RIZAL MicroBank

A Thrift Bank of RCBC

ANNUAL REPORT 2018

SUSTAINING THE GROWTH WITH AND FOR OUR PARTNERS

ABOUT THE COVER

Rizal MicroBank is anchored on its goal as the partner in helping small businesses grow and expand further. The petals depicted here shows the growing bright future ahead with our partners as we continue to provide them with better access to financial services, enabling them to significantly contribute to local and national economy as well as the Bank's growth.

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 58 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 re-energize 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.

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

Malasakit
Integrity
Commitment
Resourcefulness
Oneness

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Merchants Savings & Loan Association, Inc., doing business under the name and style of Rizal MicroBank, Inc. – A Thrift Bank of RCBC (RMB), operates as a subsidiary of Rizal Commercial Banking Corporation (RCBC). RCBC is majority-owned by the Yuchengco Group of Companies (YGC), one of the oldest and largest conglomerates in Southeast Asia. RMB 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 had operations in Southern Tagalog, Luzon. Presently, RMB operates in key areas of the country with a total of 18 branches and five branch-lite units.

RMB aspires to advance financial inclusion by providing easy access to 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.

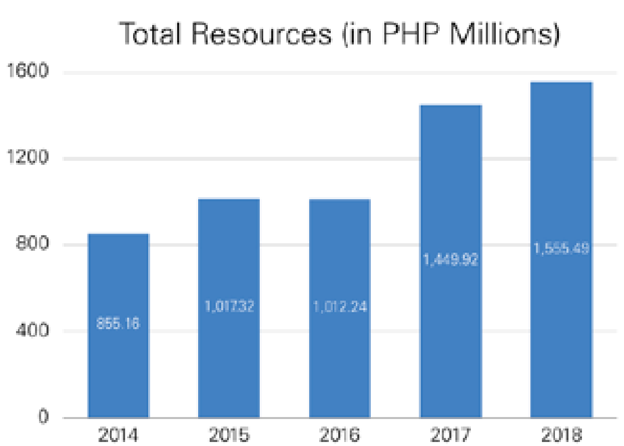
Resourcefulness (Mapamaraan) - We are resourceful in responding to the needs of the customers and in achieving the desired results and objectives of the company while upholding ethics.

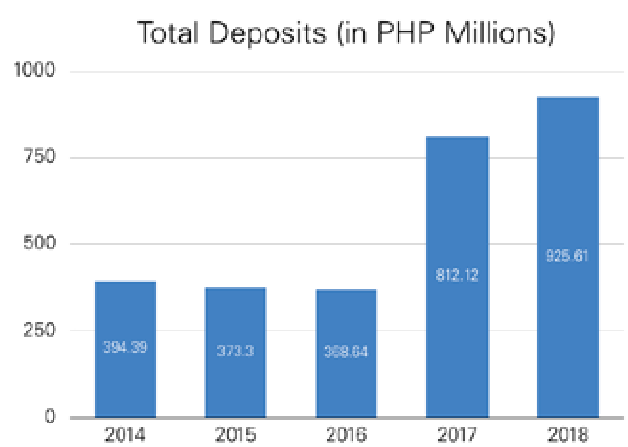
Oneness - We will be united as a team as we work together across Luzon, Visayas, and Mindanao.

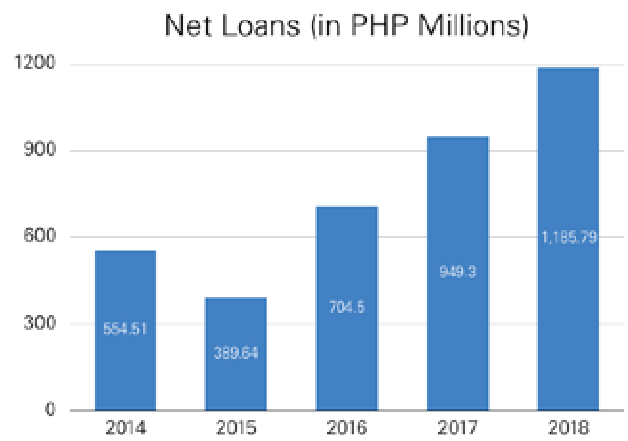
With our vision of being the go-to growth and financial partner of our target market segments, expanding and deepening the Bank's outreach through a combination of traditional and alternative delivery channels is a priority undertaking. Leading the bank are the members of the Board of Directors who are 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.

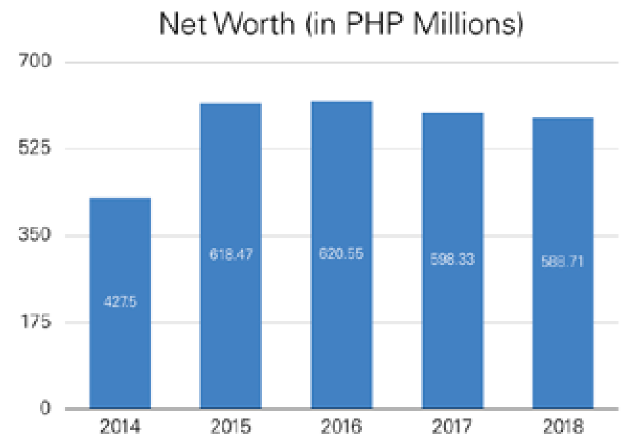
FINANCIAL HIGHLIGHTS AND RATIOS

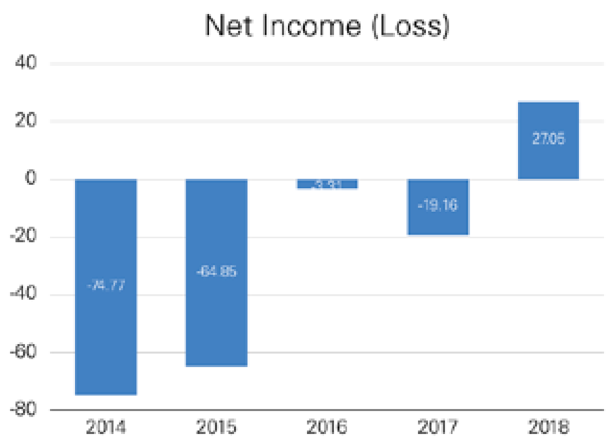
	Audited	
	2018	**2017**
Profitability for the Year		
in million pesos		
Total Net Interest Income	167	137
Total Non-Interest Income	56	45
Total Non-Interest Expense	186	174
Pre-Provision Profit	167	137
Allowance for Credit Losses	6	23
Net Income (Loss)	27	(19)
Selected Balance Sheet Data		
in million pesos		
Liquid Assets*	211	334
Gross Loan and Receivables	1,266	994
Total Resources/Assets	1,555	1,450
Deposits	926	812
Networth	589	598
Selected Ratios		
Return on Equity	4.56%	-3.14%
Return on Assets	1.80%	-1.56%
Capital Adequacy Ratio	35.40%	43.24%
Cost-to-Income Ratio	83.48%	95.56%
Loan to Deposit Ratio	133%	121%
Net Interest Margin	12.43%	13.55%
Expense to Gross Income - Ratio	86.06%	108.00%
Non-Performing Loan - Gross Ratios	5.65%	2.00%
Non-Performing Loan - Net Ratios	0.07%	-1.00%
Non-Performing Assets (NPA) Ratios	0.72%	-0.70%
Non-Performing Loans (NPL)	70.74	24.49

