bank's risk management program. It defines the risk appetite and review the risk profile of the Bank to ensure that the risk is not higher than the risk appetite determined by the BOD. The Credit Risk Management Unit (CRMU), on the other hand, is responsible for: (a) the development of credit policies relating to account management; and, (b) the credit risk evaluation of group of borrowers in different segments of the Bank's loan portfolio. The CRMU also conducts a regular credit risk evaluation and monitoring of individual borrowers that involve specific asset quality review depending on certain materiality threshold that will reasonably capture the credit risk exposures of the Bank to a certain borrower.

At the loan origination stage of the lending process, exposure to credit risk for individual borrower is managed via adherence to a set of policies, the most notable features of which, in this context are: (a) credit approving authority that is not exercised by a single individual but rather, through a hierarchy of limits that is effectively exercised collectively; (b) branch managers have limited approval authority only within a certain credit exposure; and, (c) borrower credit analysis is performed at origination and at least annually thereafter or co-terminus with the renewal of the credit line.

Integral to the Bank's management of credit risk is ensuring a monitored level of exposures arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions, which is capable of generating losses large enough to jeopardize an institution's solvency. The Bank monitors concentrations of credit risk by sector.

An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 26.

4.1.1 Credit Risk Assessment and Measurement

Loans, regardless if the accounts have been fully paid, extended or renewed in subsequent period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions affecting the credit behaviour of the Bank's borrowers, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, LGD, and EAD, for purposes of measuring ECL.

The Bank's credit risk assessment is performed based on groups of loan portfolio segmented by product type such as (a) regular loans, which generally include credit accommodations to small-medium size borrowers; and, (b) microenterprise loans, which covers agricultural and retail loans.

In assessing accounts subject to individual assessment, the Bank has established a materiality threshold of P2.0 million for all exposures. Such threshold shall be regularly reviewed at the end of reporting period to ensure that it appropriately captures what the Bank considers as material items of loan for individual assessment. The provision for ECL for individually assessed exposures shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of evaluation date.

4.1.2 Assessment of Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both the quantitative and qualitative information that is reasonable and supportable, including historical experience as appropriate.

The Bank ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

- (i) Stage 1 – comprises of all credit exposures that are considered ‘performing’ and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL.
- (ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Bank’s quantitative and qualitative criteria, though not yet deemed to be credit-impaired. Stage 2 includes credit exposures that are considered ‘under-performing’ in which credit risk assessment fall under the Especially Mentioned classification. Stage 2 financial instruments may also include those facilities where the credit risk has improved and have been reclassified from Stage 3 subject to the Bank’s observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.
- (iii) Stage 3 – comprises credit exposures which are assessed as ‘credit-impaired’, thus considered by the Bank as ‘non-performing’, which is assessed consistently with the Banks definition of default. Generally, this includes accounts classified as Substandard, Doubtful and Loss. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

Financial assets that are credit-impaired on initial recognition, if any, are classified as POCI assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default derived through the transition matrix model and use of Markov chain Monte Carlo method (Markov chain) (see Note 4.1.4), and qualitative factors, including a backstop on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank’s internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Under the Bank’s credit assessment, these exposures are rated at least substandard. For exposures with no individual assessment performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition (see Note 4.1.3). Depending on the number of days past due which differ between regular and microenterprise loans, a credit exposure may be transferred to Stage 2 or Stage 3. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Bank’s definition of curing period.

The Bank classifies the loans based on days past due following the categories that are consistent with the manner applied under the Bank's internal credit risk assessment and regulatory reporting as follows:

Bucket	Microenterprise Loans	Regular Loans	
		Secured	Unsecured
Current	Unclassified	Unclassified	Unclassified
One to 30 days	Especially Mentioned	Unclassified	Especially Mentioned
31 to 60 days	Especially Mentioned	Especially Mentioned	Especially Mentioned
61 to 90 days	Substandard	Especially Mentioned	Substandard
91 to 180 days	Substandard	Substandard	Substandard
181 to 365 days	Doubtful	Doubtful	Doubtful
More than 365 days	Loss	Loss	Loss

The Bank assigns loans based on classification into stages of impairment as follows:

Classification	Stages
Unclassified	1
Especially Mentioned	2
Defaulted	3

For purposes of the information disclosed for credit risk exposures, 'defaulted' accounts include those which are classified as Substandard, Doubtful, and Loss.

4.1.3 Definition of Default

The Bank defines a loan instrument as in default, which is aligned with the definition of credit-impaired, based on quantitative information on number of days past due which vary based on type or group of loan (i.e., regular or microenterprise loan), see Note 4.1.2.

As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances and factors that may indicate unlikelihood of the borrower to pay, which may include (a) significant financial difficulty of the borrower; (b) the restructuring of a loan by the Bank, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Bank would not consider otherwise; or (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Bank carefully considers whether the event should result in treating the customer as in default.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the installments in arrears and the account no longer meets any of the default criteria for a consecutive period of 30 days within which the borrower shall make consecutive payments.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes.

4.1.4 Expected Credit Loss Measurement Inputs

Integral to the Bank's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model that applies relevant inputs and assumptions, that considers forward-looking information as appropriate.

(a) Key Inputs and Assumptions in the Expected Credit Loss Model

The ECL is determined by projecting the PD, LGD and EAD for each future month for exposures assessed collectively.

- (i)* PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. PD is calculated based on statistical modelling, and tailored to the Bank's loan product/portfolio which considers quantitative factors. In determining PD, the Bank performed segmentation of its credit exposures (i.e., regular loans and microenterprise loans) stratified based on homogenous characteristics, and developed a systematic PD methodology for each portfolio.
- (ii)* LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. For secured credit exposure, the determination of LGD considers the Bank's collateral data which are available at the origination of the instrument which takes into account the amount and timing of the cash inflows (actual recovery) and outflows (actual expenses) and on the time value of money.
- (iii)* EAD represents the gross carrying amount of the exposure in the event of default, which include the amortized cost amount of an instrument.

The Bank uses the transition matrix model that determines the PD of loans by tracking the historical movement or transition of a group of loans from one status to another (i.e., current, one to 30 days past-due, 31 days to 60 days past-due, and other time bands), on a month-to-month basis, over an observation period of two to five years, depending on the availability of relevant information. This approach estimates the average of those probabilities over time, which are applied to the current loan portfolio to project what the portfolio will look like going forward. It then runs those time-bracketed transition probabilities through Markov chain to determine the long-term default rates. The probabilities are applied to determine a lifetime default rate for a particular category of loans. In applying the transition matrix model, the Bank tracks movements of a group of loans using delinquency data as the status driver on a month-to-month interval and monitors the transition until the loan reaches its terminal states (i.e., the end of the life of the loan, when it defaults or is paid-off).

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

(b) Overlay of Forward-looking Information

The Bank incorporates forward-looking information (FLI) in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. To project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used, which means that MEVs tend to either a long run average rate (e.g. for unemployment) or a long run average lending rate over a period of two to five years. The impact of these economic variables on the PD, LGD and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Bank has identified key drivers for credit risk for its loan portfolio, which include among others, unemployment rate, lending rate, and inflation rate. Using an analysis of historical data, the Bank has assessed that the above economic factors have no significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs on a regular basis and additional factors may be incorporated from time to time as deemed appropriate.

4.1.5 Credit Risk Exposures and Allowance for Credit Losses

(a) Maximum Credit Exposures

The table below sets out the gross carrying amounts of the exposures to credit risk on financial assets measured at amortized cost at the end of the reporting period, before taking into consideration the effect of collateral and other credit enhancements.

	Notes	2019	2018
Cash	8	P 15,166,503	P 9,843,449
Due from BSP	8	84,851,141	74,206,429
Due from other banks	8	156,906,896	94,803,723
Loans arising from reverse repurchase agreements	8	60,525,480	32,000,000
Loans and receivables:	9		
Receivable from customers		1,303,357,704	1,220,728,610
Sales contract receivables		14,411,914	18,795,782
Accrued interest receivables		11,368,511	8,094,747
Others		20,262,815	15,344,486
Rental and other deposits	12	2,279,881	2,047,778
Accrued rent receivable	12	1,649,440	1,045,263
		P 1,670,780,285	P 1,476,910,267

Cash equivalents, which include loans and advances to banks (i.e., Due from BSP, Due from Other Banks, and Loans under Reverse Repurchase Agreements), see Note 8, are held with central bank and financial institutions counterparties that are reputable and with low credit risk. This includes the deposits to the Parent Company (see Note 21.2).

The information about the credit exposures on the Bank's receivables from customers portfolio by stages of impairment as of December 31, 2019 and 2018 is shown at their gross carrying amounts with the corresponding allowance for ECL are shown below.

	Stage 1	Stage 2	Stage 3	Total
2019				
Credit Quality				
Unclassified	P 1,082,056,189	P -	P -	P 1,082,056,189
Especially mentioned	-	99,520,326	-	99,520,326
Defaulted	-	-	121,781,189	121,781,189
Gross carrying amount	1,082,056,189	99,520,326	121,781,189	1,303,357,704
Allowance for ECL	(15,207,536)	(7,330,056)	(57,998,712)	(80,536,304)
Carrying amount	P 1,066,848,653	P 92,190,270	P 63,782,477	P 1,222,821,400
2018				
Credit Quality				
Unclassified	P 1,097,873,336	P -	P -	P 1,097,873,336
Especially mentioned	-	40,980,783	-	40,980,783
Defaulted	-	-	81,874,491	81,874,491
Gross carrying amount	1,097,873,336	40,980,783	81,874,491	1,220,728,610
Allowance for ECL	(9,756,563)	(6,398,486)	(63,527,010)	(79,682,059)
Carrying amount	P 1,088,116,773	P 34,582,297	P 18,347,481	P 1,141,046,551

(b) Allowance for Expected Credit Losses

The table below shows the reconciliation of the loss allowance for ECL for receivable from customers as of December 31, 2019 and 2018.

