RIZAL MicroBank

A Thrift Bank of RCBC

ANNUAL REPORT 2017

NURTURING THE HOPES AND DREAMS OF SMALL ENTERPRISES FOR A BETTER TOMORROW

Greenland Asparagus Multipurpose Cooperative, a valued client of RMB General Santos

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VISION

By 2022, Rizal MicroBank will be the go-to credit partner of small entrepreneurs across the country, posting excellent returns with at least P5 Billion in loan portfolio and 10,000 clients.

MISSION

We are the committed bank partner in providing credit to small entrepreneurs sustainably.

CORE VALUES

We strive to uphold the guiding principles that make us who we are and shape where we are headed.

Malasakit
We have "malasakit" in serving our customers for inclusive development of our nation; our employees have "malasakit" to the Bank and the Bank to its employees.

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

Commitment
We are committed to providing excellent service, to developing the competence of our people, and to building loyalty and value for RMB and our customers.

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

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

ABOUT THE COVER

Situated in the picturesque rolling hills of Purok Vineyard, Barangay San Jose, General Santos City is the nursery of Greenland Asparagus Multi-Purpose Cooperative, one of Rizal MicroBank's valued partners in its Agricultural Value Chain Financing Initiative. Rizal MicroBank was inspired to use this as the cover of its annual report as it truly symbolizes the work we do as the microfinance arm of RCBC – as nurturer of the hopes and dreams of small entrepreneurs across the country. Rizal MicroBank believes that by providing better access to financial services to the sectors belonging to the base of the pyramid, it puts life to its commitment to be a partner of small enterprises aiming to grow and contribute to the transformation of their local communities. This belief is best exemplified in the collaborative partnership with Greenland Asparagus Multi-Purpose Cooperative. This can be seen in their story which Rizal MicroBank is sharing in this annual report. Truly, when the RCBC Group, which includes Rizal MicroBank, says "we believe in you", it only means that we are one with our customers in the attainment of their hopes and dreams for a better tomorrow.

The RCBC Brand

In terms of branding, we have aligned with the branding 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 servicing arm of the conglomerate. It was conceived with synergy in mind. Its six interlocking trapezoidal fields represent 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 56 years, RCBC has proudly used the Blue Hexagon to symbolize its union with the YGC conglomerate. However, the Bank recognizes that it needs 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 reenergize its services to serve its loyal customers who have stood with them for all these years. At the same time, this was also RCBC's way to expand its presence and reach among the younger Filipino depositors.

Having built a solid foundation of service and trust through the years, these became the cornerstones in making the RCBC 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 the RCBC brand.

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 and hours of talking to customers, and listening to their needs. It amplifies the importance that the Bank has put 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.

CORPORATE PROFILE

Merchants Savings & Loan Association, Inc., doing business under the name and style of "Rizal MicroBank – A Thrift bank" (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. Rizal MicroBank started its Microfinance Operation in August 2010. Two years later, it acquired the branch licenses of another RCBC subsidiary, Pres. Jose P. Laurel Rural Bank which has operations in Southern Tagalog. Presently, it operates in key areas of the country with a total of 18 branches and 5 micro banking offices.

RMB aspires to advance financial inclusion by providing access to easy, innovative and affordable financial products to grow the businesses of microenterprise and small business operators as well as value chain players in the agricultural sector.

The core values of the Bank, which are aptly encapsulated in the acronym **MICRO**, serve as its guiding principles in the pursuit of its vision and mission.

Malasakit - We have *"malasakit"* in serving our customers for inclusive development of our nation; our employees have *"malasakit"* to the Bank and the Bank to its employees.

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

Commitment - We are committed to providing excellent service, to developing the competence of our people, and to building loyalty and value for RMB and our customers.

Resourcefulness (Mapamaraan) - We are resourceful in responding to the needs of the customers and in achieving the desired results and objectives of the company while upholding ethics.

Oneness - We will be united as a team as we work together across Luzon, Visayas, and Mindanao.

Expansion and deepening the Bank's outreach through a combination of traditional and alternative delivery channels is a priority undertaking, with our vision of being the go-to growth and financial partner of our target market segments. The members of the Board of Directors are all professionals with competencies and experience in the disciplines of banking, accounting, economics, law, agri-business, and development finance. With the support and guidance of its parent bank, RMB aims to fulfill its role in the RCBC Group as its vehicle for providing much-needed services to the unbanked and underserved segments of the country's population.

FINANCIAL HIGHLIGHTS AND RATIOS

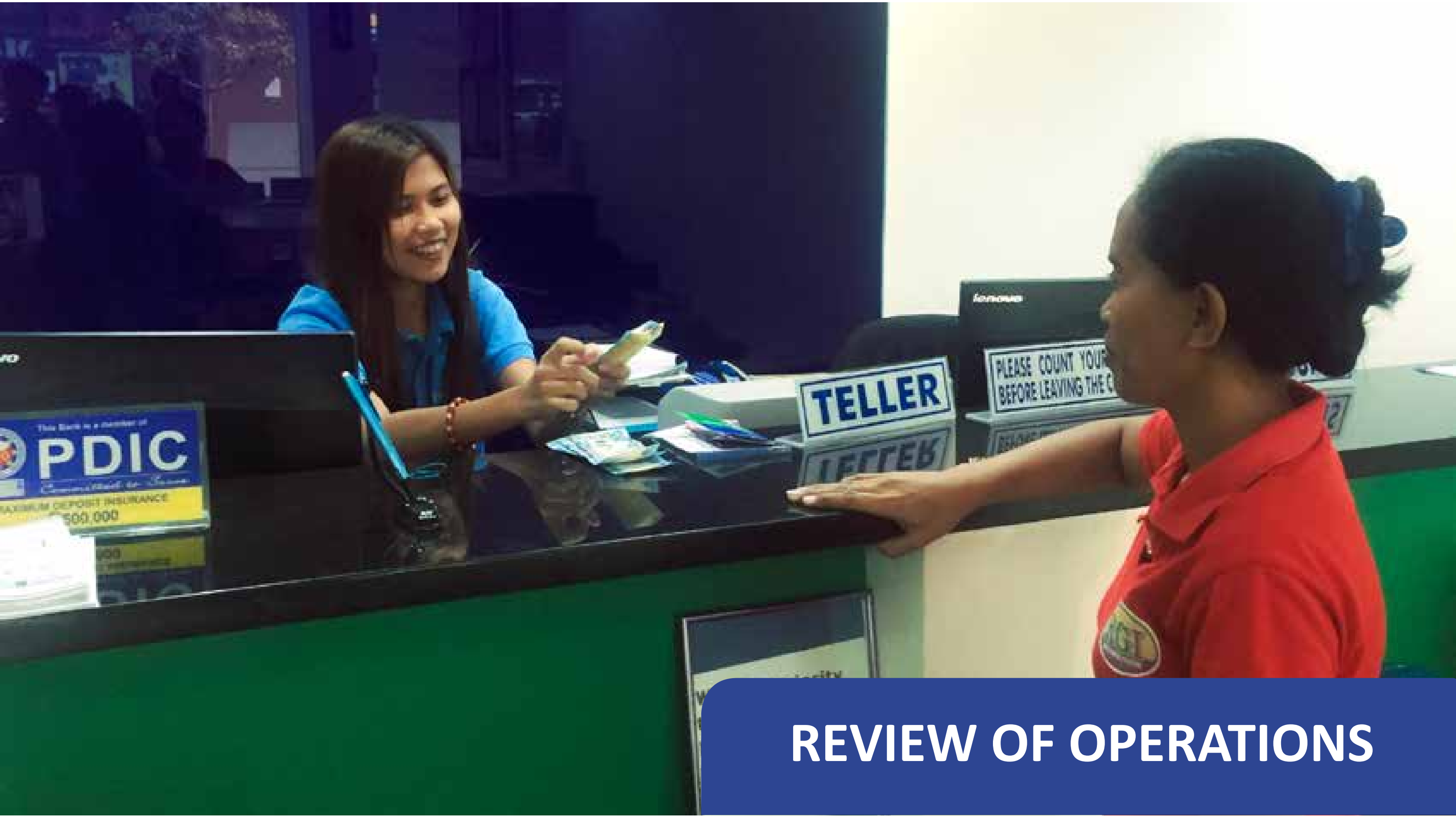
OPERATIONAL & FINANCIAL HIGHLIGHTS
(in Php Million)

	2017	2016	2015
Loans & Receivables - Net	949	705	390
Resources	1,450	1,012	1,017
Deposit Liabilities	812	369	373
Stockholders' Equity	598	621	618
Net Income (Loss) after Tax	(19)	(3)	(65)

SELECTED FINANCIAL RATIOS

	2017	2016	2015
Return on Equity	-3%	-1%	-14%
Return on Assets	-1%	0%	-7%
Capital Adequacy Ratio	43%	65%	92%
Intermediation Ratio - Gross	121%	192%	108%
Expense to Gross Income Ratio	108%	100%	170%
Non-Performing Loans - Gross	2%	2%	3%
Non-Performing Loans - Net	-1%	0%	-1%
Non-Performing Assets	-1%	0%	0%

Note: CAR is based on the ratio stated in the Notes to Financial Statement of AFS



REVIEW OF OPERATIONS

FINANCIAL PERFORMANCE

The Bank's Financial Performance in 2017 continued to be a testament to its serious commitment to be a major partner of small entrepreneurs in the country. Loan portfolio increased by 39% to P974.84 million. Deposits grew by 120% to P812.12 million, contributed by both time deposits and ordinary savings.

Net interest income grew by 9% to P137.02 million while other operating income largely coming from service fees, commissions and miscellaneous income went up by 22% to P44.69 million. Despite the inroads made to increase the revenue-generating capacity of the Bank, it ended the year with a net loss of P19.16 million as it has not reached a significant loan portfolio volume sufficient to turn-around the operation, incurred higher interest expense, and as it adopted a prudent approach to impairment provisioning based on recent regulations.

Total capital of the Bank by end-2017 saw a decline of 4% but still above the regulatory standards under BASEL III: Qualifying capital of 42.53% (minimum is 10%) and Common Equity Tier 1 of 41.85% (minimum is 6% of risk-weighted assets). Total assets rose by 43% to P1.45 billion. Non-performing loans and non-performing assets stood at 2.58% and 1.84%, respectively.

OPERATIONAL PERFORMANCE

LENDING OPERATIONS

Focusing on its mandated market segments – the micro and small enterprises as well as agricultural value chain players, Rizal MicroBank posted a year-end portfolio of Php 974.84 million, up by 39% year-on-year. All the major loan products of the bank showed growth year-on-year, with microfinance loans increasing by 9%, small business loans by 11% and agricultural loans by 1,429%. In terms of portfolio share, small enterprise loans continue to occupy a majority share of the bank's total loan portfolio at 62%, followed by agricultural loan at 22% and the microfinance loans at 16%.

The upward trend in loan portfolio was manifested also in the loan disbursement for 2017. Total loan disbursement reached Php 1.41 billion, or an increase of 35% year-on-year. The double-digit growth in disbursement was contributed by all three major loan products of the bank.

Due to the strong performance of the lending activities in those three market segments, Rizal MicroBank also improved its compliance to the government's mandated credit allocation to MSME's and Agri sector. As of December 31, 2017, Bank's compliance to micro and small enterprises and medium enterprises were at 51% and 21% respectively, exceeding the mandated allocation of 8% and 2% respectively. On the Agri-Agra mandated credit allocation, Bank's compliance were at 24% and 0%, with agricultural lending exceeding the mandated allocation of 15% while still unable to meet the 10% requirement for lending to agrarian reform communities and beneficiaries.

While a lot of headway was made in serving the Bank's mandated market segments, 2017 also saw a slight increase in the Portfolio-At-Risk (PAR) of Rizal MicroBank. Portfolio-At-Risk which considers the outstanding portfolio of all accounts with missed amortizations is the measure used by the microfinance industry around the world in evaluating portfolio quality. With the international microfinance best standard for Portfolio-At-Risk Ratio More Than 7 days pegged at equal to or lower than five percent (5%) of total loan portfolio, Rizal MicroBank's Portfolio-At-Risk Ratio More Than 7 Days as of year-end 2017 was at 7.90%.

DEPOSIT-GENERATION

To keep up with the increasing pace of its lending operation, Rizal MicroBank had to aggressively campaign for additional deposits in 2017. With a loan disbursement budget

RMB Digos Branch Head, Rontjin Moratalla (2nd from left) and LAS, Aljay Fuentes (3rd from left) with their valued client, Marivic Dubria (4th from left) of BACOFA COOP, who won 2nd place in the recent Philippine Coffee Conference.

of P1.8 billion in 2017, the Bank had to leverage both the capacity of its eighteen branches scattered in selected areas of Luzon, Visayas and Mindanao, and the support of RCBC's Wealth Management Group. Through combined efforts, the Bank registered a 120% increase in total deposits to Php 812.14 million. Broken down by deposit products, time deposit grew by 269% while regular savings comprised of ordinary savings and contractual savings increased by 37%. Thus, by the end of 2017, of the Bank's total deposit liabilities, the mix between time deposit and regular savings was 60% and 40% respectively.

SETTING THE FOUNDATIONS FOR SUSTAINABLE GROWTH

In 2017, Rizal MicroBank tirelessly worked on firming up its 5-year strategic and business plan as well as enhancing its business model after the Board had drawn the Bank's charter statement (vision-mission-values) in late 2016. While it is often stated that there is huge business opportunity at the base of the pyramid which can be had, any institution seriously wanting to serve the market segments belonging to this group must be ready to make serious investments both financial and otherwise. So armed with huge amounts of commitment and deep understanding of the challenges inherent in its mandated market segments, Rizal MicroBank laid the foundations in 2017 towards a sustainable growth in the coming years.

To address the challenges of maintaining healthy loan portfolio while continuously growing the lending business, the Board approved a new and more responsive organizational structure that took effect in the second half of 2017. The new organizational structure further strengthened the Credit Evaluation Department by adding more personnel to ably provide support in carrying out a thorough credit underwriting process for the loan applications originated by the units under the Branch Banking Department. On the other hand, the asset quality review was made a primary function of the Risk Management Department, specifically under its Credit Risk Management Unit (CRMU). The CRMU, while attending to the asset quality review function, also busied itself with finalizing the Bank's own Expected Credit Loss (ECL) methodology in consonance with the Philippine Financial Reporting Standards (PFRS) on impairment provisioning set to take effect in January 2018. To support the business growth, the Strategy Management Group was also established to handle initiatives focusing on customer development, marketing and communications, planning and monitoring. The new organizational structure was one of the key changes that was implemented after the Board approved and adopted the Bank's 5-year strategic and business plan in September 2017.

Rather than be alarmed and threatened by the emergence of new institutions such as FinTech companies pursuing the same market segments, the Bank reached out to a few of them to explore strategic partnerships. In June 2017, Rizal MicroBank signed a Memorandum of Agreement with Acudeen Technologies, Inc. to become one of its institutional

Rizal MicroBank and ACDI VOCA's Memorandum of Understanding Signing Ceremony.

partners to provide financing to MSME's by purchasing their invoice receivables sold through a technology platform. From July to December 2017, the bank was able to purchase a total of Php 1.6 million worth of invoice receivables, and got 100% repayment.