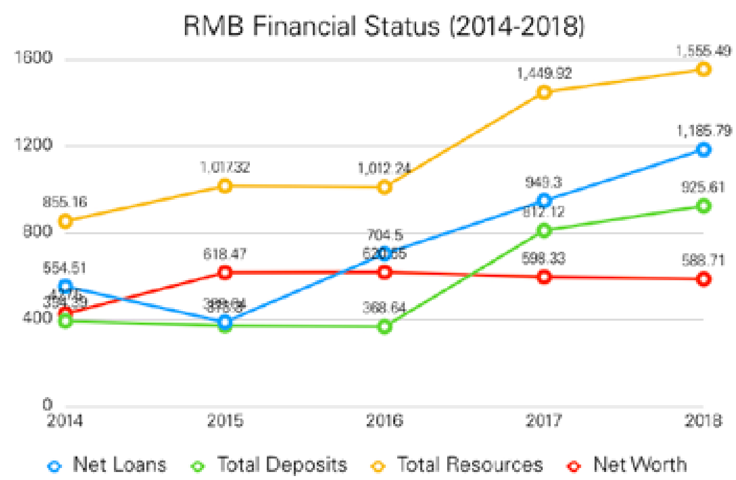


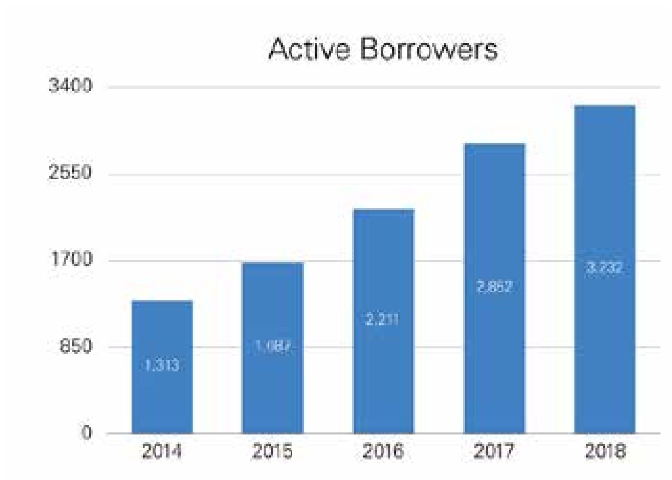


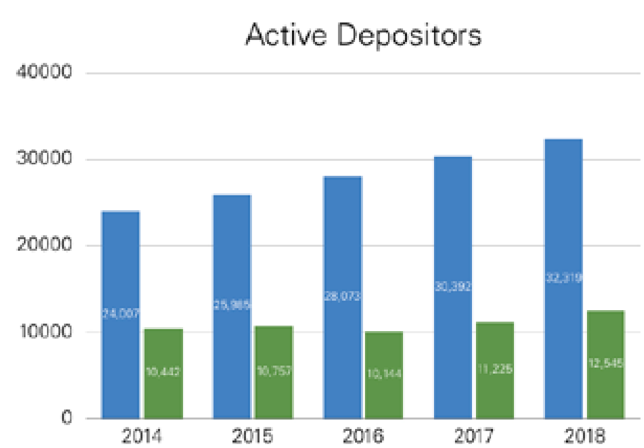

Net Loans (in PHP Millions)
1200
900
600
300
0
554.51
389.64
704.5
949.3
1,185.79
2014
2015
2016
2017
2018


Net Worth (in PHP Millions)
700
525
350
175
0
427.5
618.47
620.55
598.33
588.71
2014
2015
2016
2017
2018


Net Income (Loss)
40
20
0
-20
-40
-60
-80
-74.77
-64.85
-19.16
27.05
2014
2015
2016
2017
2018


RMB Financial Status (2014-2018)
1600
1200
800
400
0
855.16
1,017.32
1,012.24
1,449.92
1,555.49
554.51
704.5
949.3
1,185.79
618.47
598.33
588.71
368.64
812.12
925.61
2014
2015
2016
2017
2018
Net Loans
Total Deposits
Total Resources
Net Worth


Active Borrowers
3400
2550
1700
850
0
1,313
1,687
2,211
2,852
3,232
2014
2015
2016
2017
2018


Active Depositors
40000
30000
20000
10000
0
24,007
10,442
25,965
10,757
28,073
10,144
30,392
11,226
32,319
12,545
2014
2015
2016
2017
2018

FINANCIAL PERFORMANCE

2018 marked a milestone for RMB as the microfinance arm of the RCBC Group posted an annual net income of P27.04 million, net of tax. On its eighth year since its inception in mid-2010, the subsidiary was able to turn-around its operations on the back of a continuous build-up of its loan portfolio , which reached P1.22 billion, posting a growth of 25% year-on-year (YOY). Similarly, loan releases in 2018 grew by 26% YOY, with total amount of loans disbursed at P1.77 billion.

The upward trajectory of the loan portfolio yielded an interest income of P185.15 million, up by P38.45 million or a 26% increase YOY. The higher interest income generated helped register a 241% improvement in the subsidiary's bottomline. With this profitability posture, 2018 Return on Equity has grown to 4.56% from -3.14% in 2017 and Return on Assets to 1.80%. from -1.56% in 2017.

Total resources of the bank increased by 7% YOY, from P1.44 billion in 2017 to P1.55 billion in 2018. Loans and receivables – net which is the main revenue generating asset of the bank comprised 76% of the total resources and registered a 25% growth YOY.

Total liabilities stood at P996 million, up by P115 million or 14% over the previous year's P852 million. Deposits, which is the main source of loanable funds, represented 96% of the total liabilities, and posted an increase of 14% YOY.

Total capital, on the other hand, saw a decline of P9.62 million or 2% YOY, from P598 million to P588 million. The decrease in total capital was due to the additional impairments paralleled with RCBC standard on Expected Credit Loss methodology in line with the effectivity of PFRS 9 or the new standard on financial instruments.

Despite the decrease in total capital, the bank is still above the regulatory standards under BASEL III. Qualifying capital of 35.40% (minimum is 10%) and Common Equity Tier 1 of 34.79% (minimum is 6% of risk-weighted assets).

OPERATIONAL PERFORMANCE

Keeping to heart its mission to be the go-to-credit partner of small entrepreneurs in the country, RMB made 2018 a banner year for its lending operations as its loan portfolio reached the billion mark. While the bank continued to reach out to those in need of additional working capital for their businesses, it has maintained a well-balanced portfolio among the market segments it has vowed to serve. As of December 31, 2018, RMB's portfolio mix is as follows: 13% microfinance, 47% small business, and 40% agricultural loans. Strictly focusing on small entrepreneurs paved way for RMB's 2018 loan data to show an average loan size of P345,000 and an average loan balance per client of P377,000. On the other hand, non-performing loans of 5.65% as of end-2018 is higher than the thrift banking average of 2.34% as of same period; it must be noted, however that RMB is only one of the few thrift banks in the country that is strictly focused in providing working capital loans or non-consumption loans.

While the primary requirement for our chosen market segments is to provide additional working capital loans, our clients continue to demonstrate their willingness to build something for the future by regularly setting aside an amount for their contractual savings, a mandatory feature of the bank's lending program. As of December 2018, contractual savings of borrowing clients represent 10% of the subsidiary's total deposit of P925.6 million. In the last quarter of 2018, the bank also introduced an interest-bearing demand deposit/checking account product with the approval of Bangko Sentral ng Pilipinas (BSP) in March 2018. Introducing this product was a natural progression in the bank's operations to respond to the need of small business operators for an easier way of facilitating purchases and payments. The demand deposit/checking account is made available to the bank's clients via a clear thru arrangement with our parent bank, RCBC.

As demand for loans surges in 2018, deposit generation by the Treasury Department as well as that of branches and lending operations group likewise intensified. As of December 31, 2018 deposit liabilities increased by P113.49 million or a 14% YOY growth, from P812.12 million in 2017 to P925.16 million in 2018; deposit mix is 36% CASA and 64% Time Deposit. With a highly competitive market for time deposits due to higher rates given by industry players, dealing with higher interest expense became one of the challenges faced by the bank in 2018; with the proper pricing of loans, the bank was able to cover the cost of funds and still managed to earn a decent return. The bank's net interest margin (NIM) by the end of the year remained in double digits at 12.03%.

As a fitting way of ending 2018, Mr. Arnold S. Viado, a microfinance client of RMB Koronadal in South Cotabato, who is engaged in balut production, was recognized as the regional winner for Mindanao of the 16th Citi Microentrepreneurship Awards (CMA). Jointly sponsored and organized by the BSP and Citi Foundation and coordinated by the Microfinance Council of the Philippines (MCPI), the CMA recognizes outstanding microentrepreneurs across the Philippines who have shown grit and tenacity in growing their small businesses while at the same time contributing to the socio-economic upliftment of their families and communities. The program aims to strengthen microfinance and enterprise development and financial inclusion in the country. For being named as the regional winner for Mindanao, Mr. Viado received a cash prize of P100,000, a laptop, life and health insurance coverage for one year, access to grassroots entrepreneurship management, and basic computer training. His RMB loan officer, Mr. Giovanne Gonzales received a cash incentive of P10,000 and a plaque of appreciation, while RMB as the nominating financial institution was also presented with plaque of appreciation.

The above recognition together with the positive numbers and figures posted by the bank in 2018 have definitely buoyed the morale of the men and women of RMB, in pursuing the business of microfinance and financial inclusion. These accomplishments serve as further fuel to RMB's burning desire to fulfill its mission and execute successfully its triple strategy of advancing financial, economic and digital inclusion in the country — today and in the coming years.

RISK MANAGEMENT CULTURE AND PHILOSOPHY

RMB recognizes that banking is essentially the business of managing risks, and that risk is inherent in all of its activities. It's mission is to achieve sustainable growth in profitability through an optimal balance of risk and return.

Further to this are the following precepts:

- Prudential risk-taking and proactive exposure management for sustainable growth, capital adequacy and profitability

- Alignment of standards with internationally accepted practices and regulations in the daily conduct of risk and performance management

- A commitment to develop risk awareness across all operating units, promoting the highest standards of ethics and integrity, establishing a culture that emphasizes the importance of the risk process, sound internal control, and advocating the efficient use of capital

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

Towards the end of 2018, Business Advisors were equipped with Android tablets running credit scoring software for new loan applicants to streamline client acquisition. The green light to proceed with loan processing can happen within 30 minutes of completing the loan application. Upon qualifying, the Business Advisor can proceed with client and background interviews. This avoids energy and time consuming effort on ineligible applicants.