		<u>Stage 1</u>		<u>Stage 2</u>		<u>Stage 3</u>		<u>Total</u>
<u>2019</u>								
Balance at beginning year	P	9,756,563	P	6,398,486	P	63,527,010	P	79,682,059
Transfers:								
Stage 1 to Stage 2	(	5,009,391)		5,009,391		-		-
Stage 1 to Stage 3	(	8,249,961)		-		8,249,961		-
Stage 2 to Stage 3		-	(	6,042,566)		6,042,566		-
Assets derecognized or repaid	(	14,119,262)	(	7,485,422)	(	23,315,311)	(	44,919,995)
New assets originated:								
Remained in stage 1		32,829,587		-		-		32,829,587
Moved to Stage 2 and 3		-		9,450,167		3,494,486		12,944,653
Balance at end of year	<u>P</u>	<u>15,207,536</u>	<u>P</u>	<u>7,330,056</u>	<u>P</u>	<u>57,998,712</u>	<u>P</u>	<u>80,536,304</u>
<u>2018</u>								
Balance at beginning of year	P	8,496,280	P	1,525,559	P	66,190,635	P	76,212,474
Transfers:								
Stage 1 to Stage 2	(	5,745,691)		5,745,691		-		-
Stage 2 to Stage 3		-	(	3,139,854)		3,139,854		-
Assets derecognized or repaid	(	21,975,903)	(	5,723,468)	(	19,381,217)	(	47,080,588)
New assets originated:								
Remained in stage 1		28,981,877		-		-		28,981,877
Moved to Stage 2 and 3		-		7,990,558		13,577,738		21,568,296
Balance at end of year	<u>P</u>	<u>9,756,563</u>	<u>P</u>	<u>6,398,486</u>	<u>P</u>	<u>63,527,010</u>	<u>P</u>	<u>79,682,059</u>

Expected credit losses on cash and cash equivalents and other financial instruments (except for receivable from customers) were assessed by management to be not significant. These financial instruments were in Stage 1 category and are considered current as of December 31, 2019 and 2018.

(c) Significant Changes in Gross Carrying Amounts Affecting Allowance for ECL

The table below provides information on how the significant changes in the gross carrying amounts of receivables from customers contributed to the change in the amount of allowance for ECL.

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
2019				
Balance at beginning of year	P 1,097,873,336	P 40,980,783	P 81,874,491	P 1,220,728,610
Transfers:				
Stage 1 to Stage 2	(28,365,750)	28,365,750	-	-
Stage 1 to Stage 3	(40,580,232)	-	40,580,232	-
Stage 2 to Stage 3	-	(19,075,090)	19,075,090	-
Assets derecognized or repaid	(795,180,904)	(10,162,125)	(27,019,714)	(832,362,743)
New assets originated:				
Remained in stage 1	848,309,739	-	-	848,309,739
Moved to Stage 2 and 3	-	59,411,008	7,271,090	66,682,098
Balance at end of year	<u>P 1,082,056,189</u>	<u>P 99,520,326</u>	<u>P 121,781,189</u>	<u>P 1,303,357,704</u>
2018				
Balance at beginning of the year	P 909,585,664	P 9,385,921	P 65,935,147	P 984,906,732
Transfers:				
Stage 1 to Stage 2	(26,842,270)	26,842,270	-	-
Stage 2 to Stage 3	-	(3,139,854)	3,139,854	-
Assets derecognized or repaid	(662,668,059)	(11,562,759)	(30,777,144)	(705,007,962)
New assets originated:				
Remained in stage 1	877,798,001	-	-	877,798,001
Moved to Stage 2 and 3	-	19,455,205	43,576,634	63,031,839
Balance at end of year	<u>P 1,097,873,336</u>	<u>P 40,980,783</u>	<u>P 81,874,491</u>	<u>P 1,220,728,610</u>

4.1.6 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and advances to customers in the form of real estate mortgage, chattel mortgage, assignment of receivables, personal guaranty and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated as deemed appropriate (i.e., generally at the time of credit renewal or at foreclosure event).

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing arrangements.

The fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2019 and 2018 were classified per stage as follows:

	Stage 1	Stage 2	Stage 3	Total
2019				
Against individually assessed for impairment –				
Real property	P -	P 5,150,584	P 17,064,978	P 22,215,562
Chattels	-	383,283	5,820,987	6,204,270
Others	-	10,101,500	83,776,708	93,878,208
Against classified accounts but not individually assessed for impairment –				
Real property	-	-	-	-
Chattels	564,000	-	-	564,000
Others	1,155,642	-	-	1,155,642
Against neither past due nor impaired –				
Real property	1,085,313,539	-	-	1,085,313,539
Chattels	90,995,576	-	-	90,995,576
Others	608,800,703	-	-	608,800,703
	<u>P 1,786,829,460</u>	<u>P 15,635,367</u>	<u>P 106,662,673</u>	<u>P 1,909,127,500</u>
2018				
Against individually assessed for impairment –				
Real property	P -	P 17,736,160	P 74,415,005	P 92,151,165
Chattels	-	807,733	15,636,611	16,444,344
Others	-	4,297,598	17,695,791	21,993,389
Against classified accounts but not individually assessed for impairment –				
Real property	22,272,614	-	-	22,272,614
Chattels	-	-	-	-
Others	17,157,282	-	-	17,157,282
Against neither past due nor impaired –				
Real property	1,990,752,339	-	-	1,990,752,339
Chattels	144,706,776	-	-	144,706,776
Others	420,069,127	-	-	420,069,127
	<u>P 2,594,958,138</u>	<u>P 22,841,491</u>	<u>P 107,747,407</u>	<u>P 2,725,547,036</u>

The Bank has recognized certain properties arising from foreclosures in settlement of loan account amounting to P8.96 million and P11.07 million in 2019 and 2018, respectively (see Note 11).

The Bank's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

The Bank does not generally use the non-cash collateral for its own operations.

There were no changes in the Bank's collateral policies in 2019 and 2018.

4.2 Liquidity Risk

Liquidity risk is the risk from inability of the Bank to settle its maturing obligations when they become due because of inability to liquidate assets or obtain adequate funding from other financing sources. In view of this, the Bank ensures that sufficient liquid assets are carefully managed to meet short-term and medium-term funding, and regulatory requirements.

Analysis of maturity profile of the financial assets and financial liabilities of the Bank are shown below.

		2019					
		Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-Maturity	Total
<i>Resources:</i>							
Cash	P	15,166,503	P -	P -	P -	P -	P 15,166,503
Due from BSP		84,851,141	-	-	-	-	84,851,141
Due from other banks		156,906,896	-	-	-	-	156,906,896
Loans arising from reverse repurchase agreements		60,525,480	-	-	-	-	60,525,480
Receivable from customers		79,392,031	171,269,566	413,038,668	536,592,478	103,064,961	1,303,357,704
Accrued interest receivables		11,368,511	-	-	-	-	11,368,511
Sales contract receivables		379,922	1,159,998	2,308,008	10,563,986	-	14,411,914
Rental and other deposits		-	-	-	-	2,279,881	2,279,881
Accrued rent receivable		-	-	-	-	1,649,440	1,649,440
Others		-	-	-	-	20,262,815	20,262,815
		<u>408,590,484</u>	<u>172,429,564</u>	<u>415,346,676</u>	<u>547,156,464</u>	<u>127,257,097</u>	<u>1,670,780,285</u>
<i>Liabilities:</i>							
Deposit liabilities		177,831,323	410,330,595	177,050,712	15,934,511	310,140,393	1,091,287,534
Accrued interest and other expenses		-	-	-	-	12,553,166	12,553,166
Other liabilities		11,531,111	6,025,558	15,801,115	67,933,160	1,136,704	102,427,648
		<u>189,362,434</u>	<u>416,356,153</u>	<u>192,851,827</u>	<u>83,867,671</u>	<u>323,830,263</u>	<u>1,206,268,348</u>
Net periodic surplus (gap)		<u>219,228,050</u>	<u>(243,926,589)</u>	<u>222,494,849</u>	<u>463,288,793</u>	<u>(196,573,166)</u>	<u>464,511,937</u>
Cumulative total surplus (gap)	P	<u>219,228,050</u>	<u>(P 24,698,539)</u>	<u>P 197,796,310</u>	<u>P 661,085,103</u>	<u>P 464,511,937</u>	<u>P -</u>
		2018					
		Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-Maturity	Total
<i>Resources:</i>							
Cash	P	9,843,449	P -	P -	P -	P -	P 9,843,449
Due from BSP		74,206,429	-	-	-	-	74,206,429
Due from other banks		94,803,723	-	-	-	-	94,803,723
Loans arising from reverse repurchase agreements		32,000,000	-	-	-	-	32,000,000
Receivable from customers		54,878,866	205,795,747	397,871,778	460,016,158	102,166,061	1,220,728,610
Accrued interest receivables		8,094,747	-	-	-	-	8,094,747
Sales contract receivables		350,246	717,357	3,316,932	14,411,247	-	18,795,782
Rental and other deposits		-	-	-	-	2,047,778	2,047,778
Accrued rent receivable		-	-	-	-	1,045,263	1,045,263
Others		-	-	-	-	15,344,486	15,344,486
	P	<u>274,177,460</u>	<u>P 206,513,104</u>	<u>P 401,188,710</u>	<u>P 474,427,405</u>	<u>P 120,603,588</u>	<u>P 1,476,910,267</u>

		2018					
		Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-Maturity	Total
<i>Liabilities:</i>							
Deposit liabilities	P	262,288,852	P 194,067,237	P 128,092,884	P 6,731,809	P 334,429,981	P 925,610,763
Accrued interest and other expenses		-	-	-	-	11,641,267	11,641,267
Other liabilities						14,645,504	14,645,504
		<u>262,288,852</u>	<u>194,067,237</u>	<u>128,092,884</u>	<u>6,731,809</u>	<u>360,716,752</u>	<u>951,897,534</u>
Net periodic surplus (gap)		<u>11,888,608</u>	<u>12,445,867</u>	<u>273,095,826</u>	<u>467,695,596</u>	<u>(240,113,164)</u>	<u>525,012,733</u>
Cumulative total surplus (gap)	P	<u>11,888,608</u>	<u>P 24,334,475</u>	<u>P 297,430,301</u>	<u>P 765,125,897</u>	<u>P 525,012,733</u>	<u>P -</u>

The contractual maturities reflect the gross cash flows (including contractual interest on deposit liabilities) which may differ from the carrying values of the financial liabilities at the end of the reporting periods.