Another strategic partnership that the Bank sealed in November 2017 was with PLDT Voyager for the use of their FINTQ-Lendr Platform. Lendr is an end-to-end loans origination and loans management platform that can be accessed via desktop or mobile device. With the Lendr platform designed to complement and support the marketing efforts of branches and business advisors, Rizal MicroBank expects to reach out and offer its excellent loan products to more micro, small and agricultural value chain players in the primary and secondary trade areas of its branches and micro banking offices.

Within the RCBC Group, Rizal MicroBank has partnered with the Digital Banking Group to provide easy access to certain financial transactions through its innovative product called RCBC Cash Express. RCBC Cash Express, as envisioned, will be the ATM in your neighborhood since this mobile point-of-sale device is strategically placed in accredited merchant-partners stores in barangays where there are no bank branches and regular ATMs. Through this small but powerful device powered by internet, those living in the barangays with or without any BANCNET ATM card can do cash-out, fund transfer, bills payment, card reload, airtime reload, balance inquiry, cash-in for RCBC MyWallet card. Rizal MicroBank, as the subsidiary of RCBC mandated to serve the households of small entrepreneurs living in the barangays only know too well that by encouraging and having some of its existing borrowers accredited as merchant-partners for RCBC Cash Express is a significant step towards addressing the challenges and pain points of our countrymen who have always wanted to experience and enjoy the benefits of the mainstream financial system. RCBC and RMB's collective effort to bring RCBC Cash Express to remote areas of the country is just but one of the various concrete demonstrations of its commitment to contribute to the attainment of Bangko Sentral ng Pilipinas' National Strategy for Financial Inclusion.

In the agricultural lending space, another important partnership that the Bank entered into in 2017 was with the Agricultural Cooperative Development International - Volunteers in Overseas Cooperative Assistance (ACDI–VOCA), a Washington-based economic development organization tapped by the United States Department of Agriculture to implement the Mindanao Productivity in Agricultural Commerce and Trade (MinPACT) Project. Essentially, the MinPACT project aims to increase the income of smallholder cocoa, coconut and coffee farmers by strengthening the latter's capacity as well as the other value chain actors for improved farm management, increase productivity, product quality, available extension services and access to markets. The role of Rizal MicroBank in this partnership is to provide working capital loans to existing farmers located in Southern, Western and Central Mindanao participating in the MinPACT project.

With clear strategic direction in the next 5 years anchored on its vision, mission and values, a revitalized organization as well as supportive and enabling regulatory environment in place, Rizal MicroBank hopes to bring its operations to the next level, thereby ensuring its sustainability, and most of all, fulfilling its commitment to help small entrepreneurs in the country realize their dreams and aspirations for a better life.

RISK MANAGEMENT FRAMEWORK

Risk Appetite Statement

RMB's reason for being is to help Micro and Small entrepreneurs become more profitable. And we do this best by carefully studying the business owner's cash flow, business and household conditions to be able to establish the optimal amount of debt that will improve the profitability of the business. Allowing the business to take on too much or too little debt puts profitability at risk. It is RMB's primordial responsibility to lend the correct amount that will provide the most leverage to increase the business' profits.

The most important Key Risk Indicator for RMB's loan products is Portfolio-At-Risk. This is a red flag that signals possible errors in estimations of the optimal amount of debt the business should have taken on. We measure this as a missed payment of 1 day on any loan amortizations that are due. Our most successful business advisers have large portfolios with zero PAR. It is this zero tolerance for delinquency that we strive to impart on our operations group.

We have no appetite to lend to businesses involved in any vices - gambling, bars and nightclubs and love hotels. We also avoid lending for consumption purposes. We protect ourselves from risks by limiting credit concentration to the current percentages per type of industry while attempting to grow our loan book.

We accept 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. We do not lend to other Financial Institutions unless they are part of the RCBC group. At best, we make short term CASA deposits (for liquidity purposes) in areas where there are no RCBC or RSB branches available to serve us.

Risk Management Policy

Credit Risk

When a branch's PARR exceeds 5%, the branch head loses authority to approve new loans up to 50,000 and repeat loans up to 150,000 with no changes in amount, terms and conditions. Authority is delegated upwards, to the Area Head. When a loan account has a missed payment, this triggers a visit by the Business Advisor to the account. For accounts of 50,000 and up, this requires a personal visit of the branch head. A Business Advisor with PARR in excess of 5% is no longer eligible for incentives, which can be a substantial portion of his compensation.

Credit Risk Management Unit is responsible for computing the monthly Loan Loss Provisioning using the Expected Credit Losses Methodology developed in 2017, as mandated by the parent bank. It is also responsible for conducting Asset Quality Review on a periodic basis and is tasked to look for product and process improvements while doing so. A 25% increase in loan loss provisions of a branch on a month-to-month basis will trigger an Asset Quality Review on premises. Arresting increasing Loan Loss Provision and its negative effect on the branch's profitability is the yardstick for the measurement of the continuing effectivity of the CRMU.

On the deposit side, there are rack rates for sourcing deposits. There is also leeway by rank, from Branch Head all the way up to the President. Any special rates granted to specific accounts are submitted for approval to the ExeCom and the Board.

Market Risk

Investments are limited to BSP or Bureau of Treasury Instruments and RCBC and its subsidiaries for term placements. Deposits with other BSFI's 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 of the institution, and each placement is individually approved.

Interest Rate Risk

All deposit products of RMB have a maturity of 1 year 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 Bank policy to find a balance between immunized earnings and economic value by monitoring Net Interest Margin per loan product on a monthly basis and attempting to maintain a spread of at least 15%. This will be communicated to the Execom monthly and to the ROC and Board quarterly. Any divergence from approved lending rates requires authorization from the Operations Head, 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 – this includes Call Tree exercises during localized and bankwide incidents such as earthquakes, typhoons and mass transport strikes. We also do Disaster Recovery testing by switching to our offsite backup servers. We do periodic checking of emergency go bags as a failsafe against expiration of its contents. We send out on a periodic basis updates on possible pandemic outbreaks and earthquake preparedness.

2. Risk Control and Self-Assessment – conducted on a per business unit and department basis annually. 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. Loss Events Reporting – done on a nil-reporting basis monthly, simultaneously with reports on Crimes and Losses and Status of all Legal Cases.

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

5. Data Privacy – we ensure that we obtain permission from our clients to collect their data and we have commitments from our employees to protect this data. We also have bank policies and procedures in place to protect data privacy and our systems are designed with safeguards for the same. We currently only use closed systems to prevent outside parties access to our databases.

6. Consumer Protection – reported to the Chief Risk Officer, Management Committee, Execom, Risk Oversight Committee and Board. Submitted monthly on a nil-reporting basis simultaneously with Loss Events Reporting

7. Other required monitoring and reporting to the parent bank

1. Business Continuity Management
2. Risk Control and Self-Assessment
3. Loss Events Reporting
4. Stress Testing
5. Data Privacy
6. Consumer Protection
7. Other required monitoring and reporting to the parent bank

AML RISK MANAGEMENT FRAMEWORK

The Bank's Board of Directors and Senior Management exercise active oversight on 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 (MLPP).

The MLPP 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 MLPP to ensure their relevance and compliance with prevailing standards.

The Bank's compliance with AMLA is built upon a sound and rigorous "Know Your Client" (KYC) program. This program refers to money laundering control policies and procedures used to determine the true identity of a client and the type of activity that is normal and expected, and to detect 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, a 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 AMLC.

The Bank conducts regular training of all Bank officers and employees to enable them to fulfill their obligations under the MLPP, AMLA, as amended and its RIRR.

The Bank's Internal Audit is responsible for the periodic and independent evaluation of 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.

CORPORATE GOVERNANCE STRUCTURE AND 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 interest of its stakeholders and create value for them.

The Board is composed of nine (9) members who are elected by the stockholders. There are three (3) independent directors which constitute 1/3 of the total number of board members, which is the minimum requirement of the BSP. Having passed the standards set by the BSP for independent directors, they are relied upon to be objective and impartial in the exercise of their oversight function as members of the board. In effect, they serve as the custodians of stakeholders' interests.

There are five (5) non-executive directors in the RMB board. As non-executive directors, they do not have executive responsibilities which ensures their independence from management. They are not involved in the day-to day activities of the bank, thus, bring novel and impartial views to the board. They challenge the ideas and performance of management especially with regard to achieving bank's objectives and plans. They are known as "outside/external directors" but cannot be considered as independent directors based on BSP criteria.

The President is the only executive director of the Bank. As head of the management team, he spearheads the implementation of the bank's business and strategic plans.

The presence of independent and non-executive directors ensures the independence of the Board from the views of senior management. All of them possess 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 pre-screens and 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) sufficiency of time to fully carry out responsibilities.

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

- nature of the business of the corporations where he is a director;
- age of the Director;
- number of directorships/active memberships and officerships in other corporations or organizations; and
- 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

GIL A. BUENAVENTURA
Chairman, Non-Executive Director
65 years of age, Filipino

AB Economics, University of San Francisco, California; Master of Business Administration in Finance, University of Wisconsin Madison, Wisconsin.

Mr. Gil A. Buenaventura was appointed as Bank's Chairman/Director effective July 1, 2016. He is concurrently the President and CEO of Rizal Commercial Banking Corporation (RCBC). He holds directorship and/or officership positions in RCBC Capital Corporation, RCBC Leasing and Finance Corporation, RCBC Rental Corporation, RCBC Savings Bank, and Niyog Property Holdings, Inc.

Before joining the Bank, he worked in various capacities in other banks and financial institutions, including the following: President and CEO of the Development Bank of the Philippines, Chairman/Vice Chairman of the LGU Guarantee Corporation, President and CEO of Prudential Bank , SEVP and COO of Bank of the Philippine Islands (BPI), Chairman of Citytrust Securities Corporation, BPI Leasing Corporation, Pilipinas Savings Bank, and Ayala Plans, Inc. , and Executive Vice President of Citytrust Banking Corp., and Vice President of Citibank N.A. Manila, among others.

He attended the Corporate Governance Orientation Program conducted by the Institute of Corporate Directors on August 25, 2016.

JOHN THOMAS G. DEVERAS
Vice Chairman, Non-Executive Director
55 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 Investment Officer of 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.

RAYMUNDO C. ROXAS
President, Executive Director
50 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 2010, 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.

MELIZA H. AGABIN
Independent Director
77 years of age, Filipino

AB Economics, University of the Philippines

Ms. Meliza H. Agabin has been an independent director of the Bank for five (5) 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), advisor of Banco Santiago De Libon (A Rural Bank) and Senior Advisor of Chemonics International.

Before joining the Bank, Ms. Agabin was MFO Associate of Microfinance Opportunities. She worked at Chemonics International from 1998 to 2015, handling RBAP MABS Program in various capacities (Senior Microfinance Specialist, Chief of Party, Deputy Chief of Party, Consultant, etc.).

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

WILFREDO B. DOMO-ONG
Independent Director
78 years of age, Filipino

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

Mr. Wilfredo B. Domo-ong has been an independent director of the Bank for 5 years. He is the Chairman of the Audit Committee and a 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, Mr. Domo-ong was Director of the Department of Rural Banks, Bangko Sentral ng Pilipinas.

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

JOSE VICENTE C. BENGZON III
Independent Director
60 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 5 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, President of UPCC Holdings Corporation, and Director & Chairman of the Audit Committee of Century Peak Mining.

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 Aura Philippines.

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

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

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 two (2) years. He is a member of the Bank's Corporate Governance Committee. He 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 2016.

REDENTOR C. BANCOD
Non-Executive Director
54 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 nine (9) years. He is currently the Head of the Information Technology Shared Services 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 was also IT Consultant of PNB.

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

ZENAIDA F. TORRES
Non-Executive Director
63 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 eight (8) 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.

Prior to joining the Bank, Ms. Torres was Head of Controllership Group of RCBC, and director of Manchester Land Properties, Inc.

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

ATTY. EVA MARIE M. SISON
Corporate Secretary
33 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.

BOARD'S OVERALL RESPONSIBILITY

The board of directors establishes and promotes the basic governance principles of *Transparency*, *Accountability*, and *Fairness/ Equity* to manifest a culture of strong governance in the bank.

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

While taking care to protect the interest of its stakeholders, the board ensures that the bank continuously provides products and services that support the national economy.

The board 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 concerns related to fraud or irregularity in the workplace.

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

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.

The board is likewise 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 (3) lines of defense framework: the business units, the risk management and compliance functions, and the internal audit functions.

THE CHAIRMAN OF THE BOARD

The Chairman is the leader of the board of directors. He is mainly responsible for the proper governance of the Bank through the Board of Directors. He decides on all matters to be included in the agenda and presides at meetings of the stockholders and Board of Directors. 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 ensures that dissenting views can be expressed and discussed during deliberations. He ensures that all members of the Board are given sufficient information and time to enable them 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
Gil A. Buenaventura	Non-executive	n/a	1.5	1	0%
John Thomas G. Deveras	Non-executive	n/a	9	1	0%
Raymundo C. Roxas	Executive	n/a	2	1	0%
Wilfredo B. Domo-Ong	Independent	n/a	8	1	0%
Meliza H. Agabin	Independent	n/a	5	1	0%
Jose Vicente C. Bengzon III	Independent	n/a	5.5	1	0%
Alfredo S. Del Rosario	Non-executive	n/a	2	1	0%
Dennis C. Bancod	Non-executive	n/a	9	1	0%
Zenaida F. Torres	Non-executive	n/a	8	1	0%

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Name of Directors	Board number of meetings		Audit Com number of meetings		Corp Gov Com number of meetings		Risk oversight number of meetings		RPT Committee number of meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Gil A. Buenaventura	7	80%	n/a		n/a		n/a		n/a	
John Thomas G. Deveras	9	100%	5	100%	n/a		4	100%	n/a	
Raymundo C. Roxas	9	100%	n/a		n/a		n/a		n/a	
Wilfredo B. Domo-ong	8	90%	5	100%	4	100%	4	100%	3	100%
Meliza H. Agabin	9	100%	5	100%	4	100%	4	100%	3	100%
Jose Vincent C. Bengzon III	6	70%	3	60%	2	50%	2	50%	2	67%
Alfredo S. Del Rosario	8	90%	n/a		1 out of 3 (not member yet in March		n/a		n/a	
Redentor C. Bancod	9	100%	n/a		n/a		n/a		n/a	
Zenaida F. Torres	8	90%	5	100%	4	100%	4	100%	n/a	
Total number of meetings held during the year	9		5		4		4		3	100%

LIST OF BOARD-LEVEL COMMITTEES

1. Audit Committee

The Audit Committee is composed of five (5) members of the Board of Directors, all of whom are non-executive directors. Three (3) are independent directors, including the Chairman. They possess accounting, auditing or related financial management expertise/ experience.

The members of the Audit Committee are:

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

The core responsibilities of the Audit Committee include the following:

a. To oversee bank's financial reporting policies, practices and control to ensure the preparation of reports that are accurate, complete, and timely.

b. To oversee the internal and external audit functions. It is responsible for the setting up of the internal audit department and for the appointment of the internal auditor and the independent external auditor who both report directly to the audit committee. It reviews and approves the engagement contract with the external auditor.

c. To monitor and evaluate the adequacy and effectiveness of the Bank's internal control and risk management systems. It ensures that a review of said systems is done at least annually.

d. To review and approve the audit scope and frequency. 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

e. 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.

f. 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 that have 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.