RMB seeks to contribute to financial inclusion, by vigorously implementing an agricultural value chain financing program in the countryside.

RISK APPETITE AND STRATEGY

RMB's reason for being is to help Micro and Small entrepreneurs become more profitable. This is done 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. This is measured as a missed payment of one (1) day on any loan amortizations that are due. RMB's most successful business advisers have large portfolios with zero PAR. It is this zero tolerance for delinquency that they strive to impart on our operations group.

RMB has no appetite to lend to businesses involved in any vices - gambling, bars and nightclubs and love hotels. RMB avoids lending for consumption purposes. It protect itself from risks by limiting credit concentration to the current percentages per type of industry while attempting to grow its loan book.

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

ROLES AND RESPONSIBILITIES

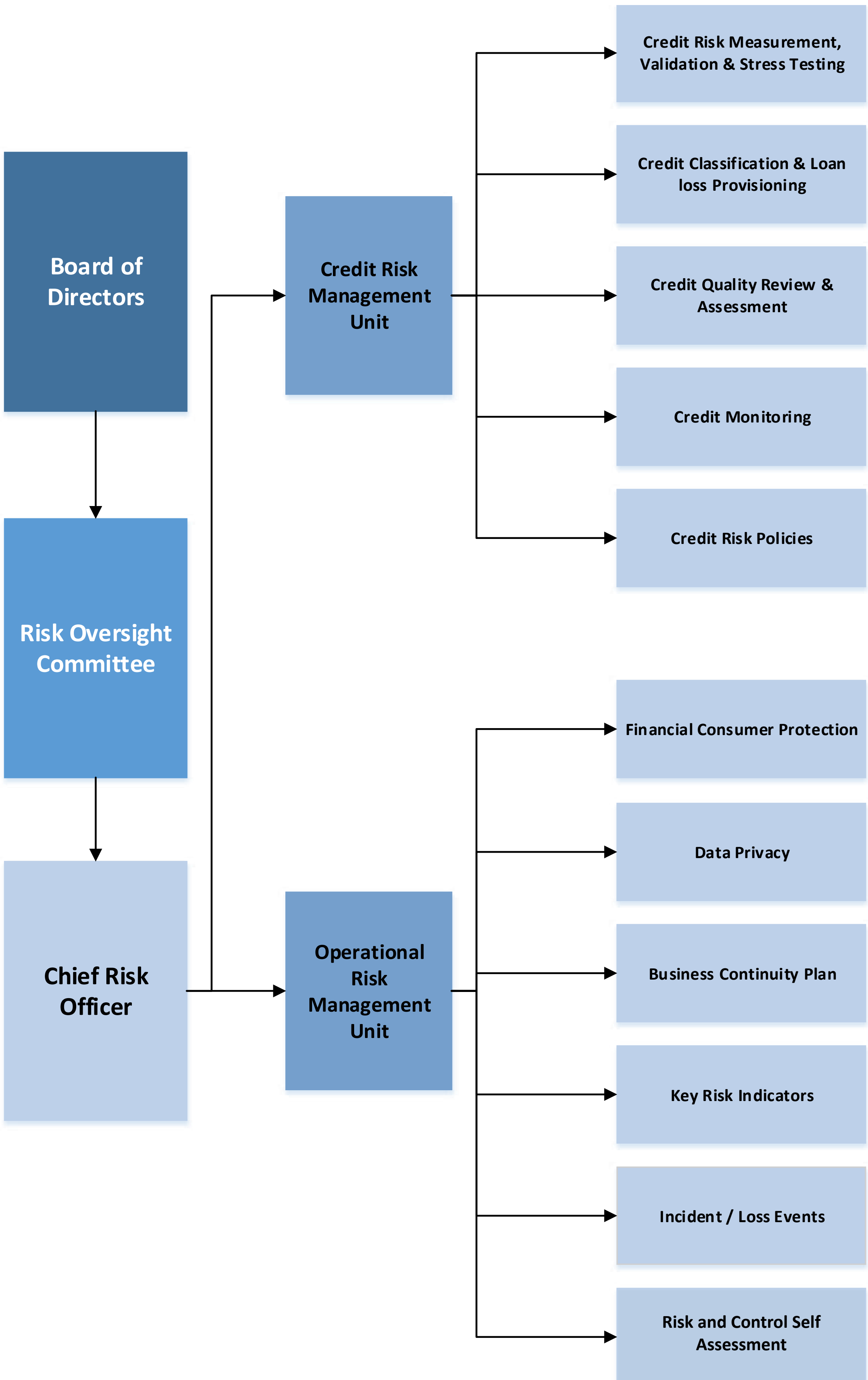
BOARD OF DIRECTORS

The Board of Directors (BOD) responsibilities are to:

- Approve the Risk management framework which covers the Risk Management principles, strategies, policies, process and controls recommended by Chief Risk Officer.

- Define the Risk philosophy, strategy, risk appetite and tolerances

RISK GOVERNANCE STRUCTURE



- Delegate risk management authority

- Approve appropriate thresholds or limits and set out policy in resolving the limit breaches

- Ensure that there is an established communication process of Risk Framework, risk appetite and tolerance from Senior Management to the first line process owners.

RISK OVERSIGHT COMMITTEE (ROC)

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

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

CHIEF RISK OFFICER (CRO)

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

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

OPERATIONAL RISK MANAGEMENT UNIT (ORMU)

The responsibilities of the ORM Unit are to:

- Define and establish Operational Risk Management methodology tools and risk reporting system.

- Challenge the effectiveness of risk identification, assessment, control monitoring and reporting activities across the Bank

- Consolidate and report to the BOD all identified risk and risk incidents or issues of process owners reported to ORM unit.

- Propose proper policies and procedures to the BOD and Senior Management relating to Operational Risk Management and controls;

- Cascade operational risk management activities throughout the organization and facilitate training of the Business Units in proper assessment of ORM Issues.

- Ensure that established risk controls are compliant with the applicable laws and regulations

- Oversee implementation of internal controls

- Report to BOD and Senior Management on the Bank's operating risk profile, the effectiveness of controls and alignment with risk tolerance and risk appetite

CREDIT RISK MANAGEMENT UNIT (CRMU)

The responsibilities of the CRM Unit are to:

- Establish an appropriate credit risk environment and ensure that the bank is operating under a sound credit granting process

- Maintain bank's appropriate credit administration, measurement, monitoring process and control process

- Propose credit policies and procedures to the BOD and Senior Management relating to credit Risk Management and controls;

- Ensure that established credit risk controls are compliant with applicable laws and regulations

- Report to BOD and Senior Management on the Bank's credit risk profile, the effectiveness of controls and alignment with risk tolerance and risk appetite

RISK MANAGEMENT POLICY

Credit Risk

The Bangko Sentral has laid down the building blocks for the implementation of the Philippine Financial Reporting Standard 9 (PFRS 9) with the issuance of enhanced standards on credit risk management in 2014 and amendment of the definitions of past due and non-performing loans in 2017. In particular, Circular No. 855 (2014) emphasizes the importance of effective governance structure and risk management process in lending operations. It highlights that instituting sound credit risk management practices is a fundamental overlay in recognizing adequate and timely allowance for credit losses. The credit risk management guidelines also explicitly set forth the Bangko Sentral's expectations on the adoption of sound loan loss methodologies that consider expected credit losses (ECL). Circular No. 941 (2017), on the other hand, aligns the regulatory definitions of past due, non-performing, and restructured accounts with international benchmarks. The said issuance aims to clearly distinguish performing from non-performing accounts and promote consistent recognition of default across the industry.

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

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

Stage 1 is when credit exposures are considered "performing" and with no significant increase in credit risk from initial recognition or with low credit risk. Stage 2 is when credit exposures are considered "under-performing" or not yet non-performing but with significant increase in credit risk from initial recognition. Lastly, Stage 3 is when credit exposures have objective evidence of impairment, therefore, considered as "non-performing"

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

The ECL is a strict regime which pushed the bank further to enhance its credit risk management activities particularly with Portoflio-at-Risk (PARR) reduction since it demands huge punishment in terms of additional provisioning if the quality of loan portfolio of the bank continues to deteriorate or when PARR continues to increase, thus, will eventually affect the bank's financial performance results.

Market Risk Policy

Investments are limited to overnight and term deposit placements with BSP Treasury or Bureau of Treasury Instruments, and RCBC and its subsidiaries for term placements. Deposits with other 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 one (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 the Bank's 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 Executive Committee (Execom) monthly and to the Risk Oversight Committee (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 – 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 and Control 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 – Performed on a monthly basis even if there is nothing to report, simultaneously with the Reports on Crimes and Losses and Status of all Legal Cases.