4.3 Market Risk

(a) Foreign Currency Risk

Foreign currency risk arises when future commercial transactions and recognized financial assets and liabilities are denominated in a currency that is not the Bank's functional currency. Exposures to changes in currency exchange rates arise from the Bank's cash deposits in foreign currency. The Bank's foreign currency denominated cash deposits in banks, translated into Philippine pesos at closing rates, amounted to P0.34 million as of December 31, 2018 (see Note 8). The Bank has no foreign currency denominated cash deposits in other banks as of December 31, 2019.

The sensitivity analysis of the Bank's net results for the year arising from its financial assets and the United States (U.S.) Dollar-Philippine peso exchange rate assumes a +/-11.14% in 2018 change of the Philippine Peso-U.S. dollar exchange rate. These percentage changes have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Bank's foreign currency financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. If at December 31, 2018, the Philippine peso had strengthened against the U.S. dollar, with all other variables held constant, the Bank's net income before tax in 2018 would have been higher by P0.04 million. On the other hand, if at December 31, 2018, the Philippine peso had weakened by the same percentage, with all other variables held constant, net results in each year would have been more favorable by the same amounts.

To mitigate the Bank's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

(b) Interest Rate Risk

Interest rate risk is the risk to earnings or capital resulting from adverse movements in the interest rates. The economic perspective of interest rate risk focuses on the value of a bank in the current interest rate environment and the sensitivity of that value to changes in interest rates.

The Bank closely monitors the movements of interest rates in the market and review its interest-bearing financial assets and liabilities structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits.

The following are the maturity profile of the Bank's interest-bearing financial instruments as of December 31, 2019 and 2018:

	2019											
		Less than One Month		One to Three Months		Three Months to One Year		More than One Year		Non-Maturity		Total
Resources:												
Due from BSP	P	84,851,141	P	-	P	-	P	-	P	-	P	84,851,141
Due from other banks		156,906,896		-		-		-		-		156,906,896
Loans arising from reverse repurchase agreements		60,525,480		-		-		-		-		60,525,480
Receivable from customers		79,392,031		171,269,566		413,038,668		536,592,478		103,064,961		1,303,357,704
Sales contract receivables		379,922		1,159,998		2,308,008		10,563,986		-		14,411,914
		382,055,470		172,429,564		415,346,676		547,156,464		103,064,961		1,620,053,135
Liabilities:												
Deposit liabilities		177,831,323		410,330,595		177,050,712		15,934,511		310,140,393		1,091,287,534
Other liabilities		2,275,557		6,025,558		15,801,115		67,933,160		-		92,035,390
		180,106,880		416,356,153		192,851,827		83,867,671		310,140,393		1,183,322,924
Net periodic surplus (gap)		201,948,590	(	243,926,589)		222,494,849		463,288,793	(	207,075,432)		436,730,211
Cumulative total surplus (gap)	P	201,948,590	(P	41,977,999)	P	180,516,850	P	643,805,643	P	436,730,211	P	-
2018												
		Less than One Month		One to Three Months		Three Months to One Year		More than One Year		Non-Maturity		Total
Resources:												
Due from BSP	P	74,206,429	P	-	P	-	P	-	P	-	P	74,206,429
Due from other banks		94,803,723		-		-		-		-		94,803,723
Loans arising from reverse repurchase agreements		32,000,000		-		-		-		-		32,000,000
Receivable from customers		54,878,866		205,795,747		397,871,778		460,016,158		102,166,061		1,220,728,610
Sales contract receivables		350,246		717,357		3,316,932		14,411,247		-		18,795,782
		256,239,264		206,513,104		401,188,710		474,427,405		102,166,061		1,440,534,544
Liabilities:												
Deposit liabilities		262,288,852		194,067,237		128,092,884		6,731,809		334,429,981		925,610,763
		262,288,852		194,067,237		128,092,884		6,731,809		334,429,981		925,610,763
Net periodic surplus (gap)	(	6,049,588)		12,445,867		273,095,826		467,695,596	(	232,263,920)		514,923,781
Cumulative total surplus (gap)	(P	6,049,588)	P	6,396,279	P	279,492,105	P	747,187,701	P	514,923,781	P	-

5. CAPITAL MANAGEMENT AND BSP REPORTING COMPLIANCE

5.1 Capital Management

It is the Bank's policy to maintain a strong capital base to sustain the development of its business and to meet regulatory capital requirements at all times. It also seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

5.2 Regulatory Capital

The Bank's lead regulator, the BSP, sets and monitors the capital requirements of the Bank.

In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its relevant circulars.

On January 15, 2013, the BSP issued Circular No. 781, effective on January 1, 2014, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary bank and quasi-banks, in accordance with the Basel III standards.

Prior to 2014, the Bank is required to maintain a capital adequacy ratio (CAR) of 10% of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Bank to maintain:

- Common Equity Tier 1 (CET1) of at least 6.0% of risk weighted assets;
- Tier 1 Capital of at least 7.5% of risk-weighted assets;
- Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
- Capital Conservation Buffer of 2.5% of risk weighted assets, comprised of CET1 Capital.

In computing for the CAR, the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, each adjusted for prescribed regulatory deductions.

Tier 1 Capital and Tier 2 Capital are defined as follows, subject to deductions as defined in relevant regulations:

(i) CET1 Capital includes the following:

- paid-up common stock;
- common stock dividends distributable;
- additional paid-in capital;
- deposit for common stock subscription;
- retained earnings;
- undivided profits;
- other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
- minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(ii) AT1 Capital includes:

- instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular 781;
- financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular 781;
- financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- additional paid-in capital resulting from issuance of AT1 capital;
- deposit for subscription to AT1 instruments; and,
- minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(iii) Tier 2 Capital includes:

- instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular 781;
- financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- deposit for subscription of Tier 2 capital;
- appraisal increment reserve – bank premises, as authorized by the Monetary Board;
- general loan loss provisions; and,
- minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans, or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

The Bank's regulatory capital position as of December 31, 2019 and 2018 is shown below:

	<u>2019</u>	<u>2018</u>
Tier 1 Capital	P 565,192,157	P 538,632,121
Tier 2 Capital	<u>14,157,923</u>	<u>9,756,563</u>
Total regulatory qualifying capital	<u>P 579,350,080</u>	<u>P 548,388,684</u>
Total risk weighted assets	<u>P 1,966,758,633</u>	<u>P 1,483,883,171</u>
Capital ratios:		
Total regulatory capital expressed as percentage of total risk-weighted assets	<u>29.46%</u>	<u>36.96%</u>
Total Tier 1 expressed as percentage of total risk-weighted assets	<u>28.74%</u>	<u>36.30%</u>

The Bank is in compliance with the minimum capital requirement of the BSP for thrift banks (with head office outside national capital region with 11 to 50 branches) amounting to P400.0 million as of December 31, 2019 and 2018, respectively.

5.3 Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides the implementing guidelines on the leverage ratio framework designed to act as a supplementary measure to the risk-based capital requirements. It sets out a minimum leverage ratio of 5.00% and shall be complied with at all times.

The Basel III leverage ratio is defined as the ratio of capital measure (Tier 1 Capital) and the exposure measure which include on-balance sheet and securities financing transactions exposures and off-balance sheet items.

The Bank's Basel III leverage ratio as reported to the BSP are as follows:

	<u>2019</u>	<u>2018</u>
Tier 1 Capital	P 565,192,157	P 557,445,330
Exposure Measure	<u>1,818,460,831</u>	<u>1,567,093,666</u>
	<u>31.08%</u>	<u>35.57%</u>

5.4 Liquidity Coverage Ratio and Net Stable Funding Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. This Circular requires the Bank to maintain available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflows for a 30-day period under stress conditions. The Bank has fully complied with the LCR minimum requirement of 100% coverage effective January 1, 2019.

To strengthen the Bank's short-term liquidity position and as a defense against potential onset of liquidity stress, it maintains adequate stock of unencumbered HQLAs that consists of cash or assets that can be freely converted into cash at little or no loss of value in private markets.

The Bank's LCR as of December 31, 2019 is analyzed below.

	<u>Total Unweighted Value</u>	<u>Total Weighted Value</u>
Total stock of HQLA	P 160,543,123	P 160,543,123
Expected Net Cash Outflows	66,922,798	<u>66,922,798</u>
Liquidity Coverage Ratio		<u>239.89%</u>

Net Stable Funding Ratio (NSFR), as detailed in BSP Circular 1007, *Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, measures the availability of medium and long-term stable funding to support illiquid assets and business activities on an on-going basis. It is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NSFR complements the LCR, which promotes short-term resilience of the Bank's liquidity profile.

To promote long-term resilience against liquidity risk, the Bank maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

The Bank's Basel III NSFR as of December 31, 2019 are summarized below.

Available stable funding	P1,579,670,300
Required stable funding	<u>1,137,118,158</u>
Basel III NSFR	<u><u>1.39%</u></u>

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

Notes	2019		2018	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets				
At amortized cost:				
Cash	8 P 15,166,503	P 15,166,503	P 9,843,449	P 9,843,449
Due from BSP	8 84,851,141	84,851,141	74,206,429	74,206,429
Due from other banks	8 156,906,896	156,906,896	94,803,723	94,803,723
Loans arising from reverse repurchase agreements	8 60,525,480	60,525,480	32,000,000	32,000,000
Loans and receivables – net	9 1,268,846,908	1,063,644,716	1,185,788,941	1,190,294,296
Other resources:				
Rental and other deposits	12 2,279,881	2,279,881	2,047,778	2,047,778
Accrued rent receivable	12 1,649,440	1,649,440	1,045,263	1,045,263
	1,590,226,249	1,385,024,057	1,399,735,583	1,404,240,938
At fair value:				
Financial assets at FVOCI	12 25,765,619	25,765,619	20,315,518	20,315,518
	<u>P 1,615,991,868</u>	<u>P1,410,789,676</u>	<u>P 1,420,051,101</u>	<u>P1,424,556,456</u>
Financial Liabilities				
At amortized cost:				
Deposit liabilities	13 P 1,091,287,534	P1,091,287,534	P 925,610,763	P 925,610,763
Accrued interest and other expenses	14 12,553,166	12,553,166	11,641,267	11,641,267
Other liabilities	15 102,427,648	102,427,648	14,645,504	14,645,504
	<u>P 1,206,268,348</u>	<u>P1,206,268,348</u>	<u>P 951,897,534</u>	<u>P 951,897,534</u>

Management considers that the carrying amounts of the Bank's financial instruments which are measured at amortized cost approximate their fair values either because these financial instruments have maturities of one year or less, or the effect of discounting for those with maturities of more than one year is immaterial. The fair value of financial assets at FVOCI is determined using valuation technique disclosed in Note 7.2.