2. Corporate Governance Committee

The Corporate Governance Committee is composed of five (5) members of the Board of Directors, all of whom are non-executive directors. Three (3) 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:

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

The functions of the Corporate Governance Committee include the following:

a. To oversee the periodic performance evaluation of the Board and its committees and executive management, and to conduct an annual self-evaluation of its performance.

b. To oversee the continuing education of directors, and thus, ensure the allocation of adequate time and resources for this.

c. To make recommendations to the board of directors regarding assignment to board committees, as well as succession plan for the board members and senior officers.

d. To oversee the design and operation of the remuneration and incentives policy to ensure that it operates and achieves the goals as planned.

e. 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.

3. Risk Oversight Committee

The Risk Oversight Committee is composed of five (5) members of the Board of Directors, all of whom are non-executive directors. Three (3) 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:

a) Jose Vicente C. Bengzon III- Chairman, independent director
b) Meliza H. Agabin – member, independent director
c) Wilfredo B. Domo-ong - member, independent director
d) John Thomas G. Deveras – member
e) 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:

a. 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.

b. 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.

c. 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.

d. 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.

Corporate Retreat for BOD Members and Executive Officers

4. Related Party Transactions Committee

The Related Party Transactions Committee is composed of three (3) members of the Board of Directors who are all independent directors.

Members:
Meliza H. Agabin – Chairperson, independent director
Atty. Wilfredo B. Domo-ong - Member, independent director
Jose Vicente C. Bengzon III - Member, independent director

Responsibilities of the RPT Committee:

- To evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board and regulators/ supervisors.

- To evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms to such related parties than similar transactions with nonrelated parties under similar circumstances and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.

- To ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest.

The RPT Committee accomplished its responsibilities in 2017 specifically on the review and disclosure of material related party transaction which included the review and endorsement of interbank call loan (IBCL) with RCBC Savings Bank as counterparties.

ACCOMPLISHMENTS OF THE BOARD COMMITTEES

A. AUDIT COMMITTEE

1. Noted the Report of Internal Audit Department which consists of the following:

   a. Status of audit engagements in branches and corporate units, and audit rating
   b. Completed audit results and ratings
   c. Updates on open audit issues and EMIT (Exceptions and Management Issue Tracking)
   d. New open audit issues
   e. PAR Credit Review Summary Report involving three (3) branches, citing the reasons for the PAR accounts

2. Noted the Report of Compliance Department which consists of the following:

   a. Compliance-testing activity
   b. Reported CTRs and STRs to AMLC (no STRs reported)
   c. Report of compliance with regulatory ratios
   d. AML Training
   e. Other activities of Compliance Office
   f. Updates on regulatory issuances

3. Noted the Result of Compliance Department Walk-Thru

4. Approved the following:

a. Appointment of Ms. Jean Melody P. Naranjo as Head of Internal Audit Department.
b. Management replies to Advance Findings of BSP Examination as of 30 September 2016.
c. Amendments to the Compliance Manual.

B. CORPORATE GOVERNANCE COMMITTEE

1. Approved and endorsed to the Stockholders and the Board of Directors the nomination of persons for the position of directors, committee members and officers at the coming Stockholders' Meeting and Organizational Meeting of the Board on 31 March 2017.

2. Noted the 2016 Assessment Results which consist of:

a. Board self-assessment
b. Corporate governance committee self-assessment
c. Audit committee assessment of the Compliance Officer
d. Audit committee assessment of Internal Audit
e. Audit Committee Assessment of the External Auditor
f. Assessment of the President

3. Noted the record of attendance of directors at meetings

4. Noted the updates on the proposed merit increase for bank personnel.

5. Endorsed for approval of the Board of Directors the following proposals:

a. Interlocking appointment of Atty. Jocelyn Grace N. Navato (as Corporate Secretary of RMB, RCBC Leasing and Finance Corporation, and RCBC Rental Corporation, and as Assistant Corporate Secretary of RCBC) to the Board of Directors for approval (6/30/17 meeting);
b. Appointment of Atty. Eva Marie Sison vice Atty. Jocelyn Grace Navato as Corporate Secretary of RMB, effective 1 January 2018;
c. Interlocking officership of Atty. Eva Marie Sison effective upon date of approval and confirmation of RCBC Board;
d. Policies and procedures on the Performance Management System;
e. Policies and procedures on salary adjustments based on merit and promotion increases;
f. Appointment of Ms. Rodelyn J. Tuga as Head of Credit Risk Management Unit under the Risk Management Office;
g. Appointment of Ms. Jean Melody P. Naranjo who is the Head of Internal Audit, as Chief Compliance Officer in a concurrent capacity;
h. New Table of Organization of RMB effective 1 October 2017 as a result of (1) adoption of Bank's Charter Statement, 5-year Strategic and Business Plan, and the enhanced business model; (2) adoption of a new corebanking system; and (3) current completion and the emergence of new ones such as fintechs;
i. ISP Logical Access Policy and ISP Logical Access Minimum Standards.

C. RISK OVERSIGHT COMMITTEE

1. Approved and endorsed to the Board of Directors for approval the following:

a. Creation of the Credit Risk Management Unit under the Risk Management Department whose primary task is asset quality review of big ticket loans;
b. Updates to the Treasury Manual;
c. Amendments to the following policies: (1) general credit, (2) flexi-loan, (3) micro enterprise, and (4) agri-finance loan;
d. Updated Liquidity Contingency Funding Plan;
e. Amendments to Bank Security Manual;
f. Credit Risk Management Manual;
g. Updated Asset Quality Review (AQR) Manual;
h. Agri-Finance Credit Line Faciltiy;
i. Policies and Procedures for Invoice Receivable Rediscounting Facility (RMB and Acudeen Technologies Partnership);
j. Data Privacy Policy;
k. ISP Logical Access Policy and ISP Logical Access Minimum Standards.

2. Noted the Portfolio-At-Risk (PAR) Report , the highlights of which were as follows:

a. Consolidated PAR Aging Report;
b. Consolidated PAR by Industry; and
c. PAR Report Sorted by Client.

3. Noted the following:

a. Report on Status of ECL project;
b. Key Risk Indicator Reporting; and
c. BCP Call Tree Exercise (CTE) Results.

D. RPT COMMITTEE

The RPT Committee approved the renewal of RMB's interbank call loan facility for RCBC Savings Bank (RSB) as counterparty up to the single borrower's limit of Merchants Savings and Loan Association, Inc. / Rizal Microbank. This is in connection with the re-availment of IBCL facility of RSB for the year 2017.

RAYMUNDO C. ROXAS
President
Executive Director
50 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 2010, 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
First Vice President
Head, Branches and Lending Operations
47 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

From left: Raymundo C. Roxas, Emelita B. Rocero, Marilyn F. Suarez, and Rosita S. Valencia

EXECUTIVE OFFICERS

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
57 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. 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
Manager
Accounting Department Head
53 years of age, Filipino

Ms. Rosita S. Valencia has been working with Rizal Microbank since April 2016 as Accounting Supervisor of Financial Accounting Unit. She was then appointed as the Acting Accounting Head after from May 1, 2017 to July 31, 2017 and became a full-pledged Accounting Head on the same year.

Before joining Rizal Microbank, she worked in various capacities such as as Accounts Manager of AFAQ Al Musana Trading, an Accounting Head of ATT Group of Companies and as an 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 also passed the Certified Public Accountant Licensure Examination in 1987. Further, she is accredited by the Board of Accountancy for Commerce and Industry since April 2016.

From left: Anatoly D. Gusto, Ma. Beverly O. Uy, Rowland V. Moscardon, Jean Melody P. Naranjo, and Mariano Jose R. Laurel.

ANATOLY D. GUSTO
First Vice President
Chief Strategic Management Officer
41 years of age, Filipino

Mr. Anatoly D. Gusto has more than 15 years of experience in research and capacity-building projects in the field of financial education, digital financial services, rural development, and application of information and communication technology (ICT) in financial inclusion in the Philippines, Indonesia, Uganda, and Zimbabwe.

Prior to joining the Bank, Mr. Gusto was E-Payment Ecosystem Advisor of Chemonics International, Inc., SimulaKo Program Manager of Mercy Corps Philippines, and Research and Innovations Unit Manager of MICRA Philippines Foundation, Inc. He also served as Microfinance and Mobile Phone Banking Specialist at Chemonics International, Inc., and Chief of Staff, Office of the Commissioner of the Securities and Exchange Commission.

He graduated cum laude from the University of the Philippines with a Bachelor of Science degree in Economics. He completed the Boulder Microfinance Training Program in 2009 in Turin, Italy, and the MicroSave-Helix Institute of Digital Finance's Agent Network Accelerator Training Course in April 2016. He is a former Fellow of the Institute for Money, Technology and Financial Inclusion (IMTFI), based in the University of California. Irvine, USA.

MA. BEVERLY O. UY
Assistant Manager
Human Resources Officer
29 years of age, Filipino

Ms. Ma. Beverly O. Uy has nine years of experience in the human resource field with various industries. In 2014, she joined Rizal Microbank as Recruitment and Training Specialist and by 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 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 a specialization on Industrial/ Organizational Psychology.

ROWLAND V. MOSCARDON
Manager
Head, IT Department
46 years of age, Filipino

Mr. Rowland V. Moscardon has more than 23 years of experience in Information Technology. More than 21 years in Rizal Commercial Banking Corporation and almost 2 years in the Union Bank of the Philippines.

Mr. Moscardon has been in applications development since 2003, IT Systems Support since 1999 and Information Management Systems since 1996.

Prior to being assigned to RMB, Mr. Moscardon was involved in RCBC's migration from Financial Management System (FMS) to Oracle Enterprise on 2011. A programmer to Project Manager since 2003.

Mr. Moscardon was assigned as 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 with a Bachelor of Science degree in Industrial Management Engineering minor in Mechanical Engineering in 1992.

JEAN MELODY P. NARANJO
Manager
Chief Compliance Officer and
Head, Internal Audit
25 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
55 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.

PERFORMANCE ASSESSMENT PROGRAM

All the members of the Board conduct an annual self-assessment of the Board as a whole, of themselves as individual members and as members of the Board committees. The self-assessment 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 CEO. Each member of the committee assesses the performance of the other members and the committee as a whole.

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.

For 2017, the board of directors conducted an assessment program to get a holistic picture of the strengths and weaknesses of each director and their respective contribution to the effectiveness of the board and the specific committees where they sit as members.

ORIENTATION AND EDUCATION PROGRAM

Due to the heightened regulatory demands, the banking industry is facing a very competitive and rapidly changing environment. As such, Directors and Senior Management Officers are also challenged to cope with the demands and pressure.

Hence, Rizal Microbank has committed to provide capacity building programs so that its people may be more skilled, competent and engaged in dealing with challenges.

The Bank President spearheaded the discussion on strategic planning. In this connection, a Corporate Board Retreat, attended by Board of Directors and Management Committee Members, was conducted and facilitated by Institute of Corporate Directors (ICD). During the session, attendees were given an overview of the bank's strategic initiatives and plans. In addition, briefing on relevant policies and updates on certain BSP regulations and circulars were taken up in the retreat.

Further, the Bank provides continuing education programs for Senior Management Officers such as strategic compliance, and management and leadership development programs. Other internal training received by Officers includes seminars and electronic learning sessions on anti-money laundering, information security and awareness, as well as business continuity management orientation.

RETIREMENT AND SUCCESSION POLICY

The elected directors shall hold office for a term of one (1) year and until their successors shall have been duly elected and qualified. To add, Rizal Microbank's three (3) 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 the first day of the month coincident with or next following his attainment of age 55 and completion of at least ten (10) years of credited service for the purpose of qualification for retirement benefit.

Human Resources, 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

The Bank has a balanced remuneration structure for management to encourage sustainable value creation. The board of directors has the authority to determine the amount and structure of the director's fees and other compensation, as well as that of the Bank President's. Each director is entitled to receive fees and per diem for his services as a director, in accordance with RMB's by-laws, for each occasion of attendance at meetings of the Board or Board Committee. Moreover, Directors with executive responsibilities within the RCBC Group who are compensated as full-time officers, are no longer entitled to per diems.

For Senior Management Officers, the President in coordination with Human Resources, ensures that the pay appropriately reflects the Bank's financial performance and the officer's annual performance. The Bank also ensures that it is offering a competitive compensation package which is aligned with performance standards.

POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS

Related Party refers to:

a) DOSRI as defined under BSP regulations;
b) Close family members of the Bank's directors, officers and stockholders;
c) A person or a close member of that person's family, if that person
d) An entity; with both the entity and the Bank have members of the same group; is an associate or joint venture of the Bank; is a joint venture of a third entity and the Bank is an associate of the third entity; is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank; is controlled or jointly controlled by a person identified above; is significantly influenced by a person identified above; or this person is a member of the key management personnel of the entity (or of a parent of the entity).
e) Affiliated Companies
f) Corresponding persons in affiliated companies
g) Advisory board members and consultants of the Bank;
h) Entities within the conglomerate of which the Bank is a member;
i) Subsidiaries of related parties; and
j) Non-related parties whose transactions with related parties may benefit the Bank, or whose transactions with the Bank may benefit related parties.

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

- The directors and stockholders disclose to the Board, through the Bank's corporate secretary, while the officers disclose to the Human Resources Department, details of their other directorships and any shareholdings owned by them or their close family members. Any changes to this information is immediately communicated to the board or to the Human Resources Department, as may be applicable.

- Branch Heads 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.

- Upon determination by the Compliance Officer based on the report submitted by a branch/HO unit that a transaction is a Related Party Transaction, such transaction is reported to the Management Committee for deliberation and endorsement to the RPT Committee for its evaluation and/or approval/

endorsement to the Board.

• Management Committee reviews and evaluates Related Party Transactions where the amount involved is below the materiality threshold of Pesos: One Million (Php1,000,000.00), 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 agreements).

The Management Committee is composed of the following members:

(a) Compliance Officer or designate;
(b) Operations Head or designate;
(c) Chief Finance Officer or designate;
(d) Risk Officer or Designate; and
(e) Treasury Head or Designate

Individual and Aggregate Exposures to Related Parties

• The Bank observes the following individual and aggregate limits to exposures to related parties:

	INDIVIDUAL LIMITS	**AGGREGATE LIMITS**
Loans / Credit	**25% of Capital**	**50% of Capital**
Other Contracts	**NONE**	**10% of Capital**

Bank's Responsibilities on Disclosure of RPTs

• To submit quarterly report 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 Php1,000,000 and above.

• To disclose all RPT 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 governance process, the 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 the Internal Audit to have unrestricted access to all bank records, physical properties, personnel and functions. Further, the Board allows the 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:

1. Assist the Bank in identifying and evaluating significant risk exposures and contribute to the improvement of risk management and control systems.

2. Evaluate 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. Ascertain whether objectives and goals established by management conform to those with the Bank and whether they are being met.

Internal Audit reports directly and functionally to the Bank's BODs through its Audit Committee and administratively to the Bank's President or Chief Executive Officer (CEO). 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 from 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 loss to reputation 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 the BSP through independent validation, and the 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 breaches 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 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 via lotus notes facility.