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

5. Data Privacy – Requires that permission is obtained from the clients to collect their data and likewise, demands commitments from its employees to protect this data. Bank policies and procedures in place to protect data privacy and systems are designed with safeguards for the same. Only closed systems are used to prevent outside parties access to our databases.

6. Consumer Protection – Consumer Complaints are reported to the Chief Risk Officer, Management Committee, Executive Committee, Risk Oversight Committee and the Board. Simultaneous with Loss Events Reports, these are submitted monthly even if there is nothing to report.

7. Other required monitoring and reporting to the parent bank

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

AML RISK MANAGEMENT FRAMEWORK

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

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

RMB's compliance with AMLA is built upon a sound and rigorous "Know Your Client" (KYC) program. This 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 any activity that may be considered unusual in relation to the client's profile. This also involves proper and regular monitoring of transactions.

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

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

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

CORPORATE GOVERNANCE 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 interests of its stakeholders and create value for them.

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

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

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

SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

1) The Corporate Governance Committee 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) availability 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

BOARD'S OVERALL RESPONSIBILITY

The board is responsible for approving the Bank's strategic objectives and business plans, taking into consideration the Bank's long-term financial goals, risk tolerance level, and effective management of risks. It has established a system of measuring performance against targets through regular monitoring and 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 also ensures that the bank observes a high standard of integrity in its dealings with the public. It sets the tone of good governance at the top by upholding sound corporate values, codes of conduct and instilling the culture of compliance in itself, the senior management and other employees. It oversees the implementation of the bank's whistleblowing policy which aims to inculcate moral uprightness among bank personnel and give them the confidence to raise concerns related to fraud or irregularity in the workplace.

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

At the same time, the board is responsible for approving and overseeing the implementation of the bank's corporate governance framework. This involves defining the governance structure and practices such as: the conduct of regular board meetings that promote critical discussion of issues, creation of board-level committees, development of policies on internal and external commitments of directors, access of directors to financial information, performance evaluation of the board, the committees, the President, and the individual directors; development of remuneration and retirement policies, corporate governance policies, and policies on the handling of related party transactions.

Finally, the board is responsible for approving and overseeing the implementation of the bank's risk governance framework. This involves defining the risk appetite; adherence to the risk appetite statement, risk policy and risk limits; policies and procedures on risk management; and defining the organizational responsibilities following the three lines of defense framework: the business units, the risk management and compliance functions, and the internal audit functions.

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	2.5	1	0%
John Thomas G. Deveras	Non-executive	n/a	10	1	0%
Raymundo C. Roxas	Executive	n/a	3	1	0%
Wilfredo B. Domo-Ong	Independent	n/a	6	1	0%
Meliza H. Agabin	Independent	n/a	6	1	0%
Jose Vicente C. Bengzon III	Independent	n/a	6.5	1	0%
Alfredo S. Del Rosario	Non-executive	n/a	3	1	0%
Dennis C. Bancod	Non-executive	n/a	10	1	0%
Zenaida F. Torres	Non-executive	n/a	9	1	0%

LIST OF BOARD-LEVEL COMMITTEES

Audit Committee

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

The members of the Audit Committee are:

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:

- To oversee bank's financial reporting policies, practices and control to ensure the preparation of reports that are accurate, complete, and timely.
- To oversee the internal and external audit functions. It is responsible for 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.
- 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.
- 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
- To have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meeting.

- To establish and maintain whistleblowing mechanisms by which officers and staff can, without fear of reprisal, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to a person or independent entity 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.

Corporate Governance Committee

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

The members of the Corporate Governance Committee are as follows:

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:

- 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.

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

- 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.

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

- To review and evaluate the qualifications of candidates nominated to become members of the Board of Directors and persons nominated to officership positions requiring appointment by the Board.

Risk Oversight Committee

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

The members of the Risk Oversight Committee are as follows:

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:

- To oversee the risk management framework of the Bank. It periodically reviews the risk management processes and ensures that appropriate measures are being taken to attain a judicious balance between risk and reward in both current and new business activities.

- To define the risk appetite and review the risk profile of the Bank to ensure that the risk is not higher than the risk appetite determined by the board.

- To oversee the risk management function. It is responsible for the appointment of the Chief Risk Officer. It ensures that the risk management function has adequate resources to enable it to oversee the risk-taking activities of the bank.

- To report regularly to the Board of Directors on the Bank's over-all risk exposure and actions taken to mitigate the risks, and to recommend further action or plans as necessary.

Related Party Transactions Committee

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

The members of the RPT committee are as follows:

a) Meliza H. Agabin - Chairman, independent director
b) Jose Vicente C. Bengzon III – member, independent director
c) Wilfredo B. Domo-ong – member, independent director

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

- To evaluate material related party transactions to ensure that the terms and conditions are also available to unrelated parties under similar circumstances.

- To ensure transparency and full disclosure of RPT transactions to the BSP.

- To ensure that policies and procedures are in place for the regular reporting by banking units of their existing RPTs as well as potential RPTs.

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Name of Directors	Board Number of meetings		Audit Committee Number of meetings		Corp Gov Committee Number of meetings		Risk Oversight Number of meetings		RPT Committee Number of meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Gil A. Buenaventura	6	75%								
John Thomas G. Deveras	8	100%	5	100%			4	100%		
Raymundo C. Roxas	8	100%								
Wilfredo B. Domo-ong	5	62.50%	4	80%	3	75%	3	75%	3	75%
Meliza H. Agabin	8	100%	5	100%	4	100%	4	100%	4	100%
Jose Vicente C. Bengzon III	7	87.50%	4	80%	4	100%	4	100%	4	100%
Alfredo S. Del Rosario	7	87.50%			2	50%				
Redentor C. Bancod	6	75%								
Zenaida F. Torres	8	100%	5	100%	4	100%	4	100%		
Total Number of Meetings Held During the Year	8	100%	5	100%	4	100%	4	100%	4	100%

shaded - not a committee member

PERFORMANCE ASSESSMENT PROGRAM

The Board of Directors conduct an annual self-assessment of the Board as a whole, of themselves as individual members and as members of the Board committees. This includes an evaluation of the exercise of independent judgment, integrity and objectivity of each member and of the Board as a whole. The board likewise assesses the performance of the President. 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 2018, 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 to be more skilled, competent and engaged in dealing with the challenges.

Rizal Microbank Directors and Senior Officers attended the Corporate Governance Training last October 27, 2018. This is one of the learning opportunities for directors and senior management to update and refresh their knowledge which will enable them to fulfill their roles. Moreover, directors also received briefings on relevant policies and updates on certain BSP regulations and circulars during meetings. They were given constant updates on the bank's strategic initiatives and plans.

Further, the Bank provides continuing education programs for Senior Management such as Middle Management and Leadership Development Programs, as well as Leadership Team Alignment Program. Other internal training received by RMB Officers includes seminars and electronic learning sessions on Anti-Money Laundering, Information Security Awareness, Data Privacy Act, Financial Consumer Protection, Peso/ Dollar Counterfeit Detection and Basic Signature Verification and Fraud Detection among others.

RETIREMENT AND SUCCESSION POLICY

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

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

Human Resources Department, in consultation with the President, enhanced the Bank's performance management process to identify opportunities and performance gaps. This provides reference for middle and senior management in reviewing and identifying internal candidates as potential successors to fill the senior leadership positions.

REMUNERATION POLICY

The Bank has a balanced remuneration structure 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 of the President's. Each director is entitled to receive fees and per diems for his services as a director, which is stated in RMB's by-laws, for each occasion of attendance at meetings of the Board or of Board Committee. This is so even for directors who are compensated as full-time officers of the RCBC Group.

For Senior Management Officers, the President, in coordination with Human Resources Department, ensures that the pay appropriately reflects the Bank's financial performance and his/her annual performance. The Bank also ensures that it offers 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:

(1) has control or joint control over the Bank;
(2) has significant influence over the Bank; or
(3) is a member of the key management team of the Bank or of the parent Bank.

d) An entity, if any of the following conditions apply:

(1) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) The entity is an associate or joint venture of the Bank (or an associate or joint venture of a member of a group of which the Bank is a member).

(3) The entity is a joint venture of a third entity and the Bank is an associate of the third entity.

(4) The entity has a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.

(5)The entity is controlled or jointly controlled by a person identified in (c).

(6) The entity is significantly influenced by a person identified in (c) (1), or this person is a member of the key management team of the entity (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.

• Related Party transactions where the amount involved does not exceed Pesos: One Million (P1,000,000.00) shall be subject to the approval of the RPT Committee, unless the transaction requires board approval (e.g., loans and/or credit accommodations to DOSRI, subsidiaries, and affiliates, real estate transactions with DOSRI, cross-selling and outsourcing agreements). Transactions approved by the RPT Committee shall be subject to Board confirmation.