See Note 2.3 for the description of the accounting policies for each category of financial instruments.

6.2 Offsetting of Financial Assets and Financial Liabilities

Certain financial assets and financial liabilities of the Bank with amounts presented in the statements of financial position as at December 31, 2019 and 2018 are subject to offsetting, enforceable master netting arrangements and similar agreements. However, there were no financial assets and financial liabilities presented at net in the statements of financial position. Presented below is the financial assets and financial liabilities subject to offsetting but the related amounts are not set-off in the statements of financial position.

	December 31, 2019			December 31, 2018		
	Related amounts not set off in the statement of financial position			Related amounts not set off in the statement of financial position		
	Financial instruments	Collateral received	Net amount	Financial instruments	Collateral received	Net amount
Financial assets –						
Loans and receivables	P1,268,846,908	(P 87,334,531)	P1,181,512,377	P1,185,788,941	(P 64,954,695)	P1,120,834,246
Financial liabilities –						
Deposit liabilities	P1,091,287,534	(P 87,334,531)	P1,003,953,003	P 925,610,763	(P 64,954,695)	P 860,656,068

For purposes of presenting the information, the related amounts not set-off in the statements of financial position pertains to hold-out deposit which serves as the Bank's collateral enhancement for certain loans and receivables. The financial instruments that can be set-off are only disclosed to the extent of the amounts of the Bank's counterparties.

For financial assets subject to enforceable master netting arrangements or similar arrangements between the Bank and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

7.2 Financial Instruments Measured at Fair Value

The Bank's financial asset at FVOCI, which consist of investment in unquoted equity securities of a privately-owned company, amounted to P25.77 million and P20.32 million as of December 31, 2019 and 2018, respectively (see Note 12.1).

As of December 31, 2019 and 2018, the fair value of the Bank's equity securities categorized under Level 3 of the fair value hierarchy, is estimated and determined through valuation technique using the dividend discounted model. The management assessed that considering the regular dividend payments expected from the investee company in the future, this valuation technique provides appropriate measurement of the fair value of the investment. In discounting the cash flows from dividends, the Bank used a discount rate of 4.90% and 6.21% in 2019 and 2018, respectively.

The reconciliation of the carrying amount of financial assets at FVOCI under Level 3 of the fair value hierarchy is shown below.

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 20,315,518	P 33,695,212
Fair value gains (loss)	<u>5,450,101</u>	(<u>13,379,694</u>)
Balance at end of year	<u>P 25,765,619</u>	<u>P 20,315,518</u>

7.3 Fair Value of Financial Instruments Measured at Amortized Cost

The fair value hierarchy of cash and cash equivalents is within Level 1, while fair value hierarchy of all other financial assets and financial liabilities measured at amortized cost is within Level 3.

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) Cash and Cash Equivalents

Due from BSP and Due from other banks include items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(c) Deposit Liabilities

The estimated fair value of deposits is the amount repayable on demand.

(d) Other Resources and Other Liabilities

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

7.4 Fair Value Disclosures for Investment Properties Carried at Cost

For purposes of determining the fair value hierarchy, the Bank categorized the fair value disclosed for investment properties within Level 3 wherein the inputs used in the determination of fair value are not based on observable market data or the significant adjustments were made on the observable prices used as reference of fair value.

The fair values disclosed for the Bank's investment properties as of December 31, 2019 and 2018 were based on the appraisals performed by the Bank's internal appraisers and independent and qualified appraisers having appropriate and recent experience in the fair value measurement of similar properties in the relevant locations.

To some extent, the valuation process conducted by the appraisers was made in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land, and the comparable prices in the corresponding property location. In estimating the fair values of the investment properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's investment properties is agricultural utilization.

The Level 3 fair value of land was derived using the observable recent prices of the reference properties and were adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value of the properties.

As of December 31, 2019 and 2018, the total estimated fair values of the investment properties amounted to P45.90 million and P24.68 million, respectively (see Note 11).

8. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents account are as follows:

	<u>2019</u>		<u>2018</u>
Cash	P 15,166,503	P	9,843,449
Due from BSP	84,851,141		74,206,429
Due from other banks	156,906,896		94,803,723
Loans arising from reverse repurchase agreements	<u>60,525,480</u>		<u>32,000,000</u>
	<u>P 317,450,020</u>	P	<u>210,853,601</u>

Cash consist of funds in the form of Philippine currency notes and coins in the Bank's vault.

Due from BSP represents the aggregate balance of deposit accounts in local currency maintained with BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims (see Note 13). The outstanding balance as of December 31, 2019 includes Overnight Deposit Facility with the BSP amounting P39.0 million bearing annual interest rates of 3.50% and having a one day term.

Placements with BSP are all denominated in Philippine peso at the end of each reporting period.

Due from other banks represents regular deposits with local banks with annual interest rates ranging from 0.15% to 1.00% in 2019 and 2018.

Loans arising from reverse repurchase agreements bear interest of 4.00% and 4.75% in 2019 and 2018, respectively.

The breakdown of due from other banks by currency is shown below.

	<u>2019</u>	<u>2018</u>
Philippine pesos	P 156,906,896	P 94,460,924
U.S. dollars	<u>-</u>	<u>342,799</u>
	<u>P 156,906,896</u>	<u>P 94,803,723</u>

As of December 31, 2019 and 2018, due from other banks include deposit accounts with the Parent Company amounting to P131.24 million and P73.04 million, respectively (see Note 21.2).

Interest income earned from cash equivalents are as follows:

	<u>2019</u>	<u>2018</u>
Due from BSP	P 3,285,808	P 2,349,281
Due from other banks	<u>372,258</u>	<u>353,522</u>
	<u>P 3,658,066</u>	<u>P 2,702,803</u>

9. LOANS AND RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Loans and discounts –			
Receivable from customers		P 1,303,357,704	P 1,220,728,610
Other receivables:			
Sales contract receivables	10	14,411,914	18,795,782
Accrued interest receivables		11,368,511	8,094,747
Accounts receivables		369,067	2,894,174
Others	21.4	<u>20,262,815</u>	<u>15,344,486</u>
		1,349,770,011	1,265,857,799
Allowance for impairment		<u>(80,923,103)</u>	<u>(80,068,858)</u>
		<u>P 1,268,846,908</u>	<u>P 1,185,788,941</u>

Loans and receivables earn an average effective interest at rates of 5.04% to 48.00% per annum and 4.34% to 48.00% per annum in 2019 and 2018, respectively.

Sales contract receivable represents the present value of the instalment receivable arising from the sale of investment properties on an instalment basis.

Accounts receivable consist of cash advances to officers and employees subject to liquidation.

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to security follows:

	<u>2019</u>	<u>2018</u>
Secured:		
Real estate mortgage	P 797,160,804	P 805,062,738
Chattel mortgage	39,301,044	34,689,506
Others	<u>1,794,716</u>	<u>17,691,392</u>
	838,256,564	857,443,636
Unsecured	<u>465,101,140</u>	<u>363,284,974</u>
	<u>P 1,303,357,704</u>	<u>P 1,220,728,610</u>

The changes in the total amount of allowance for impairment of loans and receivables are summarized below.

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year		P 80,068,858	P 76,599,273
Transfer to other account	10	(895,909)	(2,261,106)
Loans written off		(12,251,310)	-
Impairment losses during the year		<u>14,001,464</u>	<u>5,730,691</u>
Balance at end of year		<u>P 80,923,103</u>	<u>P 80,068,858</u>

10. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2019 and 2018 are shown below.

	<u>Land</u>	<u>Buildings</u>	<u>Furniture, Fixtures and Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Transportation Equipment</u>	<u>Right-of- use assets</u>	<u>Construction in progress</u>	<u>Total</u>
December 31, 2019								
Cost	P 21,724,746	P 47,017,242	P 66,664,765	P 64,670,880	P 18,490,412	P 63,859,435	P 10,681,001	P 293,108,481
Accumulated depreciation and amortization	-	(27,885,965)	(52,677,470)	(29,818,536)	(12,261,157)	(10,094,261)	-	(132,737,389)
Net carrying amount	<u>P 21,724,746</u>	<u>P 19,131,277</u>	<u>P 13,987,295</u>	<u>P 34,852,344</u>	<u>P 6,229,255</u>	<u>P 53,765,174</u>	<u>P 10,681,001</u>	<u>P 160,371,092</u>
December 31, 2018								
Cost	P 21,724,746	P 44,623,867	P 62,135,342	P 59,673,525	P 20,972,144	P -	P -	P 209,129,824
Accumulated depreciation and amortization	-	(25,402,547)	(51,267,593)	(23,882,154)	(13,280,511)	-	-	(113,832,805)
Net carrying amount	<u>P 21,724,746</u>	<u>P 19,221,320</u>	<u>P 10,867,949</u>	<u>P 35,791,371</u>	<u>P 7,691,633</u>	<u>P -</u>	<u>P -</u>	<u>P 95,297,019</u>
January 1, 2018								
Cost	P 33,724,746	P 73,021,117	P 64,487,907	P 49,075,808	P 19,220,337	P -	P -	P 239,529,915
Accumulated depreciation and amortization	-	(42,262,093)	(52,802,990)	(26,530,698)	(13,105,619)	-	-	(134,701,400)
Net carrying amount	<u>P 33,724,746</u>	<u>P 30,759,024</u>	<u>P 11,684,917</u>	<u>P 22,545,110</u>	<u>P 6,114,718</u>	<u>P -</u>	<u>P -</u>	<u>P 104,828,515</u>

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2019 and 2018 is shown below.