Compliance Reporting:

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

2. To 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.

3. To 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

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 is 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 of this system in February 2016, RMB has not received any complaints from its customer base to date.

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.

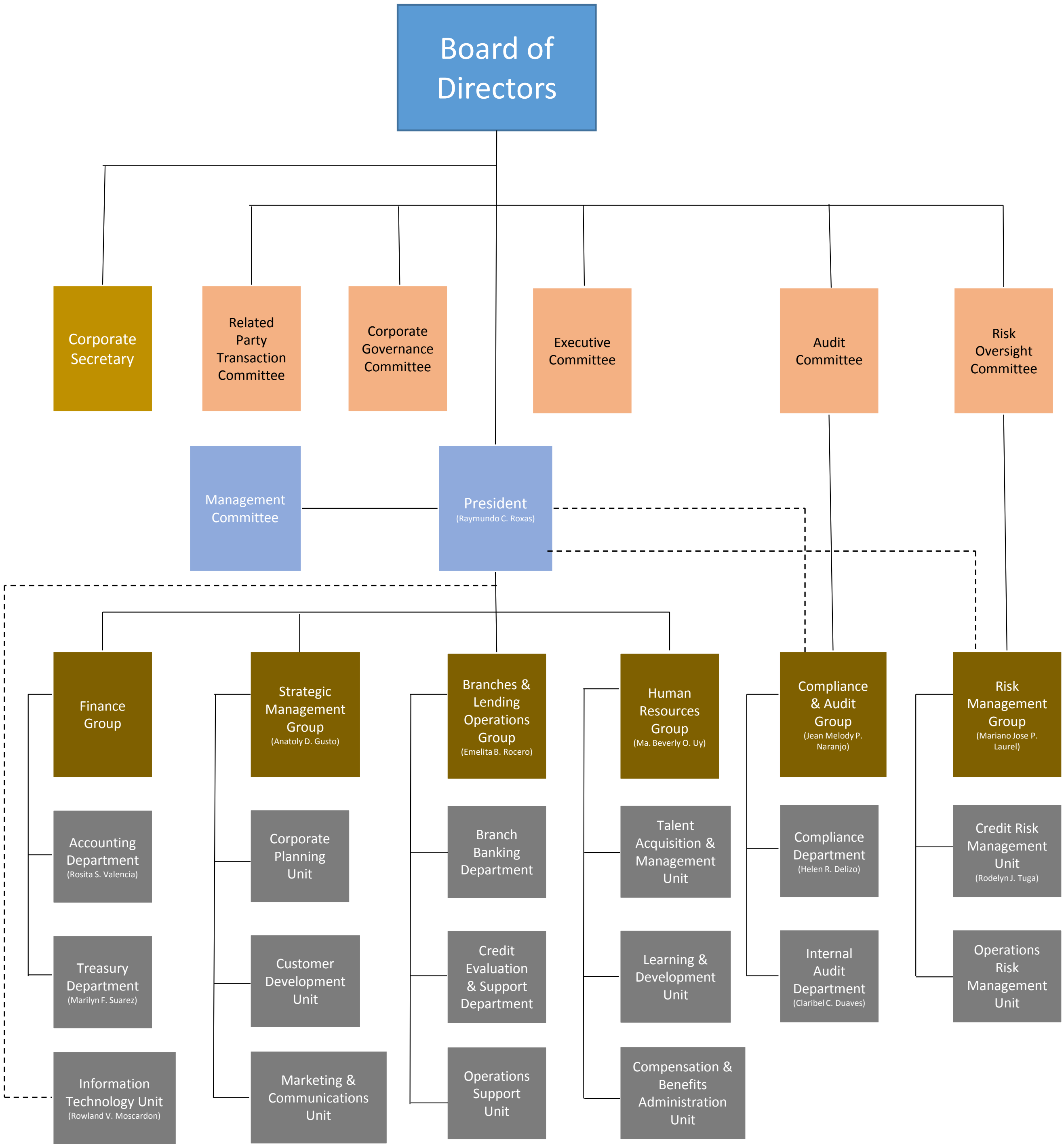
* Complex complaint/request – a complaint/request which needs assessment, verification, or investigation with third party intervention.

** 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.

TABLE OF ORGANIZATION



Rizal MicroBank Volunteers with San Miguel Elementary School Faculty.

RIZAL MICROBANK SUPPORTS DEPARTMENT OF EDUCATION'S BRIGADA ESKWELA 2017

Living up to the bank's core value of Malasakit, Rizal MicroBank employee volunteers came together and held a BrigadaEskwela activity on May 20, 2017 in support for the Department of Education's (DepEd) annual school maintenance program which urges private corporations and organizations to help fix up schools before the opening of classes. As part of RMB's Corporate Social Responsibility in providing inclusive development of the nation by giving back to the community, the bank chose to support San Miguel Elementary School, which is located at Bunawan, Davao City. The school, which only has one building and composed of three classrooms, can accommodate a total of 104 students from kindergarten to grade school.

Headed by First Vice President – Head of Branches and Lending Operations Group, Ms. Emelita B. Rocero, with the full support of Bank President, Mr. Raymundo C. Roxas, RMB employee volunteers took time out last May 20, 2017 to do minor repairs, painting and clean-up work for the school. After the whole-day activity, Ms. Analyn Tiongson, Principal of San Miguel Elementary School, expressed her gratitude by thanking Rizal MicroBank for choosing their school as its beneficiary for this year's BrigadaEskwela.

"We are hoping that next year and in the coming years, Rizal MicroBank will be able to support more schools in the different areas where we operate as a way of giving back to our community," Rocero shared.

Indeed, we can truly rise as a company by lifting and helping the communities where we operate.

Rogelio O. Pascual, Chairman of Greenland Asparagus MPC (3rd from left) with RMB General Santos' Branch Manager, Jeffrey Flores (2nd from left); LAS, Remon Suerto (4th from left); and Business Analyst, Joey Auditor (1st from left).

HELPING OTHERS IS BELIEVING IN THE GOODNESS THAT RESIDES IN EVERYONE OF US

"RMB has been there for us when we need them."

- ROGELIO O. PASCUAL

Back in 2004, Marsman Drysdale Agri Ventures Inc., (MDAVI) entered into an Asparagus contract growing project with the farmers of Purok Vineyard, Barangay San Jose, General Santos City. But after four (4) years of operation, MDAVI encountered some problems in the company's operation that led to its eventual closure.

The situation caused disappointment for the growers who have relied on asparagus farming as their source of income. Rather than being defeated by the event, the farmers used the problem as an opportunity to get back on their feet. They united themselves and organized what has now become **Greenland Asparagus Multi-Purpose Cooperative**. With a common vision and strong desire to help themselves and their community, the member-farmers proceeded to build their asparagus plantation, while the cooperative set up their processing plant in a small makeshift house made of light materials. In 2011, Greenland Asparagus Multi-Purpose Cooperative secured financial and technical assistance from the Department of Agriculture (DA) and Growth with Equity in Mindanao (GEM), a USAID-assisted project. Through this financial and technical assistance, the cooperative was able to expand further their asparagus plantation and put up a concrete Asparagus Packing House.

In September 2015, with less than half of their targeted land area planted with Asparagus, and knowing there is a growing domestic and international market for quality Asparagus, Greenland Asparagus Multi-Purpose Cooperative sat down to discuss participation in the Bank's Agricultural Value Chain Financing initiative. The initiative is focused on providing additional working loans for agricultural value chain players such as processors, consolidators, aggregators, and traders who are engaged in agricultural activities identified by the Bank as qualified and a priority. Asparagus which is a high value crop met the Bank's criteria such that in 2015, Greenland Asparagus Multi-Purpose Cooperative was able to access financing worth Php 1 million. This initial amount was used to purchase quality seeds from California, USA. From that initial loan of Php 1 million, the Bank's exposure to Greenland Asparagus Multi-Purpose Cooperative has already reached Php 4.2 million as of December 2017. For 2018, more loans are being discussed to assist the cooperative in attaining its goal of putting up a 200-hectare asparagus plantation in General Santos City. What is noteworthy with the efforts of the cooperative is that they are reaching out to small farmholders in their area to join them in their asparagus production and business. Moreover, the cooperative provides employment to other members of the households by employing them as workers in their processing plant.

This kind of *"malasakit"* demonstrated by Greenland Asparagus Multi-Purpose Cooperative to their member-farmers and the community where it operates is a testament that when small enterprises are given the right opportunities, their hopes and dreams can become a reality, and they become an agent of transformation. For Rizal MicroBank, we are more than happy and inspired to become their partner in pursuing their hopes and dreams by providing them with financial products that help them address their challenges, and make their journey towards their goals lighter. This partnership between Rizal MicroBank and Greenland Asparagus Multi-Purpose Cooperative is proof that when we believe in our capacity to help one another, better things start to happen for ourselves, our communities, and our country.

From left: Lemuel Rapal Jr. and Lemuel Rapal Sr.

WHEN LIFE GIVES YOU A FLAT TIRE

"Mao ni atong negosyo."

- LEMUEL A. RAPAL SR.

After getting married in 1983, Mr. Rapal went into fish street vending as a source of income. When his wife was pregnant with their eldest, he began to think that their current livelihood would not be enough to support a growing family and it moved him to consider venturing into other businesses. At that time, a relative of his was into retailing of second-hand tires and so he volunteered to work for him. He was hired to work as washer and stacker of tires. When the owner was not around, Lemuel helped entertain clients and this was how he developed his selling skills and got to establish good relationship with customers. With this experience and after joining a cooperative in 1994, he put up his own second-hand tire business in 1996. He rented a small place in Jacinto St., Davao City which he himself ran and maintained.

During his first loan with Rizal MicroBank (RMB), he only had two branches. Today, he has grown his tire supply business into six branches. Because of the credit access provided him, he now has the working capital to use when competing during bids. And because of bulk purchases during bidding, he is able to sell his second-hand tires to his customers at a lower price. As an indication of his growing business, he used to sell only second-hand tires in the past. Now, he is also selling brand new tires, alloy rims for different types of vehicles and mag wheels.

For his hard work, perseverance and enterprising spirit, he is now reaping the fruits of his labor. He was able to acquire properties such as lots in Mahayahay, Tugbok, Davao City, and vehicles like multicab, pick-up, and motorcycles that are used in his business. More importantly, he was able to provide for and sustain the education of his children. Three (3) of his children graduated from college and are now working, while one (1) is still studying in a university in Davao City.

Mr. Lemuel A. Rapal is one proud client of RMB and is always thankful for every approved loan he gets from the bank. In fact, he once mentioned that the money he borrows from RMB always brings him good luck. He always claims too, that his business is in fact a partnership with RMB since it was the bank's microfinancing program that helped it grow. When he comes to the bank, he tells the staff *"MAO NI ATONG NEGOSYO"* (this is our business).

Marynor D. Juano

MOVING UP TO THE NEXT LEVEL WITH THE RIGHT PARTNER

"RMB supported me in achieving my dreams."

- MARYNOR D. JUANO

If there is a K12 Program for microenterprise operators, Marynor D. Juano, a valued client of Rizal MicroBank San Jose Branch is highly qualified to move up to Senior High School. Mrs. Juano's story of partnership with Rizal MicroBank dates back to 2009 when she first availed a Php 125,000.00 loan under the Bank's PITAKA Microenterprise Loan Program. To cut on some of the cost in her mini-restaurant business, Mrs. Juano tended a small poultry for her chicken supply. Because of good repayment record, Mrs. Juano had very fast and easy access to additional working capital whenever she needs it on a quarterly basis. Such that in a span of 2 and 1/2 years, she was able to avail of 10 loans totalling Php 1.475 million. Through the loans she availed from Rizal MicroBank, Mrs. Juano was able to expand and diversify her food business, and further increase her income-generating capacity. Other than the poultry project she was also able to add other livestock such as hogs and goats.

With her business relationship with Rizal MicroBank becoming well-established, it became easy for Mrs. Juano to approach the bank and request for a bigger loan amount, this time under the PITAKA FLEXI Loan Program (or the Regular Small Business Loan Product). In 2013, Mrs. Juano applied and was approved for a Php 1 million loan which she used to improve a vacant lot she owns and turned into a parking lot. But always the enterprising woman, she eventually decided to develop it into a resort which is known in San Jose, Occidental Mindoro as the "Holiday Ocean Resort." From the Php 1 million she initially borrowed under the Small Business Loan Product, she was able to put up one function hall and three cottages. Today, after getting four more loans under the same loan product, her resort now boasts of a bigger function hall, six additional cottages and three houses that provide ample rooms for guests. From the fruits of her entrepreneurial endeavors, Mrs. Juano was able to purchase an adjacent lot measuring 8,469 square meters. She is also in the midst of completing a 2-storey building project which will house her restaurant, a bakery and a mini hotel. And since Occidental Mindoro is predominantly an agricultural province, she has branched out into farm rental equipment by investing in three units of harvesters. Mrs. Juano came about this business idea when she invested in agricultural land. She is well aware that to be efficient in operating farms, she had to do it in a mechanized way, hence, the purchase and investment in farm equipment. And seeing that some farmers couldn't afford to invest in mechanized farming, she went out of her way to offer the services of her equipment on a rental basis.

For what she has become today as a businesswoman, Mrs. Juano could still not believe that she has turned her dreams into reality. But she says that the one thing that she strongly believes in her journey as an entrepreneur is the support and trust that Rizal MicroBank has extended to her through the years. Mrs. Juano repeatedly states that when other banks in the province approach her, she courteously tells them that her heart already belongs to Rizal MicroBank. She further mentions that when she was just beginning to dream, Rizal MicroBank was the first to trust her, and because of this, her loyalty is to the Bank. Mrs. Juano's story proves that with the right partner and nurturing, moving up into the next level is something that is very possible.

The capital adequacy ratio of the Bank as reported to the BSP as of December 31, 2017 and 2016 under Basel 3 framework are shown in the table below.