• Related Party Transactions where the amount involved exceeds Pesos: One Million (P1,000,000.00) shall be endorsed by the RPT Committee to the Board for approval.

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 reports on material related party transactions to the parent Bank's RPT Committee for consolidation with the parent Bank's own report to the BSP. Material RPTs are transactions involving amounts of Php1,000,000 and above.

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

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

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

SELF-ASSESSMENT FUNCTION

The Internal Audit Function

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

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

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

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 BOD through its Audit Committee and administratively to the Bank's President. The Audit Committee performs oversight functions over the Bank's internal and external auditors including external service providers of permitted outsourced audit activities. It ensures that the internal and external auditors act independently of each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their

respective audit functions. The Audit Committee likewise reviews the reports submitted by the internal and external auditors as well as those submitted by external service providers.

The Compliance Function

The Compliance Function is an independent function that identifies, assesses, mitigates, advises on, monitors and reports on the Bank's business and compliance risks, i.e., the risk of legal or regulatory sanctions, financial loss, or 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 the 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

Board of Directors and Senior Management

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

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

The Consumer Protection Risk Management System

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

The Bank's CPRMS has the following components:

1. Board and Senior Management Oversight of the CPRMS – The board and senior management are responsible for reviewing on a periodic basis the effectiveness of the CPRMS, including how findings are reported and the timeliness of said reports to the Board/Risk Oversight Committee, and whether the audit mechanisms in place enable adequate oversight.

2. Compliance Program - The Compliance Office has integrated the Consumer Protection Compliance Program into the over-all compliance program of the Bank. It forms part of the monitoring, testing, and reporting activities of the Compliance Office.

3. Policies and Procedures – The bank's consumer protection policies and procedures are compliant with the requirements of existing laws, rules and regulations on consumer protection. These are embedded in the Bank's business operations, reviewed periodically and kept updated as these serve as reference by employees in their day-to-day activities.

4. Internal Audit Function - The Internal Audit Department reviews Bank's consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations on financial consumer protection.

5. Risk Management Function - The Risk Management Department (RMD) provides guidance to business units in accomplishing the Risk and Control Self-Assessment (RCSA) for consumer protection as a mechanism to identify, measure, and monitor

inherent consumer protection compliance risks, and evaluate Bank's procedures to control and mitigate these risks.

6. Training - The Human Resources Department provides personnel whose roles and responsibilities involve customer interaction, with adequate training on the proper implementation of written policies and procedures on consumer protection

Consumer assistance management system

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

RMB has designated all of its branch cashiers as Customer Assistance Officers reporting to the Risk Management Department. This structure was given approval by the BSP in November 2017. The Board has direct oversight on Consumer Protection and is responsible for seeing that RMB Senior Management and staff 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.

JOHN THOMAS G. DEVERAS
Vice Chairman, Non-Executive Director

GIL A. BUENAVENTURA
Chairman, Non-Executive Director

RAYMUNDO C. ROXAS
President, Executive Director

REDENTOR C. BANCOD
Non-Executive Director

ZENAIDA F. TORRES
Non-Executive Director

ALFREDO S. DEL ROSARIO, JR.
Non-Executive Director

JOSE VICENTE C. BENGZON III
Independent Director

MELIZA H. AGABIN
Independent Director

WILFREDO B. DOMO-ONG
Independent Director

GIL A. BUENAVENTURA
Chairman, Non-Executive Director
66 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
56 years of age, Filipino

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

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

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

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

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

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

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

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

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

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

REDENTOR C. BANCOD
Non-Executive Director
55 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 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
64 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 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 Rizal Commercial Banking Corporation, and director of Manchester Land Properties, Inc.

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

ALFREDO S. DEL ROSARIO, JR.
Non-Executive Director
63 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 years. He is a member of the Bank's Corporate Governance Committee. He has been President and CEO Of Philippine Realty and Development Corporation since 2016.

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

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

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

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

AB Economics, University of the Philippines

Ms. Meliza H. Agabin has been an independent director of the Bank for six 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.

JOSE VICENTE C. BENGZON III
Independent Director
61 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. He is senior board adviser to Malayan Bank.

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

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

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

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

Atty. Wilfredo B. Domo-ong has been an independent director of the Bank for six 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.

ATTY. EVA M. SISON
Corporate Secretary
34 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.

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

RAYMUNDO C. ROXAS

President,
Executive Director
51 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 Dcember 2009, and finally was appointed as the Bank's President on March 21, 2016.

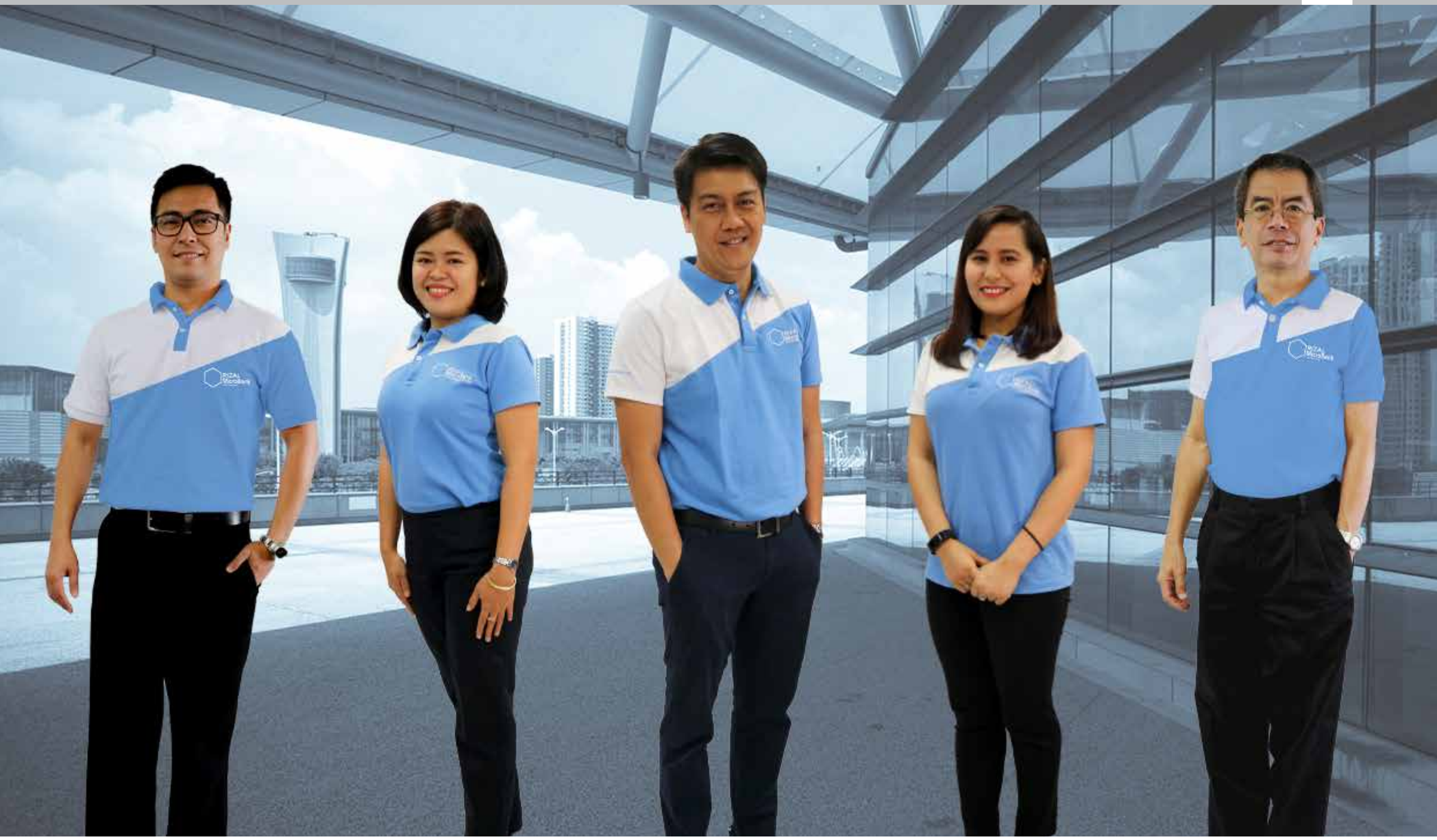
Before joining the Bank, he worked as Regional Manager of the United States Agency for International Development-Rural Bankers Association of the Philippines Microenterprise Access to Banking Services Program (USAID-RBAP MABS), Chief Commercial Officer of ACCION International-Inner Mongolia, and Microfinance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

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

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

EMELITA B. ROCERO

First Vice President
Head, Branches and Lending Operations
48 years of age, Filipino



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

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

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

She completed the required academic units for her Masters in Business Administration course Major in Corporate Management from the University of Southeastern Philippines, Davao City; and earned her BS degree in Commerce, Major in Accounting from the University of Mindanao, Davao City. She graduated at the top of her class in the Middle Management Development Program of De La Salle University Center for Professional Development in Business, RCBC Plaza.