	<u>Land</u>	<u>Buildings</u>	<u>Furniture, Fixtures and Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Transportation Equipment</u>	<u>Right-of- use assets</u>	<u>Construction in progress</u>	<u>Total</u>
Balance at January 1, 2019, net of accumulated depreciation and amortization	P 21,724,746	P 19,221,320	P 10,867,949	P 35,791,371	P 7,691,633	P -	P -	P 95,297,019
Effect of PFRS 16 adoption	-	-	-	-	-	54,130,085	-	54,130,085
Addition	-	2,393,375	7,645,390	6,486,759	1,492,968	9,729,350	10,681,001	38,428,843
Disposal	-	-	(386,235)	(637,675)	(696,259)	-	-	(1,720,169)
Depreciation and amortization charges for the year	-	(2,483,418)	(4,139,809)	(6,788,111)	(2,259,087)	(10,094,261)	-	(25,764,686)
Balance at December 31, 2019 net of accumulated depreciation and amortization	<u>P 21,724,746</u>	<u>P 19,131,277</u>	<u>P 13,987,295</u>	<u>P 34,852,344</u>	<u>P 6,229,255</u>	<u>P 53,765,174</u>	<u>P 10,681,001</u>	<u>P 160,371,092</u>
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 33,724,746	P 30,759,024	P 11,684,917	P 22,545,110	P 6,114,718	P -	P -	P 104,828,515
Addition	-	207,335	3,444,081	20,786,917	3,686,815	-	-	28,125,148
Disposal	(12,000,000)	(8,163,410)	(770,621)	(1,570,168)	-	-	-	(22,504,199)
Depreciation and amortization charges for the year	-	(3,581,629)	(3,490,428)	(5,970,488)	(2,109,900)	-	-	(15,152,445)
Balance at December 31, 2018, net of accumulated depreciation and amortization	<u>P 21,724,746</u>	<u>P 19,221,320</u>	<u>P 10,867,949</u>	<u>P 35,791,371</u>	<u>P 7,691,633</u>	<u>P -</u>	<u>P -</u>	<u>P 95,297,019</u>

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2019 and 2018, the Bank has satisfactorily complied with this BSP requirement.

In 2019, the Bank sold certain equipment, leasehold improvements, and furniture and fixtures with book value of P0.70 million, P0.64 million, and P0.38 million, respectively, with a total consideration of P1.13 million, at a loss of P0.59 million.

In 2018, the Bank disposed of certain land and building with a net book value of P12.00 million and P6.20 million, respectively, through a sales contract with the buyer at a total consideration of P33.00 million, resulting in gain of P14.80 million. The outstanding balance as of December 31, 2019 and 2018 amounting to P14.00 million and P17.22 million, respectively, is included as part of Sales contract receivables under the Loans and Receivables account in the statements of financial position (see Note 9). In addition, the Bank sold certain equipment, furniture and fixtures, and leasehold improvements with book value of P4.31 million for a total consideration of P2.99 million, at a loss of P1.32 million.

Net loss and gain recognized from these asset disposals are presented as part of Gain (loss) on sale of property and equipment under Other Operating Income account in the statements of comprehensive income (see Note 17).

The cost of fully depreciated assets that are still being used in operation amounts to P29.43 million and P28.60 million as of December 31, 2019 and 2018, respectively.

None of the Bank's premises and other property and equipment were used as collateral or security to any liability or commitment as of the end of each reporting period.

The Bank has several leases covering the office space of its branches. Terms of the lease agreements range from two to five years and include escalation rates ranging from 4.5% to 10%. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a right-of-use asset under Bank Premises, Furniture, Fixtures and Equipment and the related obligation as Lease liabilities under Other Liabilities (see Note 15) on the 2019 statement of financial position. The Bank recognized Right-of-use assets with average remaining term of two to nine years as of December 31, 2019.

11. INVESTMENT PROPERTIES

Investment properties pertain to parcels of land and building acquired through foreclosure in settlement of borrower's loan accounts. These are held by the Bank for capital appreciation and rentals.

As of December 31, 2019 and 2018, the carrying amount of investment properties amounted to P33.55 million and P23.33 million with allowance for impairment amounting to P3.16 million and P2.26 million, respectively. The gross carrying amount includes P8.96 million and P11.07 million cost of the parcel of land and building foreclosed by the Bank in 2019 and 2018, respectively, while the allowance for impairment pertains to the amount reclassified by the Bank in 2019 and 2018 from its previously recognized allowance for impairment on the related loans and receivable (see Note 9).

In 2012, the Bank entered into a lease agreement with RCBC for the lease of a parcel of land situated in Cebu. Rent income recognized on this lease agreement amounting to P0.65 million in 2019 and P0.55 million in 2018 is presented as Rent income under Other Operating Income account in the statements of comprehensive income (see Note 17). The outstanding rent receivable as of December 31, 2019 and 2018 amounting to P1.65 million and P1.05 million, respectively, is presented as part of Other Resources account in the statements of financial position (see Note 12).

Expenses incurred by the Bank related to investment properties include taxes and licenses amounting to P0.65 million and P1.12 million in 2019 and 2018, respectively.

As of December 31, 2019 and 2018, foreclosed investment properties still subject to redemption period by the borrowers amount to P8.06 million and P1.39 million, respectively.

The estimated fair values of the properties amounted to P45.90 million and P24.68 million as of December 31, 2019 and 2018, respectively (see Note 7.4).

12. OTHER RESOURCES

This account consists of:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Financial asset at FVOCI	7.2, 12.1	P 25,765,619	P 20,315,518
Computer software – net	12.2	5,261,609	8,112,324
Prepaid expenses		2,639,970	3,990,190
Rental and other deposits		2,279,881	2,047,778
Accrued rent receivable	11	1,649,440	1,045,263
Office supplies		1,707,665	1,177,175
Creditable withholding taxes		43,938	2,491,788
Miscellaneous		<u>1,044,363</u>	<u>1,035,368</u>
		<u>P 40,392,485</u>	<u>P 40,215,404</u>

Miscellaneous resources include, among others, revolving fund, stationery and supplies.

12.1 Financial Asset at FVOCI

Financial asset at FVOCI represent the Bank's investment in equity securities of BancNet, Inc. The fair value of this investment increased by P5.45 million in 2019 and decreased by P13.38 million in 2018, which is recognized as an adjustment in other comprehensive income as an item that will not be reclassified to profit or loss.

The Bank recognized dividends on this investment amounting to P1.26 million in 2019 and 2018, which is presented as Dividend income under Other Operating Income account in the statements of comprehensive income (see Note 17).

12.2 Computer Software

The gross carrying amounts and the accumulated amortization of computer software at the beginning and end of 2019 and 2018 follow:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Cost	P 34,037,595	P 32,305,164	P 26,374,344
Accumulated amortization	(<u>28,775,986</u>)	(<u>24,192,840</u>)	(<u>21,577,998</u>)
Net carrying amount	<u>P 5,261,609</u>	<u>P 8,112,324</u>	<u>P 4,796,346</u>

A reconciliation of the carrying amounts of computer software at the beginning and end of 2019 and 2018 is shown below.

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Balance at January 1, net of accumulated amortization		P 8,112,324	P 4,796,346
Additions		1,825,764	5,930,820
Amortization charges for the year	18	(4,676,479)	(2,614,842)
Net carrying amount		<u>P 5,261,609</u>	<u>P 8,112,324</u>

13. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

	<u>2019</u>	<u>2018</u>
Current	P 30,530,707	P 4,058,474
Savings	326,463,570	330,371,507
Time	<u>734,293,257</u>	<u>591,180,782</u>
	<u>P 1,091,287,534</u>	<u>P 925,610,763</u>

Interest rates per annum on deposit liabilities range between 0.50% to 7.00% in 2019 and 0.50% to 4.25% in 2018.

Under existing BSP regulations, non-foreign currency depositary unit deposit liabilities are subject to required reserve of 6.00% (BSP Circular 1041, Series of 2019). The Bank is in compliance with such regulations.

The available reserves consist of the demand deposit account to BSP amounting to P84.85 million and P74.21 million as of December 31, 2019 and 2018, respectively (see Note 8).

14. ACCRUED INTEREST AND OTHER EXPENSES

This account consists of:

	<u>2019</u>	<u>2018</u>
Accrued interest	P 8,652,150	P 4,888,720
Accrued gross receipt tax	8,591,825	4,184,360
Accrued insurance – Philippine Deposit Insurance Corporation	1,064,458	898,451
Accrued other expenses	<u>2,836,558</u>	<u>5,854,096</u>
	<u>P 21,144,991</u>	<u>P 15,825,627</u>

Other accrued expenses include mainly accruals for utilities, janitorial, security and professional services.

15. OTHER LIABILITIES

The breakdown of this account is shown below.

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Lease liabilities		P 62,035,390	P -
Bills payable		30,000,000	-
Retirement benefit obligation	19.2	17,423,020	10,107,849
Accounts payable		9,255,553	13,868,849
Income tax payable		1,111,809	-
Withholding taxes payable		980,820	589,478
Miscellaneous		<u>1,136,705</u>	<u>776,655</u>
		<u>P 121,943,297</u>	<u>P 25,342,831</u>

Bills payable pertain to the Bank's borrowed funds from financing corporation in 2019 with an annual interest rate of 2.00%.

Accounts payable includes notarial fees, payable to insurance companies and resigned employees, cash bond of the loan account specialists and unliquidated documentary stamp taxes related to time deposit transactions initially paid by the depositors.

The movements in the lease liabilities recognized in the 2019 statement of financial position are as follows:

Balance as of December 31, 2018	P -
Effect of adoption of PFRS 16	60,727,943
Additions	9,594,613
Payments of lease liabilities	(12,288,222)
Interest	<u>4,001,056</u>
Balance as of December 31, 2019	<u>P 62,035,390</u>

The lease liabilities is secured by the related underlying assets. The maturity analysis of lease liabilities as of December 31, 2019 is as follows:

	<u>Within One Year</u>	<u>Two to Five Years</u>	<u>More than Five Years</u>	<u>Total</u>
Lease payments	P 12,825,748	P 41,225,851	P 23,860,840	P 77,912,439
Finance charges	(<u>3,723,518</u>)	(<u>9,383,303</u>)	(<u>2,770,228</u>)	(<u>15,877,049</u>)
Net present value	<u>P 9,102,230</u>	<u>P 31,842,548</u>	<u>P 21,090,612</u>	<u>P 62,035,390</u>

The Bank has elected not to recognize lease liabilities for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

As at December 31, 2019, the Bank has no committed leases which had not yet commenced.