	2017	2016
CET 1 Capital	573	580
Tier 1 Capital	573	580
Tier 2 Capital	9	7
Total Qualifying Capital	**583**	**587**
Credit Risk Weighted Assets	1,149	795
Market Risk Weighted Assets	0	0
Operational Risk Weighted Assets	198	103
Risk Weighted Assets	**1,347**	**899**
** **Total Capital Adequacy Ratio**	**43.24%**	**65.28%**
Tier 1 Capital Adequacy Ratio	**42.57%**	**64.53%**
Common Equity Tier 1 Ratio	**42.57%**	**64.53%**
Capital Conservation Buffer	**36.57%**	**58.53%**

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, 2017 and 2016 are as follows:

	2017	2016
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	(533)	(529)
Undivided profits	(10)	0
Other Comprehensive Income		
Net unrealized gains or losses on AFS securities	29	27
Cumulative foreign currency translation	-	-
Remeasurement of Net Defined Benefit Liability/(Asset)	1	-
Minority interest in subsidiary financial allied undertaking which are less than wholly owned		
Common Equity Tier 1 (CET1) Capital	**613**	**624**

	2017	2016
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	5
Defined benefit pension fund assets (liabilities)	-	6

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	-	-
Minority investments (below 10% of voting stock) in subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities /brokers and insurance		
Other equity investments in non-financial allied undertakings and non-allied undertakings	35	33
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	40	44
Total Common Equity Tier 1 Capital	**573**	**580**
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	**573**	**580**
Tier 2 Capital		
Instruments issued by the bank that are eligible as Tier 2 capital	-	-
General loan loss provision	9	7
Total Tier 2 capital	9	7
Less: Regulatory Adjustments to Tier 2 Capital		
Total Tier 2 Capital	**9**	**7**
Total Qualifying Capital	**583**	**587**

** Formula as per above Ratios:

a.) Total Capital Adequacy Ratio = $\frac{\text{Total Qualifying Capital}}{\text{Risk Weighted Assets}}$ $\frac{583}{1,347}$ 43.24%

b.) Tier 1 Capital Adequacy Ratio = $\frac{\text{Tier 1 Capital}}{\text{Risk Weighted Assets}}$ $\frac{573}{1,347}$ = 42.57%

c.) Common Equity Tier 1 Ratio = $\frac{\text{CET 1 Capital}}{\text{Risk Weighted Assets}}$ $\frac{573}{1,347}$ = 42.57%

d.) Capital Conservation Buffer = CET 1 Ratio - 6% = 42.57% - 6%

RIZAL MicroBank

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

(In Millions)

	2017					2016				
		BASEL III					BASEL III			
FRP Equity Accounts	FRP	CET1 Capital	Additional Tier 1	Tier 2 Capital	Total Basel III Capital	FRP	CET1 Capital	Additional Tier 1	Tier 2 Capital	Total Basel III Capital
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	(533)	(533)			(533)	(529)	(529)			(529)
Undivided Profits	(10)	(10)			(10)	0	0			0
Other Comprehensive Income	30	30			30	27	27			27
Minority Interest in Subsidiaries (for consolidated report only)										
Total Equity Accounts	**613**	**613**	**-**	**-**	**613**	**624**	**624**	**-**	**-**	**624**
Other Accounts Eligible as Regulatory Capital										
Unsecured Subordinated Debt				-	-				-	-
General Loan Loss Reserves				9	9				7	7
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)		(5)			(5)
Defined benefit pension fund assets (liabilities)		-			-		(6)			(6)
Other equity investments in non-financial allied undertakings and non-allied undertakings		(35)			(35)		(33)			(33)
Reciprocal investments in common stock of other banks/ quasi-banks and financial allied undertakings including		-			-		-			-
Total Regulatory Capital	**613**	**573**	**-**	**9**	**583**	**624**	**580**	**-**	**7**	**587**

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 accomodations
b. Unsecured loans, other credit credit accomodations and guarantees granted to subsidiaries and affiliates
c. Deferred Tax Assets pertains to the tax impact of deductible temporary differences such as but not limited to provisions for impairment,minimum 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 .

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

				December 31, 2017	
EQUITY ACCOUNTS	AUDITED FS	BSP FRP	CHANGE	DETAILS	AMOUNT
Capital Stock	1,126	1,126	0		
Surplus Reserves	5	5	0		
Revaluation Reserves	25	30	(5)	Adjustment on retirment plan benefits.	(4)
				Adjustment on the decline in the fair value of equity investments.	(1)
					(5)
Surplus Free	(558)	(548)	(10)	Adjustment for the derecognition of liabilities that was errorneously charged directly to other Office Equipment.	0
				Adjustment for derecognition of liabilities that was errorneously charged directly to other Leasehold Improvement.	1
				Adjustment for derecognition of liabilities that was errorneously charged directly to other Office Equipment.	
				Adjustment for derecognition of liabilities that was errorneously charged directly to other Leasehold Improvement.	(0)
				Adjustment for additional specific loan loss provision under BSP Cir. Memo 855.	(2)
				Adjustment for additional specific loan loss provision under BSP Cir. Memo 855.	(9)
				Adjustment for correction of retirement benefit obligation.	(0)
				Adjustment for correction of retirement benefit obligation.	0
				Adjustment for additional provision for MCIT.	(0)
					(10)
Total Capital	598	613	(15)		(15)

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

				December 31, 2016	
EQUITY ACCOUNTS	AUDITED FS	BSP FRP	CHANGE	DETAILS	AMOUNT
Capital Stock	1,126	1,126	0		
Surplus Reserves	5	5	0		
Revaluation Reserves	28	27	1	Other comprehensive income for retirement balance as of Dec. 31, 2016, including audit adjustment.	1
Surplus Free	(539)	(535)	(4)	Net loss for the period Dec. 31, 2016.	(3)
				The Surplus Free in FRP is net of Accumulated other comprehensive income - retirement as of Dec. 31, 2016.	(1)
					(4)
Total Capital	621	624	(3)		(3)

Capital Requirements by type of exposure as of December 31, 2017 and 2016 are as follows:

	December 31, 2017		
	Credit Risk	**Market Risk**	**Operational Risk**
		(in Millions)	
On- Balance Sheet Assets	1,149		
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			198
Total	**1,149**	**0**	**198**
Capital Requirements	**115**	**0**	**20**

	December 31, 2016		
	Credit Risk	**Market Risk**	**Operational Risk**
		(in Millions)	
On- Balance Sheet Assets	795		
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			103
Total	**795**	**0**	**103**
Capital Requirements	**79**	**0**	**10**

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.

RIZAL MicroBank

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

Type of Exposures	December 31, 2017									
	Total Exposures*	Credit Risk Mitigants (CRM)	Total Credit Risk Exposure after CRM	Risk Weights 0%	20%	50%	75%	100%	150%	Total Risk Weighted Assets
On-Balance Sheet Exposures										
Sovereigns	167	-	167	167	-	-		-		-
Multilateral Development Banks										
Banks	156		156		-	-		156		156
Interbank call loans										
Local government units	-		-			-				-
Government corporations	-	-	-		-	-		-		-
Corporates	134	-	134		-	-		134	-	134
Housing Loans	-	-	-			-				-
MSME Qualified portfolio	495		495				495			372
Defaulted exposures	42		42					-	42	63
Housing Loans	-		-					-		-
Others	42		42						42	63
ROPA	-		-						-	-
All other assets, net of deductions	434		434	11	-			424		424
Total on-balance sheet exposures	1,430	-	1,430	178	-	-	495	714	42	1,149
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	**1,430**	**-**	**1,430**	**178**	**-**	**-**	**495**	**714**	**42**	**1,149**
Deductions from Capital										
be included in Tier 2)										
affecting asset accounts based on the latest report of examination										
Total, net of deductions	**1,430**	**-**	**1,430**	**178**	**-**	**-**	**495**	**714**	**42**	**1,149**

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

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

Type of Exposures	December 31, 2016									
	Total Exposures*	Credit Risk Mitigants (CRM)	Total Credit Risk Exposure after CRM	Risk Weights						Total Risk Weighted Assets
				0%	20%	50%	75%	100%	150%	
On-Balance Sheet Exposures										
Sovereigns	31	-	31	31	-	-		-		-
Multilateral Development Banks										
Banks	103		103		-	-		103		103
Interbank call loans										
Local government units	-		-			-				-
Government corporations	-	-	-		-	-		-		-
Corporates	45	-	45		-	-		19	-	19
Housing Loans	-	-	-			-				-
MSME Qualified portfolio	574		574				574			431
Defaulted exposures	-		-					-	-	-
Housing Loans	-		-					-		-
Others	-		-						-	-
ROPA	-		-						-	-
All other assets, net of deductions	224		224	9	-			242		242
Total on-balance sheet exposures	978	-	978	40	-	-	574	364	-	795
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	**979**	**-**	**979**	**40**	**-**	**-**	**574**	**364**	**-**	**795**
Deductions from Capital										
included in Tier 2)										
asset accounts based on the latest report of examination										
Total, net of deductions	**979**	**-**	**979**	**40**	**-**	**-**	**574**	**364**	**-**	**795**

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

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

	December 31, 2017									
On-Balance Sheet Assets	Pincipal Amount	Credit Risk Mitigants	Total Credit Risk Exposure	Risk Weights						Total Risk Weighted Assets
				0%	20%	50%	75%	100%	150%	
Cash on Hand	11		11	11						
Checks and Other Cash Items	-		-		-					-
Due from Bangko Sentral ng Pilipinas (BSP)	84		84	84						
Due from Other Banks	156		156		-	-		156		156
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	966	-	966			-	495	429	42	864
Loans and Receivables Arising from Repurchase	83	-	83	83	-	-	-	-	-	-
Sales Contract Receivable (SCR)	3		3					3	-	3
Real and Other Properties Acquired	-		-						-	-
Other Assets	127		127					127		127
Total Risk-weighted On-Balance Sheet Assets	**1,430**	**-**	**1,430**	**178**	**-**	**-**	**495**	**714**	**42**	**1,149**

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

On-Balance Sheet Assets	December 31, 2016									
	Pincipal Amount	Credit Risk Mitigants	Total Credit Risk Exposure	Risk Weights						Total Risk Weighted Assets
				0%	20%	50%	75%	100%	150%	
Cash on Hand	9		9	9						
Checks and Other Cash Items	-		-		-					-
Due from Bangko Sentral ng Pilipinas (BSP)	31		31	31						
Due from Other Banks	103		103		-	-		103		103
Financial Assets Designated at Fair Value										
Available-for-Sale (AFS) Financial Assets	27		27					27		27
Held-to-Maturity (HTM) Financial Assets	-	-	-	-	-	-		-	-	-
Unquoted Debt Securities Classified as Loans	-	-	-					-		-
Loans and Receivables	716	-	716			-	574	142	-	573
Loans and Receivables Arising from Repurchase	-	-	-	-	-	-	-	-	-	-
Sales Contract Receivable (SCR)	3		3					3	-	3
Real and Other Properties Acquired	-		-						-	-
Other Assets	89		89					89		89
Total Risk-weighted On-Balance Sheet Assets	**978**	**-**	**978**	**40**	**-**	**-**	**574**	**364**	**-**	**795**

Market Risk Weighted Assets

Using Standardized Approach	2017 Notional Amount	2017 Market Risk Weighted Assets (MRWA)	2016 Notional Amount	2016 Market Risk Weighted Assets (MRWA)
Interest Rate Exposures	-	-	-	-
Equity Exposures	-	-	-	-
Foreign Exposures	-	0	-	0
Options	-	-	-	-
Total	**-**	**0**	**-**	**0**

Operational Risk-Weighted Assets under Basic Indicator Approach

(Based on 3 year Average Gross Income)

Nature of Item	2017	2016
Net interest income	82	43
Other non-interest income	24	12
Gross Income	105	55
Capital Requirements	**198**	**103**

AUDITED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Merchants Savings and Loan Association, Inc.** (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, 2017, and 2016, 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.

Gil A. Buenaventura
Chairman of the Board

Raymundo C. Roxas
President

Rosita S. Valencia
Officer-in-Charge

Signed this 12 day of APRIL 2018

Rizal MicroBank, 2F EDES 2 Bldg., Acacia Section, J. P. Laurel Ave., Bajada, Davao City 8000 | Telefax: 082 222 3948 | Tel.: 082 222 2438

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Report of Independent Auditors

The Board of Directors
Merchants Savings and Loan Association, Inc.
(A Subsidiary of Rizal Commercial Banking Corporation)
Edes 2 Bldg. JP Laurel Avenue (Acacia Section)
corner Villa, Abrille St., Davao City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Merchants Savings and Loan Association, Inc., (the Bank), which comprise the statements of financial position as at December 31, 2017 and 2016, 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, 2017 and 2016, 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 19 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue in a supplementary schedule filed separately from the basic financial statements. Revenue Regulation (RR) No. 15-2010 and RR No. 19-2011 require the information to be presented in the notes to the financial statements. 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; it is neither a required disclosure under the Securities Regulation Code Rule 68, as amended, of the Philippine Securities and Exchange Commission.

PUNONGBAYAN & ARAULLO

By: **Maria Isabel E. Comedia**
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 6616005, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-3 (until Dec. 22, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-21-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 22, 2018

	Notes	2017	2016
RESOURCES			
CASH	7	**P 10,862,118**	P 8,763,968
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**167,371,640**	31,259,528
DUE FROM OTHER BANKS	7	**156,178,326**	94,101,068
LOANS AND RECEIVABLES - Net	8	**949,295,538**	704,501,394
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	9	**104,828,515**	115,921,327
INVESTMENT PROPERTY	10	**12,263,115**	12,263,115
OTHER RESOURCES - Net	11	**49,117,378**	45,424,937
TOTAL RESOURCES		**P 1,449,916,630**	P 1,012,235,337
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	12	**P 812,118,793**	P 368,638,489
ACCRUED INTEREST AND OTHER EXPENSES	13	**10,428,273**	5,094,077
OTHER LIABILITIES	14	**29,034,938**	17,949,424
Total Liabilities		**851,582,004**	391,681,990
EQUITY			
Capital stock	2,15	**1,126,358,000**	1,126,358,000
Surplus reserves	2	**5,461,189**	5,461,189
Revaluation reserves	2	**24,639,043**	27,694,182
Deficit	2	**(558,123,606)**	(538,960,024)
Total Equity		**598,334,626**	620,553,347
TOTAL LIABILITIES AND EQUITY		**P 1,449,916,630**	P 1,012,235,337

See Notes to Financial Statements.

	Notes	2017	2016
INTEREST INCOME			
Loans and receivables	8	**P 146,700,012**	P 122,617,631
Due from Bangko Sentral ng Pilipinas and other banks	7	**7,193,580**	4,539,747
Others		**70,478**	-
		153,964,070	127,157,378
INTEREST EXPENSE			
Deposit liabilities	12	**16,482,225**	4,058,736
Others	18	**466,367**	305,363
		16,948,592	4,364,099
NET INTEREST INCOME		**137,015,478**	122,793,279
IMPAIRMENT LOSSES	8	**23,317,235**	8,043,082
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**113,698,243**	114,750,197
OTHER OPERATING INCOME	16	**44,667,537**	36,632,882
OTHER OPERATING EXPENSES	17	**(173,624,779)**	(151,587,334)
LOSS BEFORE TAX		**(15,258,999)**	(204,255)
TAX EXPENSE	19	**3,904,583**	3,103,339
NET LOSS		**(19,163,582)**	(3,307,594)
OTHER COMPREHENSIVE INCOME (LOSS)			
Fair value gain on financial assets through other comprehensive income	11	**906,559**	5,143,281
Remeasurements of retirement benefit plan	18	**(3,961,698)**	251,706
		(3,055,139)	5,394,987
TOTAL COMPREHENSIVE INCOME (LOSS)		**(P 22,218,721)**	P 2,087,393

See Notes to Financial Statements.