MARILYN F. SUAREZ

Vice President
Head, Treasury Department
58 years of age, Filipino

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

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

ROSITA S. VALENCIA
Manager
Accounting Department Head
54 years of age, Filipino

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

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

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

NIEZL D. GILVERO
Vice President
Chief Financial Officer
34 years of age, Filipino

Ms. Niezl D. Gilvero has a wide experience in the field of banking and finance for 12 years. She is highly skilled in Enterprise Risk Management, Internal Audit, Credit Analysis, Accounting, and Internal Control. In 2018, she joined Rizal MicroBank as Chief Financial Officer.

Prior to joining the Bank, she worked as Head of the Internal Audit and Risk Management Department of Enterprise Bank, Inc. (a thrift bank), Finance and Control Officer of certain subsidiaries of Ayala Land, Inc. and a senior auditor of Punongbayan & Araullo (Grant Thornton Philippines).

Ms. Gilvero graduated cum laude from Cor Jesu College with a Bachelor of Science degree in Accountancy. She also passed the Certified Public Accountant Examination in 2006 and ranked 18th place nationwide.

ANATOLY D. GUSTO
First Vice President
Chief Strategic Management Officer
42 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
Senior Assistant Manager
Human Resources Officer
30 years of age, Filipino

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

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

Ms. Uy is a graduate of Bachelor of Arts Major in Psychology with three units in Human Resource Management at Ateneo de Davao University. She also earned units MS Psychology with specialization in Industrial/Organizational Psychology. She attended the Middle Management Development Program of RCBC's Leadership University

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

Mr. Rowland V. Moscardon has more than 24 years of experience in Information Technology - more than 22 years with Rizal Commercial Banking Corporation and almost 2 years with Union Bank of the Philippines.

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

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

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

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

JEAN MELODY P. NARANJO
Manager
Chief Compliance Officer and
Head, Internal Audit
26 years of age, Filipino

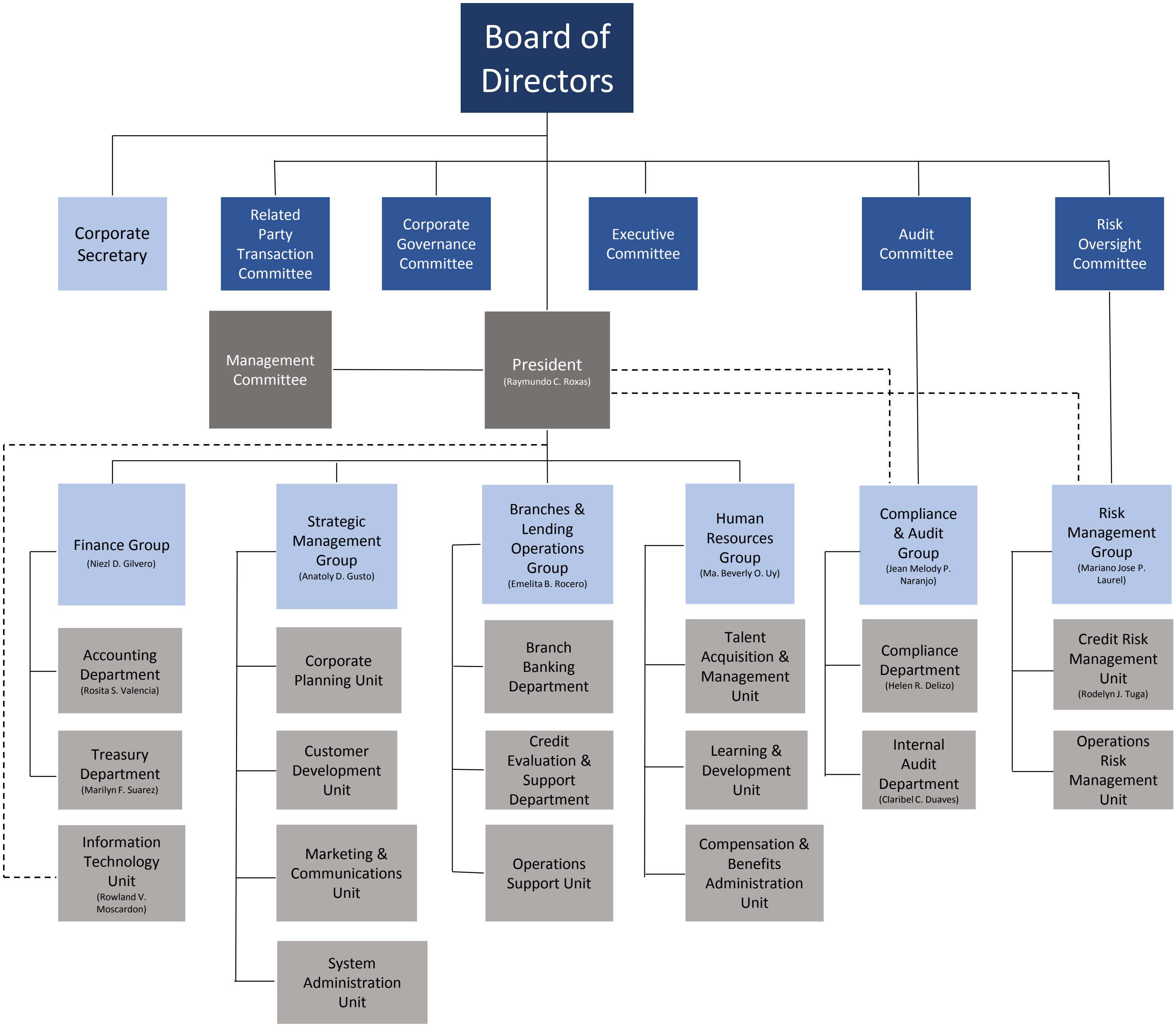
Ms. Jean Melody P. Naranjo joined the Bank in 2014 as Internal Audit Examiner. She was appointed as Acting Head of Internal Audit in April 2016, and then as full-fledged Head of Internal Audit in October of the same year. In October 2017, she was appointed as Chief Compliance Officer in a concurrent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

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

TABLE OF ORGANIZATION



RIZAL MICROBANK BRINGS SMILES TO MACATABO ELEMENTARY SCHOOL

Committed to the Bank's advocacy of uplifting the community of Sitio Sumpitan, Barangay Tawan-tawan, Baguio District, Davao City, RMB conducted its corporate social responsibility activity last November 17, 2018. This outreach program was first initiated by RMB Valencia Branch Head, Ms. Toni Rose B. Eman, in partnership with SIBOL, a non-profit mountaineering group.

Ms. Eman nominated Macatabo Elementary School to be this year's beneficiary of the corporate social responsibility program. This school, which is almost a two-hour drive and an hour's trek from the city proper, is located above the hills of Sitio Sumpitan, Barangay Tawan-tawan, Baguio District, Davao City. In spite of its location, Macatabo Elementary School has been the second home for 84 students from the Manobo Tribe. The school has one (1) school head and three (3) public school teachers, who are considered heroes by the students as they trek daily to perform their roles as educators. While they do not mind the physical challenges of their profession, they admit that life is not easy in the area as their school is not accessible and only receives limited support from the local government unit and private sectors.

The challenges of the teachers and students are an inspiration for Rizal MicroBank to serve. The bank did not hesitate to heed the call of providing *"Malasakit"* towards the community. RMB Leadership Team represented by Ms. Emelita B. Rocero, Head of Branches and Lending Operations, Ms. Niezl D. Gilvero, Chief Finance Officer, and Ms. Libertine B. Cubio, Mindanao Area Operations Head, together with other staff from Davao Head Office, and Davao and Tagum Branches, volunteered to facilitate a program to entertain the students and faculty. Meanwhile, SIBOL also conducted short courses on Disaster Awareness, Family Planning and First Aid Application for the students, parents and guardians. The children flashed their innocent and genuine smiles as they received the school supplies and hygiene kits which were included in their wish lists. Seeing the happiness of the students, School Head Eugenio Lipumano got emotional as he expressed his gratitude towards Rizal MicroBank.

Indeed, it was a fulfilling and heart-warming experience to interact with the community of Manobo Tribe and help improve their situation, even a little bit. RMB, together with its partner organization SIBOL, came out more energized and inspired from the physically-engaging activity. Most of all, the outreach, once again opened the eyes of the participants that beyond the confines of the corporate offices, there are lives of people waiting to be touched. In doing so, one can make a difference in achieving simple dreams and making communities a better place to live in.