The expenses relating to short-term leases amounted to P0.06 million and is presented as Occupancy as part of Other Operating Expenses in the 2019 statement of income (see Note 18)

16. EQUITY

16.1 Capital Stock

The Bank's capital stock is composed of 20,000,000 authorized shares with P100 par value per share. As of December 31, 2019 and 2018, there are 11,263,580 shares issued and outstanding at P100 par value or P1.13 billion.

As of December 31, 2019 and 2018, the Bank has two stockholders owning 100 or more shares each of the Bank's capital stock.

16.2 Appropriation of General Loan Loss Reserves

Pursuant to the requirements of the BSP under Circular No. 1011, the Bank shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than the required one percent general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus. The accumulated amount of appropriation to General Loan Loss Reserves for general loan loss portfolio as of December 31, 2019 and 2018 amounted to P1.7 million and P7.35 million, respectively.

17. OTHER OPERATING INCOME

This account consists of the following:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Service fees and commission		P 44,867,257	P 36,860,871
Dividend income	12.1	1,262,000	1,262,000
Rent income	11	654,845	547,420
Gain (loss) on sale of property and equipment - net	10	(588,945)	13,478,258
Other income		<u>4,625,267</u>	<u>3,490,396</u>
		<u>P 50,820,424</u>	<u>P 55,638,945</u>

Other income includes notarial fees, holding fees and establishment fees charged to customers.

18. OTHER OPERATING EXPENSES

The details of this account are shown below.

	Notes	2019	2018
Employee benefits	19.1	P 97,461,179	P 85,825,378
Depreciation and amortization	10, 12.2	30,441,165	17,767,287
Taxes and licenses		20,638,674	19,005,511
Messengerial, janitorial and security	21.3	11,402,316	10,218,685
Transportation and travel		6,727,880	6,868,661
Postage and utilities		5,604,284	4,955,272
Insurance		5,374,377	4,305,296
Power, light and water	21.3	3,672,093	4,044,742
Management and other professional fees		3,489,680	5,393,374
Information technology		2,750,615	95,857
Stationery and supplies		2,709,819	2,746,994
Repairs and maintenance		2,513,563	2,672,120
Fuel and lubricant		1,626,292	1,703,444
Occupancy	21.3, 22.1	1,498,990	13,454,213
Advertising and publicity		1,146,156	1,033,691
Supervision fees		442,016	412,999
Miscellaneous		6,939,399	5,204,492
		<u>P 204,438,498</u>	<u>P 185,708,016</u>

19. EMPLOYEE BENEFITS

19.1 Salaries and Employee Benefits

Expenses recognized for employee benefits are presented below.

	Notes	2019	2018
Short-term employee benefits		P 94,838,715	P 83,520,651
Post-employment defined benefit	19.2	<u>2,622,464</u>	<u>2,304,727</u>
	18	<u>P 97,461,179</u>	<u>P 85,825,378</u>

19.2 Retirement Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a partially-funded, tax-qualified, non-contributory defined retirement benefit plan that is being administered by a trustee bank covering all regular full-time employees (see Note 21.5). The trustee bank managed the fund under the supervision of the Corporate Governance Committee of the Bank who acts in the best interest of the plan assets and is responsible for setting the investment policies.

The normal retirement age is 60 with a minimum of 10 years of credited service. The plan also provides for an early retirement upon attainment of age 50 and completion of at least 10 years of credit service subject to the approval of the BOD. Normal retirement benefit is an amount equivalent to 125% of employee's final covered compensation for every year of credited service.

(b) *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent actuary in 2019 and 2018.

The amount of retirement benefit obligation recognized in the statements of financial position and presented as part of Other Liabilities account, is determined as follows (see Note 15):

	<u>2019</u>	<u>2018</u>
Present value of the obligation	P 26,395,365	P 13,757,974
Fair value of plan assets	(8,972,345)	(3,650,125)
	<u>P 17,423,020</u>	<u>P 10,107,849</u>

The movements in the present value of the retirement benefit obligation are as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 13,757,974	P 19,504,556
Current service cost	2,622,464	4,277,713
Interest expense	1,029,096	1,100,057
Past service cost – plan amendment	-	(1,972,986)
Remeasurement – actuarial losses (gains) arising from changes in:		
- financial assumptions	7,465,023	(6,172,056)
- experience adjustments	<u>1,520,808</u>	<u>(2,979,310)</u>
Balance at end of year	<u>P 26,395,365</u>	<u>P 13,757,974</u>

The movements in the fair value of plan assets are presented below.

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 3,650,125	P 3,733,650
Interest income	460,029	210,578
Contributions	5,000,000	-
Negative return on plan assets (excluding amounts included in net interest)	(137,809)	(294,103)
Balance at end of year	<u>P 8,972,345</u>	<u>P 3,650,125</u>

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

	<u>2019</u>	<u>2018</u>
Due from other banks	P 7,384,240	P 2,231,558
Philippine government bonds	1,519,915	1,417,783
Others – net	<u>68,190</u>	<u>784</u>
	<u>P 8,972,345</u>	<u>P 3,650,125</u>

The fair values of the Philippine government bonds are determined based on the reference price available in Bloomberg.

The plan assets earned a net gain of P0.33 million in 2019 and net loss of P0.08 million in 2018.

Plan assets do not comprise any of the Bank's own financial instruments or assets held and owned by its related parties.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	<u>2019</u>	<u>2018</u>
<i>Recognized in profit or loss:</i>		
Current service cost	P 2,622,464	P 4,277,713
Past service cost – plan amendment	-	(1,972,986)
Net interest expense	<u>569,067</u>	<u>889,479</u>
	<u>P 3,191,531</u>	<u>P 3,194,206</u>
<i>Recognized in other comprehensive income:</i>		
Actuarial losses (gains) arising from changes in:		
- financial assumptions	P 7,465,023	(P 6,172,056)
- experience adjustments	1,520,808	(2,979,310)
Return on plan assets (excluding amounts included in net interest)	<u>137,809</u>	<u>294,103</u>
	<u>P 9,123,640</u>	<u>(P 8,857,263)</u>

Current service cost and the past service cost arising from the plan amendment is included as part of Employee benefits under Other Operating Expenses account in the statements of comprehensive income (see Note 18).

Past service costs arise from the decrease in expected rate of salary increase during the year.

The net interest expense is presented as part of Others under Interest Expense account in the statements comprehensive income.

Amounts recognized in other comprehensive income will not be reclassified subsequently to profit or loss. In determining the amounts of the retirement obligation, the following significant actuarial assumptions were used:

	<u>2019</u>	<u>2018</u>
Discount rates	5.10%	7.48%
Expected rate of salary increases	4.00%	4.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 28.2. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond [using the reference rates published by Bloomberg using its valuation technology, BVAL, with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan is heavily invested in government bonds and due from other banks which are generally considered to be less risky than equity investments.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment defined benefit obligation as of December 31, 2019 and 2018:

<u>Impact on Post-Employment Defined Benefit Obligation</u>				
	<u>Change in Assumption</u>		<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>December 31, 2019</u>				
Discount rate	+/- 1%	(P	4,464,345)	P 3,591,414
Salary growth rate	+/- 1%		4,469,096	(3,657,015)
<u>December 31, 2018</u>				
Discount rate	+/- 1%	(P	2,077,148)	P 1,693,141
Salary growth rate	+/- 1%		2,131,663	(1,759,406)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy which is to ensure that investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in less risky investments (placements with BSP and government bonds).

(iii) *Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P17.4 million based on the latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about five to 10 years' time when the total expected benefit payments would have exhausted the assets currently in the fund.

The maturity profile of undiscounted expected benefit payments within 10 years as of December 31 from the plan follows:

	<u>2019</u>	<u>2018</u>
More than one year to five years	P 5,494,502	P 4,492,655
More than five years to ten years	<u>14,238,679</u>	<u>9,960,251</u>
	<u>P 19,733,181</u>	<u>P 14,452,906</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 15.3 years.

20. INCOME TAXES

20.1 Current and Deferred Tax

The components of tax expense as reported in profit or loss follow:

	<u>2019</u>	<u>2018</u>
Minimum corporate income tax (MCIT) at 2%	P 3,626,811	P 3,421,077
Final tax at 15% and 20%	<u>727,666</u>	<u>542,064</u>
	<u>P 4,354,477</u>	<u>P 3,963,141</u>

The reconciliation of tax on pretax income computed at the applicable statutory rates to tax expense reported in profit or loss follows:

	<u>2019</u>	<u>2018</u>
Tax on pretax income at 30%	P 3,916,911	P 9,303,487
Adjustment for income subjected to lower tax rates	(369,754)	(268,777)
Tax effects of:		
Unrecognized deferred tax assets	1,030,872	6,093,800
Utilization of net operating loss carry-over (NOLCO)	(984,646)	(11,054,346)
Excess MCIT over regular corporate income tax (RCIT)	710,052	-
Non-deductible expenses	429,642	267,577
Non-taxable income	<u>(378,600)</u>	<u>(378,600)</u>
	<u>P 4,354,477</u>	<u>P 3,963,141</u>

The Bank is subject to MCIT which is computed at 2% of gross income as defined under the tax regulations, or at RCIT, whichever is higher. The Bank is liable for MCIT in 2019 and 2018 since MCIT is higher than RCIT in 2019 while the Bank the Bank is in a net taxable loss position in 2018.

The details of excess MCIT over RCIT which can be applied against RCIT due within three consecutive years from the year the MCIT was incurred is shown below.

<u>Year Incurred</u>		<u>Amount</u>	<u>Expired</u>		<u>Remaining Balance</u>	<u>Expiry Year</u>
2019	P	710,052	P	-	P 710,052	2022
2018		3,421,077		-	3,421,077	2021
2017		2,476,750		-	2,476,750	2020
2016		<u>2,210,304</u>	(	<u>2,210,304</u>)	<u>-</u>	
	P	8,818,183	(P	2,210,304)	P 6,607,879	

The breakdown of NOLCO with its corresponding validity is shown below.

<u>Year Incurred</u>		<u>Original Amount</u>	<u>Expired</u>		<u>Applied</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2016	P	3,282,153	P	-	P 3,282,153	P -	

In 2019 and 2018, the Bank claimed itemized deductions in computing its income tax due.