	Notes	Capital Stock	Surplus Reserves	Revaluation Reserves: Remeasurements of Retirement Benefit Plan	Revaluation Reserves: Unrealized Fair Value Gains	Revaluation Reserves: Total	Deficit	Total Equity
Balance at January 1, 2017	15	P 1,126,358,000	P 5,461,189	P 983,029	P 26,711,153	P 27,694,182	(P 538,960,024)	P 620,553,347
Total comprehensive income (loss) for the year	11, 18	-	-	(3,961,698)	906,559	(3,055,139)	(19,163,582)	(22,218,721)
Balance at December 31, 2017		**P 1,126,358,000**	**P 5,461,189**	**(P 2,978,669)**	**P 27,617,712**	**P 24,639,043**	**(P 558,123,606)**	**P 598,334,626**
Balance at January 1, 2016	15	P 1,126,358,000	P 5,461,189	P 731,323	P 21,567,872	P 22,299,195	(P 535,652,430)	P 618,465,954
Total comprehensive income (loss) for the year	11, 18	-	-	251,706	5,143,281	5,394,987	(3,307,594)	2,087,393
Balance at December 31, 2016		P 1,126,358,000	P 5,461,189	P 983,029	P 26,711,153	P 27,694,182	(P 538,960,024)	P 620,553,347

See Notes to Financial Statements.

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(P 15,258,999)**	(P 204,255)
Adjustments for:			
Interest received		**160,652,708**	115,589,219
Interest income	7, 8	**(153,964,070)**	(127,157,378)
Impairment losses	8	**23,317,235**	8,043,082
Depreciation and amortization	17	**17,943,577**	22,721,936
Interest expense	12, 18	**16,948,592**	4,364,099
Interest paid		**(13,942,108)**	(4,322,782)
Gain on disposal of bank premises, furniture, fixtures and equipment	9	**(541,377)**	(390,079)
Operating profit before working capital changes		**35,155,558**	18,643,842
Increase in loans and receivables		**(274,800,017)**	(311,332,336)
Decrease (increase) in other resources		**(5,522,762)**	2,767,144
Increase (decrease) in deposit liabilities		**443,480,304**	(4,666,440)
Increase (decrease) in accrued interest and other expenses		**2,794,079**	(1,810,038)
Increase (decrease) in other liabilities		**6,657,449**	(481,027)
Cash generated from (used in) operations		**207,764,611**	(296,878,855)
Cash paid for final taxes	19	**(1,427,833)**	(893,035)
Net Cash From (Used in) Operating Activities		**206,336,778**	(297,771,890)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of bank premises, furniture, fixtures and equipment	9	**(4,472,029)**	(14,512,907)
Acquisitions of computer software	11	**(2,432,403)**	(2,208,583)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	9	**855,174**	914,907
Net Cash Used in Investing Activities		**(6,049,258)**	(15,806,583)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**200,287,520**	(313,578,473)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7		
Cash		**8,763,968**	8,234,415
Due from Bangko Sentral ng Pilipinas		**31,259,528**	354,624,055
Due from other banks		**94,101,068**	84,844,567
		134,124,564	447,703,037
CASH AND CASH EQUIVALENTS AT END OF YEAR	7		
Cash		**10,862,118**	8,763,968
Due from Bangko Sentral ng Pilipinas		**167,371,640**	31,259,528
Due from other banks		**156,178,326**	94,101,068
		P 334,412,084	P 134,124,564

See Notes to Financial Statements.

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 of RCBC, Inc. The Bank is still in the process of obtaining approval for the change in corporate name and for the amendment of its Amended Articles of Incorporation from the BSP and Securities and Exchange Commission, respectively.

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 42.45% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

The Bank's registered office, which is also its principal place of business, is located at the Edes 2 Bldg. JP Laurel Avenue (Acacia Section) corner Villa, Abrille St., Davao City. 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, Yunchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

As of December 31, 2017, 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, 2017, the Bank has five micro banking offices in Laguna, 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, 2017 (including the comparative financial statements as of and for the year ended December 31, 2016) were authorized for issue by the Bank's BOD on February 22, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. 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 asset, 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 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 2017 that are Relevant to the Bank*

The Bank adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below are the relevant information about these amendments.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows and non-cash changes. They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities and to apply its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above. The application of these amendments had no impact on the Bank's financial statements since it has no liabilities arising from financing activities.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below its cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment had no impact on the Bank's financial statements as the Bank already assesses the sufficiency of future taxable profits in a way consistent with these amendments.

(b) Effective in 2017 that are not Relevant to the Bank

Among the annual improvements to PFRS 2014 - 2016 Cycle, PFRS 12, *Disclosure of Interest in Other Entities − Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale*, is effective beginning annual period January 1, 2017 but is not relevant to the Bank; hence, had no impact in its financial statements.

(c) Effective Subsequent to 2017 but not Adopted Early

There are new PFRS, amendments, interpretations and improvements to existing standards effective for annual periods subsequent to 2017, 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 40 (Amendments), *Investment Property – Transfers of Investment Property* (effective from January 1, 2018). The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments also provided a non-exhaustive list of examples constituting change in use.

(ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39*, Financial Instruments: Classification and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions – herein referred to as PFRS 9). In addition to the principal classification categories for financial assets and financial liabilities, which were early adopted by the Bank on January 1, 2014, PFRS 9 (2014) includes the following major provisions:

- limited amendments to the classification and measurement requirements for financial assets introducing a fair value measurement for eligible debt securities; and,

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset.

Based on an assessment and comprehensive study of the Bank's financial assets and financial liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined the significant impact of PFRS 9 (2014) on the financial statements as follows:

- The Bank has certain equity securities designated as at financial asset at fair value through other comprehensive income (FVOCI) with accumulated fair value gains of P27.6 million as of December 31, 2017, recognized in equity as part of Revaluation Reserves account. Based on management initial assessment of its financial assets and the Bank's current business model in managing financial assets, its equity securities will continue to be designated as at FVOCI upon adoption of PFRS 9 with fair value changes recognized in other comprehensive income in the subsequent periods.

- In applying the ECL methodology of PFRS 9 (2014), the Bank initially assessed to use the loan loss provision methodology as allowed by the standard and as prescribed by the BSP. On the other hand, ECL on government bonds and corporate bonds currently classified as financial asset at amortized cost shall be measured using the 12-month ECL as these financial assets are assessed to have low credit risk, considering their respective credit ratings. Management has assessed that the application of the ECL model will result in an increase in the required allowance for impairment of certain financial instruments as at the beginning of the next reporting period and in impairment losses in that period as compared with the amount that would have been recognized under the impairment provisions of PAS 39.

(iii) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers,* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in this standard is for an entity to recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

Based on an assessment of the Bank's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant sources of revenues pertain to its lending activities which generate interest income, service charges, and fees. Except for service charges and fees, substantial amount of the Bank's revenues are generated from financial instruments which are outside the scope of PFRS 15.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

(v) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the 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. Management is currently assessing the impact of these amendments on the Bank's financial statements.

(vi) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expense on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same with those applied in PAS 17. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, treatment of initial direct costs and lessor disclosures. Management is currently assessing the impact of this new standard on the Bank's financial statements.

(vii) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The 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 an entity to consider the probability of the tax treatment being accepted by the tax 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, an entity has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation in the Bank's financial statements.

(viii) Annual Improvements to PFRS 2015 - 2017 Cycle. Among the improvements effective January 1, 2019, PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*, is relevant to the Bank. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss but the Bank has initially assessed that the amendments have no material impact on the Bank's financial statements as these amendments merely clarify existing requirements.

2.3 Financial Assets

Financial assets 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.

(a) Classification and Measurement of Financial Assets

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described 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 asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,

- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method (see Note 2.11), less any impairment in value.

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash, Due from BSP, Due from Other Banks, Loans and Receivables and Rental and other deposits (under Other Resources account).

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash and other cash items and non-restricted balances due from BSP and due from other banks. These generally include cash on hand, demand deposits and short-term, highly liquid investments 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 FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2017 and 2016, the Bank has not made such designation.

(ii) 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 FVPL at initial recognition, are measured at fair value through profit or loss. Equity investments are classified as financial assets at FVPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Bank does not have financial assets at FVPL.

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

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

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 on its initial application of PFRS 9 in 2014.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are 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. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss, but is reclassified within equity.

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 in accordance with PAS 18, unless the dividends clearly represent recovery of a part of the cost of the investment.

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 FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVPL 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 must be effected before the date of the reclassification which pertains to the beginning of the next reporting period following the change in the business model.

(b) *Impairment of Financial Assets*

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired include default or delinquency in interest and principal payments by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for that financial asset because of financial difficulties, or other observable data relating to the group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

(i) *Carried at Amortized Cost – Loans and Receivables*

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

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

The carrying amount of loans and receivables is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in profit or loss. When a loan receivable is determined to be uncollectible, it is written off against the related allowance for impairment. Such loan receivable is written off after all the prescribed procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in statement of profit or loss.

(ii) Carried at Fair Value through Other Comprehensive Income

For equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

(c) Items of Income and Expenses Related to Financial Assets

All income and expenses, except for impairment losses which is presented as a separate item, relating to financial assets that are recognized in profit or loss are presented as part of Interest Income or Interest Expense account in the statement of comprehensive income.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) Derecognition of Financial Assets

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

2.4 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
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.

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 2.15).

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.

2.5 Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured initially at cost which comprises its purchase price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs. Subsequently, investment property is accounted for using the cost model subject to impairment (see Note 2.15).

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

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on retirement or disposal of an investment property is recognized in the year of retirement or disposal and is presented as Gain on sale of investment properties under Other Operating Income account in the statement of comprehensive income.

2.6 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 2.15.

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.

2.7 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.

2.8 Financial Liabilities

Financial liabilities which include deposit liabilities, accrued interest and other expenses, and other liabilities (excluding retirement benefit obligation and taxes payable) are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest related charges on financial liabilities are recognized as an expense in profit or loss under the Interest Expense account in the statement of comprehensive income.

Financial liabilities 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.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.9 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 set off 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.

2.10 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.

2.11 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the costs incurred or to be incurred can be reliably measured. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) *Interest income and expenses* are recognized in profit or loss for all financial instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

(b) *Service fees and commissions*, which are presented as part of Other Operating Income account in the statement of comprehensive income, are recognized when the service has been provided. Processing and service fees are loan fees related to the administration and servicing a loan which are recognized as revenue upon completion of the underlying transaction.

(c) *Dividends* are recognized when the Bank's right to receive payment is established.

Cost and expenses are recognized in profit or loss upon utilization of the goods and/or services or at the date they are incurred.

2.12 Leases

The Bank accounts for its leases as follows:

(a) *Bank as Lessee*

Leases which do not transfer to the Bank substantially all risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments 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.

(b) Bank as Lessor

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.

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 fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfilment is dependent on a specified asset; or,

(d) there is a substantial change to the asset.

2.13 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.

2.14 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 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 arising from expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bond as published by the Philippine Dealing & Exchange Corp., 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 retirement liability.

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, taking 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 Others under the Interest Expense account in the statement of comprehensive income. Remeasurements are not reclassified to profit or loss in the subsequent period.

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) 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.

2.15 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, intangible assets, investment property 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). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit 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 cash-generating unit 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.

2.16 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current 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.

Most 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.

2.17 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.

2.18 Equity

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

Surplus reserves pertains 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 assets 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.

2.19 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) Evaluation of Business Model 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 and to manage its working capital.

The Bank developed business models which reflect how it manages its portfolio of financial instruments. 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 under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong 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, trading and lending strategies.

(b) *Assessing the Cash Flow Characteristics of Financial Assets*

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

(c) *Distinguishing 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 an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the operation 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.

(d) *Distinguishing Operating and Finance Leases*

The Bank has entered into various lease agreements as either a lessor or lessee. Judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Management has assessed that all of its existing lease arrangements qualify as operating leases.

(e) *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 2.10 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) Impairment Losses on Loans and Receivables

The Bank reviews its loans and receivables at the end of each reporting period to assess whether an adequate amount of allowance for impairment has been recognized in the financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the amount of allowance and the carrying amount of loans and receivables.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Note 8.

(b) Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Bank's financial assets at FVOCI and the amount of fair value changes recognized on those assets are disclosed in Note 11.1.

(c) Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Computer Software

The Bank estimates the useful lives of bank premises (except for land), furniture, fixtures and equipment 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 and computer software are analyzed in Notes 9 and 11.2, respectively. Based on management's assessment as of December 31, 2017 and 2016, 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.

(d) *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, 2017 and 2016, 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 19.1).

(e) *Impairment of Non-financial Assets*

The Bank's policy in estimating the impairment of non-financial assets is discussed in Note 2.15. Though management believes that the assumptions used in the estimation of fair values of non-financial assets reported in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment as of December 31, 2017 and 2016, the Bank's bank premises, furniture, fixtures and equipment, computer software, investment property and other non-financial assets are not impaired (see Notes 9, 10 and 11).

(f) *Determining Principal Assumptions for Management's Estimation of Fair Value of Investment Property*

The Bank's investment property pertains to a parcel of land which is held for lease under operating lease agreement. In determining the fair value of the asset disclosed in the financial statements, the Bank used the discounted cash flows valuation approach.

The principal assumptions underlying management's estimation of the fair value of a certain buildings under discounted cash flow approach are those related to: (a) the receipt of contractual rentals based on existing lease contracts; (b) expected future market rentals; and, (c) appropriate discount rates. These valuations are regularly compared to actual transactions of the Bank and circumstances in the market during the applicable reporting period.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition. Discount rate is the interest rate used to determine the present value of estimated net future cash flows from rentals of the investment property. In determining the appropriate discount rate, the Bank considers a certain rate with similar terms available in the market.

The fair values of the investment property as of December 31, 2017 and 2016 are disclosed in Note 10 while the relevant valuation methodology and fair value hierarchy are disclosed in Note 6.3.

(g) 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 18.2.

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 its 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 market risk, credit risk and liquidity risk as described below.

4.1 Market Risk

(a) Foreign Currency Risk

Foreign exchange risk arises when future commercial transactions and recognized 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 P0.32 million both as at December 31, 2017 and 2016 (see Note 7).

The sensitivity analysis of the Bank's net results for the year arising from its financial assets and the United Stated (U.S.) dollar-Philippine peso exchange rate assumes a +/-10.77% in 2017 and +/-15.13% in 2016 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, 2017 and 2016, the Philippine peso had strengthened against the U.S. dollar, with all other variables held constant, the Bank's net loss before tax would have been higher by P0.03 million and P0.05 million, respectively.

On the other hand, if at December 31, 2017 and 2016, the Philippine peso had weakened by the same percentage, with all other variables held constant, net loss before tax would have been lower 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 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, 2017 and 2016 (amounts in thousands):

	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	More Than 5 Years	Total
2017							
Due from BSP	P 167,372	P -	P -	P -	P -	P -	P 167,372
Due from other banks	156,178	-	-	-	-	-	156,178
Loans and receivables:							
Loans and discounts - gross	503,128	142,856	135,423	75,219	128,281	-	984,907
Sales contract receivables	1,009	1,154	420	-	-	-	2,583
Deposit liabilities	(812,119)	-	-				(812,119)
	P 15,568	**P 144,010**	**P 135,843**	**P 75,219**	**P 128,281**	**P -**	**P 498,921**
2016							
Due from BSP	P 31,260	P -	P -	P -	P -	P -	P 31,260
Due from other banks	94,101	-	-	-	-	-	94,101
Loans and receivables:							
Loans and discounts - gross	275,068	122,504	164,054	34,989	111,700	713	709,028
Sales contract receivables	882	1,009	1,154	419		-	3,464
Deposit liabilities	(368,638)	-	-	-	-	-	(368,638)
	P 32,673	P 123,513	P 165,208	P 35,408	P 111,700	P 713	P 469,215

4.2 Credit Risk and Concentration Limit

Credit risk is the risk that a counterparty may default in payment of an obligation to the Bank and arises from lending and other activities undertaken by the Bank.