Arnold Viado

BALUT VENDOR CELEBRATES BUSINESS SUCCESS WITH CITI MICROENTREPRENEURSHIP AWARD (CMA) WIN

The humble beginnings of a persevering balut vendor, Mr. Arnold Viado, was duly rewarded when his business became a success and was able to help out his fellow balut vendors. Last December 7, at the Metropolitan Museum Manila, the iconic exotic Filipino street snack was one of the key players in the outstanding enterprises awarded by the Citi Microentrepreneurship Awards (CMA) to nine outstanding Filipino entrepreneurs recognized for their innovation and progress as budding businessmen. Launched in 2002, the 16th year of the CMA awards where Mr. Viado was named regional winner for Mindanao was presided by Ms. Chuchi Fonacier, Deputy Governor of the Bangko Sentral ng Pilipinas and Mr. Aftab N. Ahmed, CEO of Citi Philippines.

At his lowest in life, both physically and financially, Arnold Viado rose amidst the challenges and opted to sell balut and make it a main source of livelihood. He strived to attain his goals and eventually rose to prominence in the balut industry, starting off the humble business in Koronadal City, South Cotabato.

Mr. Viado, CMA awardee for Mindanao region, started his balut business with just P1,000 as capital borrowed from a relative. When he saw the steady flow of income and potential to generate more, he sought the help of his father in making egg incubators for his business. Eventually, Arnold was convinced to apply for a microenterprise loan by a business advisor of Rizal Microbank and got an initial amount of P50,000.

Through his unfailing spirit, he has managed to lift himself up, produce thousands of duck eggs per day, have regular orders even from far-flung provinces. As his balut business grew, he also started assisting start-up duck raisers with transportation and consignment deals as he can very well empathize with their dreams and struggles.

The financial access provided by Rizal MicroBank further cemented his business goals and ensured for him and his family a brighter financial future. From then on, RMB has been the sole financial partner of the hardworking Arnold in his business. Aside from their efficient handling of their finances, Arnold and his wife also attribute their success to the assistance they received from RMB, a credit partner who understands and shares in the attainment of their dreams.

Marivic Dubria

BREWING SUCCESS AT THE FOOT OF MT. APO FOR AWARD WINNING COFFEE FARMER CLIENT

Mrs. Marivic C. Dubria of Bansalan, Davao del Sur may have not finished her college degree but took learning as a lifelong process to improve herself, her family's condition, as well as the community she lives in. As a small coffee farmer in Sitio Balutakay, Managa, Bansalan, Davao Del Sur, Marivic together with other 19 other farmers formed the Balutakay Coffee Farmers Association (BACOFA) in May 2013. She and the rest of her co-members realized that since coffee farming is their means of livelihood, they might as well be good at doing it.

After forming their association, Marivic chose not to hold any officer position in the association since she wanted to focus on being its marketing manager. She realized that this job which entails engaging with buyers of their produce is too big a responsibility and requires a lot of attention and strategy. She also realized early on that the coffee they grow, produce and sell must not just be any coffee but a special one. To be able to make their coffee stand out, Marivic and her co-members committed to embrace quality in all aspects of their farming operations. And part of embracing quality consciousness is equipping themselves with proper knowledge and practices in coffee farming and producing. They were able to do this through technical assistance and training provided by various organizations focused in improving the quality of coffee in the country.

Their commitment to attaining their goal of producing quality coffee, especially the Arabica variety that they grow, bore fruits literally and figuratively as years went on. Marivic and some of her colleagues were soon recognized for producing not just any coffee but a specialty coffee. This means that the coffee beans they are producing are graded not less than 85% based on international cupping standards. Marivic herself is a veteran winner in Arabica category of the national coffee competition. Her latest feat was in March 2019 when she was adjudged 1st place in the Philippine Coffee Competition during the award ceremony held in Manila. Other BACOFA members like her also place prominently in the top 12 of said competition. For winning 1st place, she went on to represent the country in Specialty Coffee Cupping Expo in Boston, Massachusetts, USA on April 12-14, 2019.

The paths of Marivic Dubria and Rizal MicroBank crossed after the bank sealed a memorandum of understanding in 2018 with ACDI-VOCA, a development agency which was tapped by the United States Department of Agriculture (USDA) to implement the Mindanao Productivity in Agricultural Commerce and Trade (MinPACT), a project focused on the development of the coffee farming sector. Rizal MicroBank was tapped by ACDI-VOCA to help provide much needed access to financial products and services to coffee farmers. Marivic grabbed the opportunity because it is not everyday that a financial institution and its personnel would hike and go to the foot of Mt. Apo to listen to their challenges and offer solutions.

In 2018, Marivic started with P20,000 additional working capital loan under the bank's PITAKA ME loan product. This was soon followed by another loan of P50,000, and then the most recent, P100,000. BACOFA, upon seeing how easy it is to access the financial products of the Bank, took out a working capital loan of P300,000. During the first meeting with the association, the officers and the members respectfully listened to the talk given by Rizal MicroBank staff. But at the back of their mind, they had already made up their minds not to borrow because of the impression that like other financial institutions, there are very strict requirements to comply and they will just not make the cut. This changed though after seeing Marivic, one of their members and moving spirit behind the association, enjoy the budding business relationship she had started with Rizal MicroBank.

Today, Balutakay Coffee Farmers Association has become a registered cooperative. From being just a 20-member group, their number has increased to 68 and still growing. Better things are in store for these coffee farmers as the MinPACT project has become national in scope and is now named as the Philippine Coffee Advancement and Farm Enterprise project, still to be implemented by ACDI-VOCA for USDA.

The success story of Marivic Dubria and her kind is something that really fuels Rizal MicroBank's drive to strongly pursue its mission and vision of making financial access work for small people. Call it a bias but certainly Rizal MicroBank loves to work for and with small people because they are the kind who dreams big and makes it happen. This too resonates well with Rizal MicroBank!

Bernardo Baylon

A FARMER'S LIFE MADE MORE CONVENIENT WITH THE USE OF DIGITAL CURRENCY

Bernardo Baylon, a local farmer from Valencia, Bukidnon has been farming in his entire life. Learning the ways of the land from his parents who were likewise farmers, the 62 year old Baylon ventured into farming, specifically corn and has been tilling his 3 hectares of land for more than 30 years.

When he was told that Rizal MicroBank is pilot-testing a crop production loan, he was one of those who readily signed-up. He was convinced that partnering with an approachable and dependable financial institution will ensure better access to financial products and services. It also helped that RMB personnel who conducted the briefing for Valencia farmers exuded sincerity and genuine concern for the plight of small holder farmers.

During the processing of Mr. Baylon's agricultural loan application, the RMB Business Advisor assigned to handle his account got a better glimpse of his character. Mr. Baylon has always been hands-on in cultivating his corn farm with the aid of his son, Dennis Baylon. The father and son use horse and carabao to help them in their corn farming activity.

Aside from the fact that he knows corn farming like the back of his hands, it helped a lot that Mr. Baylon has a good reputation in their community. Based on this, he was granted an initial loan of P50,000.

A unique feature of the agricultural production loan extended to Mr. Baylon was his experience on how the loan proceeds were disbursed to him. The loan was released through ePiso, RCBC's digital currency offered under BSP's sandbox regulatory approach and the first such digital money product offering in the country.

RCBC and RMB had in mind the likes of Mr. Baylon when it decided to collaborate on the agricultural financing project incorporating a digital innovation in disbursing a loan. In the case of Mr. Baylon whose residence and farm are situated in a barangay near Pulangi River, one could just imagine the set of challenges he has to hurdle in trying to avail affordable financial services in the poblacion - a 4 kilometer trip requiring crossing the river via motorized boat, then a land travel. This is the same route he has to take when he has to purchase input supplies for his farm as well as when he transports his harvested corn to his buyer in Valencia City proper.

When it was explained and demonstrated to him that his loan will be released thru ePiso which is supported by a mobile app in an android phone, Mr. Baylon agreed as he saw the benefits of the new innovation. And this was proven when he himself purchased inputs for his corn farm and paid his supplier using ePiso. He saw that it was faster, efficient, safe and secure. He realized that after the transaction in the bank, all he needed to do was go to his supplier and pick-up his purchases.

It is with stories like Mr. Baylon's that the entrepreneurial spirit remains alive and the resilience of the Filipino spirit of soldiering on towards achieving their dreams is solidified, with assistance from a reliable banking partner like Rizal MicroBank.