The Bank has not recognized the net deferred tax assets related to the following temporary differences because management believes that the Bank may not be able to generate sufficient taxable profit in the future against which the benefits of these net deferred tax assets can be utilized:

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>
Allowance for impairment	P 84,080,118	P 25,224,036	P 80,068,858	P 24,020,657
Lease liabilities	62,035,390	18,610,617	-	-
Retirement benefit obligation	17,423,020	5,226,906	10,107,849	3,032,355
Excess MCIT over RCIT	6,607,879	6,607,879	8,108,131	8,108,131
Past service cost	2,139,782	641,935	-	-
NOLCO	-	-	3,282,153	984,646
Rental expense differential	-	-	2,732,118	819,635
Right-of-use assets	(53,765,174)	(16,129,552)	-	-
Rental income differential	(1,649,440)	(494,832)	(1,324,715)	(397,415)
Unrealized foreign exchange gains	(<u>10,026</u>)	(<u>3,008</u>)	(<u>17,165</u>)	(<u>5,150</u>)
	P 116,861,549	P 39,683,981	P 102,957,229	P 36,562,859

20.2 *Supplementary Information Required under Revenue Regulation (RR) No. 15-2010*

The BIR issued RR No. 15-2010 which requires certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required disclosure under the SEC rules and regulations covering the form and content of financial statements under the Revised Securities Regulation Code Rule 68.

The Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

21. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has transactions with the Parent Company and other related parties as defined below. These transactions include regular banking transactions, outside services and lease of office space. The summary of the Bank's transactions and outstanding balances with the Parent Company and other related parties as of and for the years ended December 31, 2019 and 2018 is as follows:

Related Party Category	Notes	2019		2018	
		Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Parent Company					
Cash deposits	8, 21.2	P 58,203,932	P 131,242,428	P 32,746,732	P 73,038,496
Interest income on deposits	21.2	269,217	-	172,084	-
Rent income	11, 12	654,845	1,649,440	547,420	1,045,263
Expenses:					
Occupancy	18, 21.3	1,460,281	-	3,233,558	-
Messengerial, janitorial and security	18, 21.3	508,432	-	193,346	-
Power, light and water	18, 21.3	356,814	-	59,155	-
Retirement plan	19.2, 21.5	5,322,220	8,972,345	83,525	3,650,125
Related Parties Under Common Ownership					
Advances granted	21.4	4,119,645	19,464,131	15,344,486	15,344,486
Key Management Personnel Compensation					
	21.6	20,679,447	-	13,168,176	-

21.1 Directors, Officers, Stockholders and other Related Interests (DOSRI)

In the ordinary course of business, the Bank has loans and other transactions with certain DOSRI. Under the Bank's policy, these deposits and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

As of December 31, 2019 and 2018, the Bank is in compliance with these regulatory requirements (see Note 26).

21.2 Bank Deposits

The Bank has deposit accounts with RCBC which are presented as part of Due from Other Banks account in the statements of financial position. These bank accounts are interest-bearing and subject to normal banking terms and conditions applied by RCBC to ordinary depositors (see Note 8).

The Bank declared its deposit accounts with related parties as DOSRI credit accommodation as of December 31, 2019 and 2018, which are secured by the related parties' investments in government securities.

21.3 Messengerial, Janitorial and Security and Occupancy

The Bank, as a lessee, entered into a sublease agreement with RCBC. Incidental to the sublease agreement, RCBC paid expenses on behalf of the Bank, including messengerial, janitorial and security, and power, light and water which are presented under Other Operating Expenses account in the statements of comprehensive income (see Note 18). The rent and the related expenses are generally settled through cash payments with no interest charged on the outstanding balance, if any, at the end of the reporting period. There are no outstanding payables relating to these transactions as of December 31, 2019 and 2018.

21.4 Advances

In 2019 and 2018, the Bank paid certain expenses relating to the consolidation of titles of certain properties of RCBC-JPL Holding Company, Inc., a related party under common control by the Parent Company. The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand, and is presented as part of Other receivables under the Loans and Receivables account in the statements of financial position. Management believes that this receivable is fully recoverable.

21.5 Transactions with the Retirement Fund

The Bank's retirement fund covered under their post-employment defined benefit plan maintained for qualified employees is administered and managed by RCBC's Trust Department. The carrying amount and the composition of the plan assets (including savings deposit maintained with RCBC) as of December 31, 2019 and 2018, are shown in Note 19.2.

The Bank had no transactions with the retirement plan in both years.

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments covered by any restriction or liens.

21.6 Key Management Personnel Compensation

Short-term benefits paid to key management employees amounted to P20.68 million and P13.17 million in 2019 and 2018, respectively.

22. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Bank:

22.1 Operating Lease Commitments – Bank as a Lessee

The Bank is a party to certain long-term lease agreements, renewable upon mutual agreement with the lessors and are subject to escalation rates ranging from 4.5% to 10.0%. The Bank's rental expense (presented as Occupancy under Other Operating Expenses account in the statements of comprehensive income) based on the lease contracts amounted to P13.45 million in 2018 (see Note 18).

As of December 31, 2018, future minimum lease payments under these operating leases follow:

Within one year	P 12,683,932
Beyond one year but within five years	41,298,246
Beyond five years	<u>23,551,586</u>
	<u>P 77,533,764</u>

22.2 Operating Lease Commitments – Bank as a Lessor

The Company entered into operating lease agreement as lessor of its parcel of land leased out to RCBC. The lease has a term of 25 years commencing on January 1, 2012. The lease contract has a fixed escalation rate of 3% starting on the second year of the lease term.

Rent income from this contact is shown as part of Other Operating Income in the statements of comprehensive income (see Note 17).

22.3 Others

In the normal course of business, the Bank makes various commitments, including undrawn loan commitment to customer, and incurs certain contingent liabilities that are not given recognition in the financial statements. As of December 31, 2019, management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

23. EVENTS AFTER THE END OF THE REPORTING PERIOD

On January 13, 2019, the provincial government of Batangas declared state of calamity in the province due to the eruption of Taal volcano. The eruption caused the evacuation of families and closure of several businesses within the 14-kilometer danger zone and nearby provinces such as Cavite and Laguna. The Bank temporarily closed its branches in Tanauan and Laurel, which represent a total loan exposure of P71.77 million as of December 31, 2019. The management determined that the eruption would significantly impact the credit capacity of the borrowers situated in the affected areas who have outstanding loans with the Bank. The Bank subsequently reopened the branches after it deemed safe for the personnel.

24. MATURITY ANALYSIS OF RESOURCES AND LIABILITIES

Notes	2019			2018		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Resources						
Cash	P 15,166,503	P -	P 15,166,503	P 9,843,449	P -	P 9,843,449
Due from BSP	84,851,141	-	84,851,141	74,206,429	-	74,206,429
Due from other banks	156,906,896	-	156,906,896	94,803,723	-	94,803,723
Loans arising from reverse repurchase agreements	60,525,480	-	60,525,480	32,000,000	-	32,000,000
Loans and other receivables	721,690,444	547,156,464	1,268,846,908	611,059,559	574,729,382	1,185,788,941
Other resources	1,649,440	28,045,500	29,694,940	1,045,263	22,363,296	23,408,559
	<u>1,040,789,904</u>	<u>575,201,964</u>	<u>1,615,991,868</u>	<u>822,958,423</u>	<u>597,092,678</u>	<u>1,420,051,101</u>
Non-financial Resources						
Bank premises, furnitures, fixtures and equipment - net	-	160,371,092	160,371,092	-	95,297,019	95,297,019
Investment properties - net	-	33,551,865	33,551,865	-	23,333,720	23,333,720
Other resources	5,435,936	5,261,609	10,697,545	8,694,521	8,112,324	16,806,845
	<u>5,435,936</u>	<u>199,184,566</u>	<u>204,620,502</u>	<u>8,694,521</u>	<u>126,743,063</u>	<u>135,437,584</u>
	<u>P 1,046,225,840</u>	<u>P 774,386,530</u>	<u>P 1,820,612,370</u>	<u>P 831,652,944</u>	<u>P 723,835,741</u>	<u>P 1,555,488,685</u>
Financial Liabilities						
Deposit liabilities	P 1,075,353,023	P 15,934,511	P 1,091,287,534	P 918,878,954	P 6,731,809	P 925,610,763
Accrued interest and other expenses	12,553,165	-	12,553,165	11,641,267	-	11,641,267
Other liabilities	34,494,488	67,933,160	102,427,648	14,645,504	-	14,645,504
	<u>1,122,400,676</u>	<u>83,867,671</u>	<u>1,206,268,347</u>	<u>945,165,725</u>	<u>6,731,809</u>	<u>951,897,534</u>
Non-financial Liabilities						
Accrued interest and other expenses	8,591,826	-	8,591,826	4,184,360	-	4,184,360
Other liabilities	2,092,629	17,423,020	19,515,649	589,478	10,107,849	10,697,327
	<u>10,684,455</u>	<u>17,423,020</u>	<u>28,107,475</u>	<u>4,773,838</u>	<u>10,107,849</u>	<u>14,881,687</u>
	<u>P 1,133,085,131</u>	<u>P 101,290,691</u>	<u>P 1,234,375,822</u>	<u>P 949,939,563</u>	<u>P 16,839,658</u>	<u>P 966,779,221</u>

25. OTHER INFORMATION REQUIRED BY THE SECURITIES AND EXCHANGE COMMISSION

RA No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code), took effect on March 8, 2019. The new provisions of the Revised Corporation Code or any amendments thereof have no significant impact to the Bank's financial statements.

26. SUPPLEMENTARY INFORMATION REQUIRED BY THE BANGKO SENTRAL NG PILIPINAS

Presented below and in the succeeding pages are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks*.