Concentration limits for the Bank are set by types of borrowers and loan classifications. In setting and managing the concentration limits, the Bank considers the BSP regulations.

In addition, loans are granted by the Bank based on the financial strength and payment history of the borrowers, and the assessment of the quality of any collateral.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to the financial statements as summarized below.

	Notes	**2017**	2016
Cash	7	**P 10,862,118**	P 8,763,968
Due from BSP	7	**167,371,640**	31,259,528
Due from other banks	7	**156,178,326**	94,101,068
Loans and receivables – net	8	**949,295,538**	704,501,394
Rental and other deposits	11	**1,543,544**	1,383,984
Accrued rent	11	**1,045,263**	1,045,263
		P 1,286,296,429	P 841,055,205

The aging analysis of loans and receivables as of December 31, 2017 and 2016 are as follows (amounts in thousands):

	Total	Neither past due nor impaired	Past due: Less than 30 days	Past due: 31-60 days	Past due: 61-90 days	Past due: More than 90 days	Impaired
2017							
Loans and discounts – gross	P 984,907	P 863,166	P 9,579	P 1,959	P 1,262	P 64,493	P 44,448
Accounts receivables	527	527	-	-	-	-	-
Sales contract receivables	2,582	2,582	-	-	-	-	-
Accrued interest receivable	5,728	5,728				-	-
	P 993,744	**P 872,003**	**P 9,579**	**P 1,959**	**P 1,262**	**P 64,493**	**P 44,448**
2016							
Loans and discounts – gross	P 709,028	P 671,479	P 3,066	P 1,898	P 2,506	P 8,948	P 21,131
Accounts receivables	724	724	-	-	-	-	-
Sales contract receivables	3,464	3,464	-	-	-	-	-
Accrued interest receivable	12,417	12,417	-	-	-	-	-
	P 725,633	P 688,084	P 3,066	P 1,898	P 2,506	P 8,948	P 21,131

The Bank's impaired loans and receivables were provided with adequate amount of allowance for impairment losses.

The credit quality of the Bank's financial assets that are neither past due nor impaired is considered to be of good quality and expected to be collectible without incurring any credit losses.

The Bank's concentration of credit for loans and discounts as to industry follows:

	2017	2016
Wholesale and retail trade, repair of motor vehicles, motorcycles, personal and household goods	**P 603,564,724**	P 353,408,943
Agriculture, forestry and fishing	**94,974,727**	65,720,238
Manufacturing	**87,685,051**	66,891,522
Hotels and restaurants	**47,152,420**	31,579,200
Transportation, storage and communication	**35,843,436**	14,875,577
Construction	**19,827,789**	13,405,021
Real estate, renting and business activities	**14,474,506**	12,274,460
Private households with employed persons	**8,800,021**	98,761,762
Electricity, gas and water supply	**8,596,352**	1,639,717
Mining and quarrying	**7,087,286**	4,225,030
Others	**56,900,420**	46,246,035
	P 984,906,732	P 709,027,505

Others consists of loans granted to industries under health and social work, trading and wellness centers.

4.3 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.

As of December 31, 2017 and 2016, the Bank's financial liabilities have contractual maturities which are presented below.

	On Demand	**Less Than 1 Year**	**Total**
2017			
Deposit liabilities	P 325,858,526	P 496,836,507	P 822,695,033
Accrued interest and other expenses	10,428,273	-	10,428,273
Other liabilities	11,708,123	-	11,708,123
	P 347,994,922	**P 496,836,507**	**P 844,831,429**
2016			
Deposit liabilities	P 236,889,781	P 134,986,245	P 371,876,026
Accrued interest and other expenses	5,094,077	-	5,094,077
Other liabilities	8,512,130	-	8,512,130
	P 250,495,988	P 134,986,245	P 385,482,233

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.

5. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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	2017 Carrying Amounts	2017 Fair Values	2016 Carrying Amounts	2016 Fair Values
Financial Assets					
Loans and receivables:					
Cash	7	**P 10,862,118**	**P 10,862,118**	P 8,763,968	P 8,763,968
Due from BSP	7	**167,371,640**	**167,371,640**	31,259,528	31,259,528
Due from other banks	7	**156,178,326**	**156,178,326**	94,101,068	94,101,068
Loans and receivables – net	8	**949,295,538**	**957,209,218**	704,501,394	710,374,379
Rental and other deposits	11	**1,543,544**	**1,543,544**	1,383,984	1,383,984
Accrued rent	11	**1,045,263**	**1,045,263**	1,045,263	1045,263
		1,286,296,429	**1,294,210,109**	841,055,205	846,928,190
Financial assets at FVOCI	11.1	**33,695,212**	**33,695,212**	32,788,653	32,788,653
		P 1,319,991,641	**1,327,905,321**	P 873,843,858	P 879,716,843
Financial Liabilities					
At amortized cost:					
Deposit liabilities	12	**P 812,118,793**	**P 812,118,793**	P 368,638,489	P 368,638,489
Accrued interest and other expenses	13	**9,404,507**	**9,404,507**	5,094,077	5,094,077
Other liabilities	14	**11,708,123**	**11,708,123**	8,512,130	8,512,130
		P 833,231,423	**P 833,231,423**	P 382,244,696	P 382,244,696

Management considers that the carrying amounts of the Bank's financial instruments which are measured at amortized cost approximate their fair values. The fair value of financial assets at FVOCI is determined using valuation technique disclosed in Note 6.2.

See Notes 2.3 and 2.8 for the description of the accounting policies for each category of financial instrument.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 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.

6.2 Financial Instruments Measured at Fair Value

The Bank's financial assets at FVOCI, which consist of equity securities, amounted to P33.70 million and P32.79 million as of December 31, 2017 and 2016, respectively (see Note 11.1).

The fair value of the Bank's equity securities categorized under Level 3 of the fair value hierarchy, is estimated and determined based on unobservable inputs such as investee's own data which is the book value per share based on the recent audited financial statements of the investee. The reconciliation of the carrying amount of financial assets at FVOCI under Level 3 of the fair value hierarchy is shown below.

	2017	2016
Balance at beginning of year	**P 32,788,653**	P 27,645,372
Fair value gains	**906,559**	5,143,281
Balance at end of year	**P 33,695,212**	P 32,788,653

6.3 Fair Value Disclosures for Investment Property Carried at Cost

For purposes of determining the fair value hierarchy, the Bank categorized the fair value of investment property 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.

In estimating the fair value of these 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 property is its current use (i.e., for leasing activity).

As of December 31, 2017 and 2016, the Level 3 fair value of the investment property amounting to P19.20 million and P20.84 million, respectively, was determined based on the discounted cash flow approach derived from management estimates of expected future net cash inflows from future rental payments over the term of the related existing lease contracts (see Note 10). The future cash flows were discounted at 6.48% and 5.80% for 2017 and 2016, respectively, comparable to the current interest rate of an instrument with closely similar term as that of the lease contract and that is quoted in an active market.

7. CASH AND CASH EQUIVALENTS

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

	2017	2016
Cash	**P 10,862,118**	P 8,763,968
Due from BSP	**167,371,640**	31,259,528
Due from other banks	**156,178,326**	94,101,068
	P 334,412,084	P 134,124,564

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 12). The outstanding balance as of December 31, 2017 also includes outstanding placements in Reverse Repurchase Agreement (RRP) and Overnight Deposit Facility (ODF) with the BSP amounting to P83.3 million and P17.0 million, respectively, bearing annual interest rates of 3.00% and 2.50%, respectively, and having a one day term.

The balance of due from other banks represents regular deposits with local banks with annual interest rates ranging from 0.15% to 0.75% in 2017 and 0.13% to 0.43% in 2016.

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

	2017	2016
Philippine pesos	**P 155,854,811**	P 93,780,287
U.S. dollars	**323,515**	320,781
	P 156,178,326	P 94,101,068

As of December 31, 2017 and 2016, Due from Other Banks includes deposit accounts with the parent company and a related party under common ownership totaling P118.29 million and P70.08 million, respectively (see Note 20.2).

8. LOANS AND RECEIVABLES

This account is composed of the following:

	Notes	2017	2016
Loans and discounts:			
Receivable from customers	8.1	P 984,906,732	P 709,027,505
Accounts receivables	8.3	526,670	724,043
		985,433,402	709,751,548
Other receivables:			
Accrued interest receivables		5,728,033	12,416,671
Sales contract receivables		2,582,163	3,464,000
		8,310,196	15,880,671
		993,743,598	725,632,219
Allowance for impairment	8.2	(44,448,060)	(21,130,825)
		P 949,295,538	P 704,501,394

The carrying amount of the Bank's loans and receivables have maturity as follows:

	2017	2016
Within one year	P 467,516,293	P 270,542,071
More than one year	481,779,245	433,959,323
	P 949,295,538	P 704,501,394

8.1 *Receivable from Customers*

The maturity profile of the Bank's receivable from customers follows:

	2017	2016
Within one year	P 503,127,487	P 275,068,182
Two to five years	481,779,245	433,246,089
More than five years	-	713,234
	P 984,906,732	P 709,027,505

The following are the breakdown of receivable from customers as to type of security:

	2017	2016
Secured:		
Real estate mortgage	P 633,169,082	P 477,873,722
Chattel mortgage	21,437,085	6,104,919
Others	19,305,546	8,856,292
Unsecured	310,995,019	216,192,572
	P 984,906,732	P 709,027,505

Loans and receivables earn an average effective interest at rates of 7% to 36% per annum and 8% to 39% per annum in 2017 and 2016, respectively.

Included under loans and discounts account are non-performing loans amounting to P24.49 million and P25.73 million as of December 31, 2017 and 2016, respectively.

8.2 Allowance for Impairment

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

	2017	2016
Balance at beginning of year	**P 21,130,825**	P 20,485,289
Impairment losses	**23,317,235**	8,043,082
Reversal of impairment loss	**-**	(3,290,557)
Loans written-off	**-**	(4,106,989)
Balance at end of year	**P 44,448,060**	P 21,130,825

8.3 Accounts Receivables

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

9. 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 2017 and 2016 are shown below.

	Land	Buildings	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Transportation Equipment	Total
December 31, 2017						
Cost	P 33,724,746	P 73,021,117	P 64,487,907	P 49,075,808	P 19,220,337	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	**P 33,724,746**	**P 30,759,024**	**P 11,684,917**	**P 22,545,110**	**P 6,114,718**	**P 104,828,515**
December 31, 2016						
Cost	P 33,724,746	P 73,021,117	P 63,798,760	P 53,505,293	P 19,032,973	P 243,082,889
Accumulated depreciation and amortization	-	(38,283,895)	(48,760,719)	(25,992,299)	(14,124,649)	(127,161,562)
Net carrying amount	P 33,724,746	P 34,737,222	P 15,038,041	P 27,512,994	P 4,908,324	P 115,921,327
January 1, 2016						
Cost	P 33,724,746	P 72,420,303	P 63,510,061	P 45,728,348	P 18,217,933	P 233,601,391
Accumulated depreciation and amortization	-	(34,334,680)	(47,140,503)	(17,297,893)	(12,937,973)	(111,711,049)
Net carrying amount	P 33,724,746	P 38,085,623	P 16,369,558	P 28,430,455	P 5,279,960	P 121,890,342

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2017 and 2016 is shown below.

	Land	Buildings	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Transportation Equipment	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 33,724,746	P 34,737,222	P 15,038,041	P 27,512,994	P 4,908,324	P 115,921,327
Additions	-	-	894,655	66,350	3,511,024	4,472,029
Disposals	-	-	(51,393)	-	(262,404)	(313,797)
Depreciation and amortization charges for the year	-	(3,978,198)	(4,196,386)	(5,034,234)	(2,042,226)	(15,251,044)
Balance at December 31, 2017, 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 104,828,515**
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 33,724,746	P 38,085,623	P 16,369,558	P 28,430,455	P 5,279,960	P 121,890,342
Additions	-	600,814	3,740,107	7,776,945	2,395,041	14,512,907
Disposals	-	-	(247,660)	-	(277,168)	(524,828)
Depreciation and amortization charges for the year	-	(3,949,215)	(4,823,964)	(8,694,406)	(2,489,509)	(19,957,094)
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 33,724,746	P 34,737,222	P 15,038,041	P 27,512,994	P 4,908,324	P 115,921,237

In 2017, the Bank disposed of certain transportation equipment and office equipment with net book value amounting to P0.26 million and P0.05 million, respectively. Gains recognized on the disposals amounting to P0.54 million is presented as Gain on sale of property and equipment under Other Operating Income account in the 2017 statement of comprehensive income (see Note 16). In addition, the Bank retired in 2017 certain fully depreciated leasehold improvements with an acquisition cost of P4.49 million related to a branch which was closed in 2016.

In 2016, the Bank disposed of certain fully depreciated transportation equipment at a gain of P0.13 million. Also, during that year, the Bank sold certain fully depreciated furniture, fixtures and equipment to RCBC-JPL Holdings Company, Inc. (RCBC-JPL), a related party under common ownership, and realized a gain of P0.26 million presented as part of Gain on sale of property and equipment under Other Operating Income account in the 2016 statement of comprehensive income (see Notes 16 and 20.4).

10. INVESTMENT PROPERTY

Investment property pertains to a land that is being leased out and which is not being occupied by the Bank as bank premises.

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 P0.53 million for 2017 and P0.65 million for 2016 is presented as Rent income under Other Operating Income account in the statements of comprehensive income (see Note 16). The outstanding rent receivable as of December 31, 2017 and 2016 amounting to P1.05 million is presented as part of Other Resources account in the statements of financial position (see Note 11).

The estimated fair values of the land amounted to P19.20 million and P20.84 million as of December 31, 2017 and 3016, respectively (see Note 6.3).

11. OTHER RESOURCES

This account consists of:

	Notes	2017	2016
Financial assets at FVOCI	6.2, 11.1	**P 33,695,212**	P 32,788,653
Computer software – net	11.2	**4,796,346**	5,056,476
Prepaid expenses		**4,654,675**	2,359,174
Rental and other deposits		**1,543,544**	1,383,984
Accrued rent receivable	10	**1,045,263**	1,045,263
Sundry debits		**269,491**	330,085
Creditable withholding taxes		**-**	203,616
Miscellaneous		**3,112,847**	2,257,686
		P 49,117,378	P 45,424,937

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

11.1 Financial Assets at FVOCI

Financial assets at FVOCI represent the Bank's investment in equity securities with BancNet. In 2017 and 2016, the fair value changes in these financial assets amounted to P0.91 million and P5.14 million, respectively, which are recognized as an adjustment in other comprehensive income and presented in the statements of comprehensive income.

In 2017 and 2016, the Bank recognized dividends on these equity securities amounting to P3.79 million in both years, which is presented as Dividend income under Other Operating Income account in the statements of comprehensive income (see Note 16).

11.2 Computer Software

The gross carrying amounts and the accumulated amortization of computer software at the beginning and end of 2017 and 2016 follow:

	December 31, 2017	December 31, 2016	January 1, 2016
Cost	**P 26,374,344**	P 23,941,942	P 22,188,508
Accumulated amortization	**(21,577,998)**	(18,885,466)	(16,575,773)
Net carrying amount	**P 4,796,346**	P 5,056,476	P 5,612,735

A reconciliation of the carrying amounts of computer software at the beginning and end of 2017 and 2016 is shown below.

	2017	2016
Balance at January 1, net of accumulated amortization	**P 5,056,476**	P 5,612,735
Additions	**2,432,403**	2,208,583
Amortization charges for the year (see Note 17)	**(2,692,533)**	(2,764,842)
Net carrying amount	**P 4,796,346**	P 5,056,476

In 2016, certain fully amortized computer software with acquisition cost of P0.46 million were written-off by the Bank.

12. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

	2017	2016
Time	**P 488,339,604**	P 132,339,456
Savings	**323,779,189**	236,299,033
	P 812,118,793	P 368,638,489

Savings and time deposit liabilities are due within one year with annual interest rates of 0.50% to 3.63% for 2017 and 0.25% to 2.35% for 2016.

Under existing BSP regulations, non-foreign currency depositary unit deposit liabilities are subject to required reserve of 8.00%. The Bank is in compliance with such regulations.

The available reserves consist of the demand deposit account to BSP amounting to P66.94 million and P31.26 million as of December 31, 2017 and 2016, respectively (see Note 7).

13. ACCRUED INTEREST AND OTHER EXPENSES

This account consists of:

		2017		2016
Accrued other expenses	**P**	**5,287,054**	P	4,785,951
Accrued interest		**3,314,610**		308,126
Accrued gross receipt tax		**1,023,766**		-
Accrued insurance – Philippine Deposit Insurance Corporation		**802,843**		-
	P	**10,428,273**	P	5,094,077

Accrued other expenses represent mainly the accruals for utilities, janitorial, security and professional services.

14. OTHER LIABILITIES

The breakdown of this account is shown below.

	Note		2017		2016
Retirement benefit obligation	18.2	**P**	**15,770,906**	P	8,639,622
Accounts payable			**10,689,727**		7,541,352
Withholding taxes payable			**1,013,474**		792,574
Income tax payable			**542,435**		-
Miscellaneous			**1,018,396**		975,876
		P	**29,034,938**	P	17,949,424

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

15. EQUITY

15.1 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, 2017 and 2016, there are 11,263,580 shares issued and outstanding at P100 par value or P1.13 billion.

On October 7, 2015, RCBC made an additional capital infusion to the Bank amounting to P250,000,000 for 2,500,000 shares at P100 par value per share.

As of December 31, 2017 and 2016, the Bank has two stockholders owning 100 or more shares each of the Bank's capital stock.

15.2 Capital Management

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, 2017 and 2016 is presented as follows:

	2017	2016
Tier 1 Capital	**P 563,804,766**	P 579,892,762
Tier 2 Capital	**9,090,161**	6,773,351
Total regulatory qualifying capital	**P 572,894,927**	P 586,665,113
Total risk weighted assets	**P 1,347,174,709**	P 898,683,650
Capital ratios:		
Total regulatory capital expressed as percentage of total risk-weighted assets	**42.53%**	65.28%
Total Tier 1 expressed as percentage of total risk-weighted assets	**41.85%**	64.53%

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, 2017 and 2016, respectively.

16. OTHER OPERATING INCOME

This account consists of the following:

	Notes	2017	2016
Service fees and commission		**P 36,861,041**	P 26,359,672
Dividend income	11.1	**3,786,000**	3,786,000
Gain on sale of property and equipment	9	**541,376**	642,092
Rent income	10	**531,665**	654,845
Other income		**2,947,455**	5,192,273
		P 44,667,537	P 36,632,882

17. OTHER OPERATING EXPENSES

The details of this account are shown below.

	Notes	2017	2016
Employee benefits	18.1	**P 87,472,055**	P 73,152,476
Depreciation and amortization	9, 11.2	**17,943,577**	22,721,936
Taxes and licenses		**14,666,744**	10,118,283
Occupancy	20.3, 22.1	**10,250,834**	8,690,745
Messengerial, janitorial and security	20.3	**9,624,249**	9,939,571
Transportation and travel		**6,178,152**	5,772,237
Management and other professional fees		**4,639,063**	2,510,634
Insurance		**4,586,013**	3,173,081
Postage and utilities		**4,331,413**	3,218,120
Power, light and water		**3,716,727**	3,181,561
Repairs and maintenance		**2,470,085**	1,366,991
Stationery and supplies		**2,213,156**	2,103,379
Fuel and lubricant		**1,438,375**	1,371,978
Advertising and publicity		**758,420**	708,948
Supervision fees		**268,181**	-
Information technology		**37,571**	1,307,291
Miscellaneous		**3,030,164**	2,250,103
		P 173,624,779	P 151,587,334

18. EMPLOYEE BENEFITS

18.1 Salaries and Employee Benefits

Expenses recognized for employee benefits are presented below.

	Notes	2017	2016
Short-term employee benefits		**P 84,768,786**	P 70,747,939
Post-employment defined benefit	18.2	**2,703,269**	2,404,537
	17	**P 87,472,055**	P 73,152,476

18.2 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 20.6). 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 55 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 2017 and 2016.

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 14):

	2017	2016
Present value of the obligation	**P 19,504,556**	P 12,304,365
Fair value of plan assets	**(3,733,650)**	(3,664,743)
	P 15,770,906	P 8,639,622

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

	Note	2017	2016
Balance at beginning of year		**P 12,304,365**	P 9,800,560
Current service cost	18.1	**2,703,269**	2,404,537
Interest expense		**661,975**	484,148
Remeasurement – actuarial losses (gains) arising from changes in:			
- financial assumptions		**3,318,280**	(628,486)
- experience adjustments		**516,667**	243,606
Balance at end of year		**P 19,504,556**	P 12,304,365

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

	2017	2016
Balance at beginning of year	**P 3,664,743**	P 3,619,132
Interest income	**195,658**	178,785
Return on plan assets (excluding amounts included in net interest)	**(126,751)**	(133,174)
Balance at end of year	**P 3,733,650**	P 3,664,743

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.

	2017	2016
Philippine government bonds	**P 2,224,535**	P 1,248,939
Due from other banks	**1,498,411**	659,732
Due from BSP	**-**	1,750,000
Others – net	**10,704**	6,072
	P 3,733,650	P 3,664,743

The fair values of the Philippine government bonds are determined based on quoted market prices in an active market.

The plan assets earned a return of P0.07 million and P0.05 million in 2017 and 2016, respectively.

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:

		2017		2016
Recognized in profit or loss:				
Current service cost	**P**	**2,703,269**	P	2,404,537
Net interest expense		**466,317**		305,363
	P	**3,169,586**	P	2,709,900
Recognized in other comprehensive income:				
Actuarial losses (gains) arising from changes in:				
- financial assumptions	**P**	**3,318,280**	(P	628,486)
- experience adjustments		**516,667**		243,606
Return on plan assets (excluding amounts included in net interest)		**126,751**		133,174
	P	**3,961,698**	(P	251,706)

Current service cost is included as part of Employee benefits under Other Operating Expenses account in the statements of comprehensive income (see Note 17).

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:

	2017	2016
Discount rates	**5.64%**	5.38%
Expected rate of salary increases	**5.00%**	3.00%

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 55 is 24. 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 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, 2017 and 2016:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2017			
Discount rate	**+/- 1%**	**(P 2,597,343)**	**P 2,160,702**
Salary growth rate	**+/- 1%**	**2,387,760**	**(2,033,981)**
December 31, 2016			
Discount rate	+/- 1%	(P 1,505,875)	P 1,255,766
Salary growth rate	+/- 1%	1,422,048	(1,212,732)

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 P15.77 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:

	2017	2016
More than one year to five years	**P 10,116,169**	P 1,295,265
More than five years to ten years	**10,346,932**	13,062,341
	P 20,463,101	P 14,357,606

The weighted average duration of the defined benefit obligation at the end of the reporting period is 12.7 years.

19. INCOME TAXES

19.1 Current and Deferred Tax

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

	2017	2016
Minimum corporate income tax (MCIT) at 2%	**P 2,476,750**	P 2,210,304
Final tax at 7.5% and 20%	**1,427,833**	893,035
	P 3,904,583	P 3,103,339

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

	2017	2016
Tax on pretax loss at 30%	**(P 4,577,700)**	(P 61,277)
Adjustment for income subjected to lower tax rates	**(730,241)**	(468,889)
Tax effects of:		
Unrecognized deferred tax assets	**10,427,539**	4,318,668
Nontaxable income	**(1,135,800)**	(1,135,800)
Utilization of net operating loss carry-over (NOLCO)	**(814,213)**	-
Nondeductible expenses	**734,998**	450,637
	P 3,904,583	P 3,103,339

The Bank is subject to MCIT which is computed at 2% of gross income as defined under the tax regulations, or at regular corporate income tax (RCIT), whichever is higher. The Bank is liable for MCIT in 2017 and 2016 as the Bank is in a net taxable loss position in both years.

In 2017 and 2016, the Bank claimed itemized deductions in computing its income tax due.

The details of MCIT which can be applied against RCIT due within three consecutive years is shown below.

Year Incurred	Amount	Expired	Remaining Balance	Expiry Year
2017	P 2,476,750	P -	P 2,476,750	2020
2016	2,210,304	-	2,210,304	2019
2015	989,377	-	989,377	2018
2014	677,371	(677,371)	-	2017
	P 6,353,802	**(P 677,371)**	**P 5,676,431**	

The details of NOLCO, which can be claimed as deduction from future taxable income within three years from the year the NOLCO was incurred, are shown below.

Year Incurred	Original Amount	Applied in Current Year	Expired Amount	Remaining Balance	Valid Until
2016	P 3,282,153	P -	P -	P 3,282,153	2019
2015	153,719,859	-	-	153,719,859	2018
2014	66,459,045	(2,714,042)	(63,745,003)	-	2017
	P 223,461,057	**(P 2,714,042)**	**(P 63,745,003)**	**P 157,002,012**	

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:

	2017		2016	
	Amount	**Tax Effect**	Amount	Tax Effect
NOLCO	**P 157,002,012**	**P 47,100,604**	P 223,461,057	P 67,038,317
Allowance for impairment	**44,448,060**	**13,334,418**	21,130,825	6,339,248
Retirement benefit obligation	**15,770,906**	**4,731,272**	8,639,622	2,591,887
MCIT	**5,676,431**	**5,676,431**	3,877,052	3,877,052
Rental expense differential	**2,732,118**	**819,635**	2,732,118	819,635
Rental income differential	**(1,324,715)**	**(397,415)**	(1,324,715)	(397,415)
Unrealized foreign exchange gains	**(1,343)**	**(403)**	(17,151)	(5.145)
	P 224,303,469	**P 71,264,542**	P 258,498,808	P 80,263,579

19.2 Supplementary Information Required under Revenue Regulation (RR) No. 15-2010 and RR No. 19-2011

The Bureau of Internal Revenue (BIR) issued RR No. 15-2010 and RR No. 19-2011 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 Securities Regulation Code Rule 68, as amended.

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

20. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has transactions with its 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 its parent company and other related parties as of and for the years ended December 31, 2017 and 2016 is as follows:

Related Party Category	Notes	**2017** Amount of Transaction	**2017** Outstanding Balance	2016 Amount of Transaction	2016 Outstanding Balance
Parent Company					
Due from other banks	7, 20.2	**P 34,087,276**	**P 88,543,415**	P 3,954,553	P 54,456,139
Income					
Interest on deposits	7, 20.2	**165,929**	**-**	113,491	-
Rent income	10, 11	**531,665**	**1,045,263**	654,845	1,045,263
Expenses					
Security, janitorial and messengerial	17, 20.3	**208,373**	**-**	916,559	-
Occupancy	17, 20.3	**3,134,474**	**-**	1,394,388	-
Retirement plan	18.2, 20.6	**68,907**	**3,733,650**	45,611	3,644,743
Related Parties Under Common Ownership					
Due from other banks	7, 20.2	**14,121,563**	**29,747,262**	(258,455)	15,625,699
Interest income on deposits	7, 20.2	**166,226**	**-**	136,322	-
Sale of furniture, fixtures and equipment	9, 20.4	**-**	**-**	262,424	-
Key Management Personnel					
Compensation	20.5	**9,615,083**	**-**	8,203,609	-

20.1 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.

Under existing BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of deposit and book value of investment in the Bank. In aggregate, loans to DOSRI, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank.

The Bank has no outstanding loans to DOSRI as of December 31, 2017 and 2016.

20.2 Bank Deposits

The Bank has deposit accounts with RCBC and RCBC Savings Bank (RSB), a related party under common ownership, 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 and RSB to ordinary depositors (see Note 7).

20.3 Security, Janitorial and Messengerial 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 security, janitorial and messengerial and power, light and water which are presented under Other Operating Expenses account in the statements of comprehensive income (see Note 17). 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, 2017 and 2016.

20.4 Sale of Furniture, Fixtures and Equipment

In 2016, the Bank sold certain fully depreciated furniture, fixtures and equipment to RCBC-JPL and realizied a gain of P0.26 million (see Note 9). There was no outstanding receivable from this transaction as it was settled in cash by RCBC-JPL during the year of sale.

20.5 Key Management Personnel Compensation

Short-term benefits paid to key management employees amounted to P9.62 million and P8.20 million in 2017 and 2016, respectively.

20.6 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, 2017 and 2016, are shown in Note 18.2.

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. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some measures of the Bank's financial performance:

	2017	2016
Negative return on average equity	**3.14%**	0.54%
Negative return on average assets	**1.56%**	0.33%
Net interest margin	**10.76%**	16.34%
Cost to income ratio	**1.07**	1.00

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 P10.25 million in 2017 and P8.69 million in 2016 (see Note 17).

As of December 31, future minimum lease payments under these operating leases follow:

	2017	2016
Within one year	**P 7,009,680**	P 7,275,630
After one year but not more than five years	**28,719,041**	31,796,063
More than five years	**4,247,446**	8.079,671
	P 39,976,167	P 47,151,364

22.2 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, 2017, management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

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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** (old name PITAKA ME 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** (old name PITAKA FLEXI Term Loan)

Loan amount ranges from P150,000 to P10M subject to client's capacity to pay.

- **SmallBiz-Revolving Credit Line** (old name PITAKA FLEXI Plus Credit Line)

Loan amount ranges from P500,000 to P10M subject to client's capacity to pay.

AGRI FINANCE LOAN

- **AgriBiz Term Loan** (old name PITAKA Agrifinance Term Loan)
- **AgriBiz-Revolving Credit Line** (old name PITAKA Agrifinance 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.

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.

OTHER BANKING SERVICES

- Remittance pay-out center thru RCBC TeleMoney
- Rizal MicroBank MyWallet co-branded with RCBC
- RCBC Cash Express

Dried fish, product of Niño & Khristy Dried Fish Dealer & Pasalubong (valued client of RMB Talisay Branch)

Arabica coffee, product of BACOFA (valued client of RMB Digos Branch)

Saint John's Agrivet & Agri Supply, RMB-RCBC Cash Express Partner Merchant

RIZAL MicroBank
A Thrift Bank of RCBC

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