(a) *Selected Financial Performance Indicators*

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

	<u>2019</u>	<u>2018</u>
Return on average equity		
$\frac{\text{Net profit}}{\text{Average total equity}}$	1.48%	4.56%
Return on average resources		
$\frac{\text{Net profit}}{\text{Average total resources}}$	0.51%	1.80%
Net interest margin		
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	11.85%	12.43%

(b) *Capital Instruments Issued*

As of December 31, 2019, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements, which may include*, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

(c) *Significant Credit Exposures for Loans*

The Bank's concentration of credit as to industry for its receivables from customers' portfolio (gross of allowance for ECL) follows:

	2019		2018	
	Amount	Share	Amount	Share
Wholesale and retail trade, repair of motor vehicles motorcycles, personal household goods	P 836,125,672	64%	P 735,563,019	60%
Agriculture, forestry and fishing	132,122,980	10%	101,712,115	8%
Manufacturing	91,945,900	7%	100,315,097	8%
Hotels and restaurants	46,346,149	4%	48,296,849	4%
Private households with employed persons	51,554,117	4%	45,087,455	4%
Transportation, storage and communication	45,196,389	3%	41,074,429	3%
Construction	16,327,114	1%	33,709,901	3%
Electricity, gas and water supply	12,902,953	1%	14,219,129	1%
Real estate, renting and business activities	16,585,386	1%	11,727,653	1%
Mining and quarrying	4,981,401	0%	7,255,000	1%
Others	49,269,643	4%	81,767,963	7%
	P 1,303,357,704	100%	P 1,220,728,610	100%

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceed 30% of total loan portfolio except for thrift banks.

Others consists of loans granted to industries under health and social work, and wellness centers.

(d) *Credit Status of Loans*

The breakdown of total loans (receivable from customers) as to status is shown below.

	2019		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount:			
Micro enterprise	P 94,558,832	P 31,889,089	P 126,447,921
Small and medium enterprise (SME)	518,053,170	67,247,090	585,300,260
Agricultural loan	559,058,749	22,645,010	581,703,759
Salary	<u>9,905,764</u>	<u>-</u>	<u>9,905,764</u>
	1,181,576,515	121,781,189	1,303,357,704
Allowance for ECL	(<u>22,538,192</u>)	(<u>57,998,112</u>)	(<u>80,536,304</u>)
Net carrying amount	<u>P 1,159,038,323</u>	<u>P 63,783,077</u>	<u>P 1,222,821,400</u>

	2018		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount:			
Micro enterprise	P 116,246,411	P 35,654,671	P 151,901,082
SME	532,636,936	43,535,837	576,172,773
Agricultural loan	479,530,596	2,683,983	482,214,579
Salary	<u>10,440,176</u>	<u>-</u>	<u>10,440,176</u>
	1,138,854,119	81,874,491	1,220,728,610
Allowance for ECL	(<u>16,155,049</u>)	(<u>63,527,010</u>)	(<u>79,682,059</u>)
Net carrying amount	<u>P 1,122,699,070</u>	<u>P 18,347,481</u>	<u>P 1,141,046,551</u>

Non-performing loans (NPLs) included in the total loan portfolio of the Bank as of December 31, 2019 and 2018 are presented below, net of allowance for ECL.

	2019	2018
Gross NPLs	P 121,781,189	P 81,874,491
Allowance for impairment	(<u>57,998,112</u>)	(<u>63,527,010</u>)
Net carrying amount	<u>P 63,783,077</u>	<u>P 18,347,481</u>

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written off.

Restructured loans amount to P2.14 million and P2.68 million as of December 31, 2019 and 2018, respectively. The related allowance for credit loss of such loans amounted to P0.55 million and P0.68 million as of December 31, 2019 and 2018, respectively.

Interest income recognized on impaired loans and receivables amounted to P0.63 million P0.72 million in 2019 and 2018, respectively.

(e) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) is disclosed in Note 9 to the financial statements.

(f) *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with its other affiliates, and with certain DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	<u>DOSRI Loans</u>		<u>Related Party Loans (inclusive of DOSRI)</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Total outstanding loans	P -	P -	P -	P -
% of loans to total loan portfolio	-	-	-	-
% of unsecured loans to total DOSRI/related party loans	-	-	-	-
% of past due loans to total DOSRI/related party loans	-	-	-	-
% of non-performing loans to total DOSRI/related party loans	-	-	-	-

(g) *Secured Liabilities and Assets Pledged as Security*

As of December 31, 2019 and 2018, the Bank has no assets pledged as security for liabilities.

(h) *Contingencies and Commitments Arising from Off-balance Sheet Items*

The Bank has no commitments and contingent accounts as of December 31, 2019 and 2018.

RIZAL MICROBANK BANKING OFFICES

CORPORATE BANKING OFFICE

SOUTHERN TAGALOG REGIONAL OFFICE

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Tel Nos.: (043) 778 4201
(02) 8 894 9000 local 1886

MAKATI OFFICE

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Makati City 1226
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MINDANAO BANKING OFFICE

DAVAO HEAD OFFICE

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Greggy Michael R. Anuta

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Rollie F. Mamale

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Ritche Dano

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Toni Rose B. Eman

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Del Norte
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TACURONG BRANCH LITE UNIT

F Daniel Building, National Highway, Tacurong City
9800, Sultan Kudarat
Tel No.: (064) 477 0012

LUZON BANKING OFFICE

BAUAN BRANCH

Don Quintin Castillo St., Bauan, Batangas
Landmark: Near Jollibee Bauan, Bauan Public Market
& Bauan National High School
Tel Nos.: (043) 727 3189
(02) 8 894 9000 local 5707
Loreta H. Valenzuela

LAUREL BRANCH

C. P. Garcia St., Poblacion 3 Laurel, Batangas 4221
Tel Nos.: (043) 741 4030
(02) 8 894 9000 local 5705
Teresita D. Sarmiento

NASUGBU BRANCH

J. P. Laurel St., Barangay 9, Nasugbu, Batangas
Tel Nos.: (043) 416 0878
(02) 8 894 9000 local 5706
Ronald A. Bengang

PUERTO PRINCESA BRANCH

Unit 3 ARL Building, Rizal Avenue, San Miguel,
Puerto Princesa, Palawan 5300
Tel Nos.: (048) 433 0160;
(02) 8 894 9000 local 5709
Angelica D. Kingking

ROSARIO BRANCH

Gualberto Avenue, Rosario, Batangas
Tel Nos.: (043) 321 1463
(043) 414 0038;
(02) 8 894 9000 local 5715
Arleen M. Conti

SAN JOSE BRANCH

Liboro St., San Jose, Occidental Mindoro
Tel Nos.: (043) 457 0078;
(02) 8 894 9000 local 5701
Ruth S. Ilagan

TANAUAN BRANCH

A. Mabini Avenue, Tanauan, Batangas
Tel Nos.: (043) 405 2074
(043) 784 8193;
(02) 8 894 9000 local 5700
Lilia C. Perez

LIPA BRANCH LITE UNIT

Receno Compound, Barangay Sabang, Lipa City,
Batangas
Tel No.: (043) 702 7679

SAN PABLO BRANCH LITE UNIT

175 San Rafael, Maharlika Highway, San Pablo City
4000, Laguna
Tel No.: (049) 521 1288

STA. CRUZ BRANCH LITE UNIT

Yelka Bldg., Sitio Huwaran, Brgy. Pagsawitan, Sta.
Cruz, Laguna
Tel No.: (049) 523-0441

ROXAS BRANCH LITE UNIT

#27 Magsaysay Ave., Roxas Oriental Mindoro
Tel No.: (02) 8 894 9000 local 5703

VISAYAS BANKING OFFICE

CONSOLACION BRANCH

812 National Highway, Barangay Pitogo, Consolacion,
Cebu City
Tel Nos.: (032) 232 4241
(02) 8 894 9000 local 5704
Janeth C. Bugtai

TALISAY BRANCH

Ground floor, Building C, South Agora, Tabulasan,
San Isidro St., Talisay, Cebu
Tel Nos.: (032) 272 5857
(02) 8 894 9000 local 5740
Rey Lord E. Jumalon

BALAMBAN BRANCH

D.C. Sanchez St., Sta. Cruz, Balamban Cebu.
Tel Nos.: (02) 8 894 9000 local 5743
Vengie P. Alterado

PRODUCTS AND SERVICES

LOANS



MICROFINANCE LOANS

- PITAKA ME

Loan amount ranges from P20,000 to P150,000 subject to client's capacity to pay.

- PITAKA ME Plus

This is a graduate loan product of the PITAKA Me Term Loan. Loan amount ranges from P150,001 to P300,000 subject to client's capacity to pay.

- PITAKA ME - Revolving Credit Line

Credit Line amount ranges from P50,000 to P150,000 subject to client's capacity to pay.



SMALL BUSINESS LOANS

- SmallBiz Term Loan

Loan amount ranges from P150,000 to P10M subject to client's capacity to pay.

- SmallBiz-Revolving Credit Line

Loan amount ranges from P500,000 to P10M subject to client's capacity to pay.



AGRI FINANCE LOAN

- AgriBiz Term Loan

- AgriBiz-Revolving Credit Line

DEPOSITS



Ordinary Savings (Passbook-Based)

Is a regular passbook-evidenced and interest-bearing deposit product that has a fixed interest rate and can be withdrawn anytime. Interest rate shall be reviewed periodically and is subject to change considering changes in market rates.



Basic Deposit Account

A basic deposit account which is a basic, interest-bearing account targeted towards the unbanked and underserved markets in the Philippines. This product enables financial inclusion through allowing Filipinos to perform financial transactions in an easy, accessible, affordable and convenient manner.



Contractual Savings (Loan-Based)

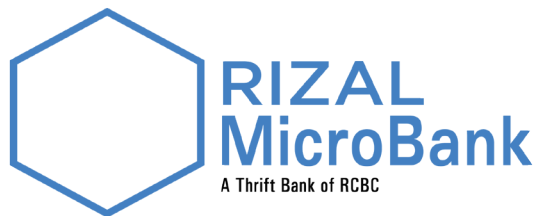
Is a regular passbook-evidenced and interest-bearing deposit product that is a component of the bank's loan products. All clients who avail of the Bank's loan products are required to save an amount equivalent to at least 10% of the loan amount for microenterprise loan, and as agreed with the client, for regular loan. The contractual savings is deposited throughout the term of the loan.



Time Deposit (Certificate)

A deposit product which is evidenced by a certificate of time deposit issued by the Bank with a fixed maturity date and earning an interest rate as specifically agreed upon by the Bank and the depositor. Interest rate shall be reviewed periodically and is subject to change considering changes in market rates.

Note: Please contact us or visit our nearest branch for details.



AndaRizal Center Rizal corner Anda Streets, Brgy. 3-A, Davao City, Davao City
Tel Nos.: (082) 222 2438, (082) 222 2448 , (082) 222 2458, and (02) 894 9000 local 5702

www.rizalmicrobank.com