CAPITAL STRUCTURE & CAPITAL ADEQUACY

The capital adequacy ratio of the Bank as reported to the BSP as of December 31, 2018 and 2017 under Basel 3 framework are

	2018	2017
CET 1 Capital	557	573
Tier 1 Capital	557	573
Tier 2 Capital	10	9
Total Qualifying Capital	**567**	**583**
Credit Risk Weighted Assets	1,333	1,149
Market Risk Weighted Assets	0	0
Operational Risk Weighted Assets	269	198
Risk Weighted Assets	**1,602**	**1,347**
Total Capital Adequacy Ratio	**35.40%**	**43.24%**
Tier 1 Capital Adequacy Ratio	**34.79%**	**42.57%**
Common Equity Tier 1 Ratio	**34.79%**	**42.57%**
Capital Conservation Buffer	**28.79%**	**36.57%**

The regulatory qualifying capital of the Bank consists of Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital less

	2018	2017
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	(585)	(533)
Undivided profits	24	(10)
Other Comprehensive Income		
Net unrealized gains or losses on AFS securities	28	29
Cumulative foreign currency translation	-	-
Remeasurement of Net Defined Benefit Liability/(Asset)	6	1
Minority interest in subsidiary financial allied undertaking which are less than wholly owned		
Common Equity Tier 1 (CET1) Capital	**599**	**613**

	2018	2017
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	8	5
Defined benefit pension fund assets (liabilities)	-	-
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	34	35
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	42	40
Total Common Equity Tier 1 Capital	**557**	**573**
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	**557**	**573**
Tier 2 Capital		
Instruments issued by the bank that are eligible as Tier 2 capital	-	-
General loan loss provision	10	9
Total Tier 2 capital	10	9
Less: Regulatory Adjustments to Tier 2 Capital		
Total Tier 2 Capital	**10**	**9**
Total Qualifying Capital	**567**	**583**

** Formula as per above Ratios:

a.) Total Capital Adequacy Ratio = Total Qualifying Capital / Risk Weighted Assets = 567 / 1,602 = **35.40%**

b.) Tier 1 Capital Adequacy Ratio = Tier 1 Capital / Risk Weighted Assets = 557 / 1,602 = **34.79%**

c.) Common Equity Tier 1 Ratio = CET 1 Capital / Risk Weighted Assets = 557 / 1,602 = **34.79%**

d.) Capital Conservation Buffer = CET 1 Ratio - 6% — 34.79% Less 6% = 28.79%

Full Reconciliation of all Regulatory Capital Elements and Regulatory Adjustments/Deductions
(In Millions)

FRP Equity Accounts	2018					2017				
		BASEL III					BASEL III			
	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	(585)	(585)			(585)	(533)	(533)			(533)
Undivided Profits	24	24			24	(10)	(10)			(10)
Other Comprehensive Income	33	33			33	30	30			30
Minority Interest in Subsidiaries (for consolidated report only)										
Total Equity Accounts	**599**	**599**	**-**		**599**	**613**	**613**	**-**		**613**
Other Accounts Eligible as Regulatory Capital										
Unsecured Subordinated Debt				-	-				-	-
General Loan Loss Reserves				10	10				9	9
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		(8)			(8)		(5)			(5)
Defined benefit pension fund assets (liabilities)		-			-		-			-
Other equity investments in non-financial allied undertakings and non-allied undertakings		(34)			(34)		(35)			(35)
Reciprocal investments in common stock of other banks/ quasi-banks and financial allied undertakings including		-			-		-			-
Total Regulatory Capital	**599**	**557**	**-**	**10**	**567**	**613**	**573**	**-**	**9**	**583**

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, 2018

EQUITY ACCOUNTS	AUDITED FS	BSP FRP	CHANGE	DETAILS	AMOUNT
Capital Stock	1,126	1,126	0		
Surplus Reserves	13	13	0		
Revaluation Reserves	20	33	(13)	Adjustment to recognize decline in the fair value of equity investments.	(13)
Surplus Free	(571)	(573)	3	Adjustment to reclass provision for CGT to tax credit.	3
				To adjust provision for minimum corporate income tax.	0
				Total variance	
Total Capital	589	599	(10)		(10)

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)

Capital Requirements by type of exposure as of December 31, 2018 and 2017 are as follows:

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

	December 31, 2017		
	Credit Risk	**Market Risk**	**Operational Risk**
	Parent	**Parent**	**Parent**
		(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**

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.

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

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

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

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						Total Risk Weighted Assets
				0%	20%	50%	75%	100%	150%	
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										
included in Tier 2)										
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 Asset Type, Risk Buckets and Risk Weighted Assets

On-Balance Sheet Assets	December 31, 2017									
	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**

Market Risk Weighted Assets

Using Standardized Approach	2018 Notional Amount	2018 Market Risk Weighted Assets (MRWA)	2017 Notional Amount	2017 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	2018	2017
Net interest income	110	82
Other non-interest income	33	24
Gross Income	143	105
Capital Requirements	**269**	**198**

AUDITED FINANCIAL STATEMENTS

RIZAL MicroBank
A Thrift Bank of RCBC

Merchants Savings and Loan Association, Inc.

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, 2018, and 2017, 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

Niezl D. Gilvero
Chief Finance Officer

Signed this 25th day of April

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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, 2018 and 2017, 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, 2018 and 2017, 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.

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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.

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

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

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 under Revenue Regulation (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. 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: **Anthony L. Ng**
Partner

CPA Reg. No. 0109764
TIN 230-169-270
PTR No. 7333699, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 1638-A (until May 29, 2020)
Firm - No. 0002-FR-5 (until March 26, 2021)
BIR AN 08-002511-38-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 19, 2019

	Notes	2018	2017
RESOURCES			
CASH	7	**P 9,843,449**	P 10,862,118
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**74,206,429**	83,938,321
DUE FROM OTHER BANKS	7	**94,803,723**	156,178,326
LOANS ARISING FROM REVERSE REPURCHASE AGREEMENTS	7	**32,000,000**	83,433,319
LOANS AND RECEIVABLES - Net	8	**1,185,788,941**	949,295,538
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	9	**95,297,019**	104,828,515
INVESTMENT PROPERTIES - Net	10	**23,333,720**	12,263,115
OTHER RESOURCES - Net	11	**40,215,404**	49,117,378
TOTAL RESOURCES		**P 1,555,488,685**	P 1,449,916,630
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	12	**P 925,610,763**	P 812,118,793
ACCRUED INTEREST AND OTHER EXPENSES	13	**15,825,627**	10,428,273
OTHER LIABILITIES	14	**25,342,831**	29,034,938
TOTAL LIABILITIES		**966,779,221**	851,582,004
EQUITY			
Capital stock	15	**1,126,358,000**	1,126,358,000
General loan loss reserves	2	**7,351,563**	-
Surplus reserves		**5,461,189**	5,461,189
Revaluation reserves		**20,116,612**	24,639,043
Deficit	2	**(570,577,900)**	(558,123,606)
TOTAL EQUITY		**588,709,464**	598,334,626
TOTAL LIABILITIES AND EQUITY		**P 1,555,488,685**	P 1,449,916,630

See Notes to Financial Statements.

	Notes	2018	2017
INTEREST INCOME			
Loans and receivables	8	**P 185,155,724**	P 146,700,012
Due from Bangko Sentral ng Pilipinas and other banks	7	**2,702,803**	7,193,580
Others		**26,528**	70,478
		187,885,055	153,964,070
INTEREST EXPENSE			
Deposit liabilities	12	**20,184,192**	16,482,225
Others	18	**889,479**	466,367
		21,073,671	16,948,592
NET INTEREST INCOME		**166,811,384**	137,015,478
IMPAIRMENT LOSSES	8	**5,730,691**	23,317,235
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**161,080,693**	113,698,243
OTHER OPERATING INCOME	16	**55,638,945**	44,667,537
OTHER OPERATING EXPENSES	17	**(185,708,016)**	(173,624,779)
INCOME (LOSS) BEFORE TAX		**31,011,622**	(15,258,999)
TAX EXPENSE	19	**3,963,141**	3,904,583
NET INCOME (LOSS)		**27,048,481**	(19,163,582)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified subsequently to profit or loss			
Fair value gain (loss) on financial assets through other comprehensive income	11	**(13,379,694)**	906,559
Remeasurements of retirement benefit plan	18	**8,857,263**	(3,961,698)
		(4,522,431)	(3,055,139)
TOTAL COMPREHENSIVE INCOME (LOSS)		**P 22,526,050**	(P 22,218,721)

See Notes to Financial Statements.

	Notes	Capital Stock	Deficit	General Loan Loss Reserves	Surplus Reserves	Revaluation Reserves: Remeasurements of Retirement Benefit Plan	Revaluation Reserves: Unrealized Fair Value Gains	Revaluation Reserves: Total	Total Equity
Balance at January 1, 2018									
As previously reported	15	P 1,126,358,000	(P 558,123,606)	P -	P 5,461,189	(P 2,978,669)	P 27,617,712	P 24,639,043	P 598,334,626
Effect of adoption of PFRS 9	2	-	(37,636,882)	5,485,670	-	-	-	-	(32,151,212)
As restated		1,126,358,000	(595,760,488)	5,485,670	5,461,189	(2,978,669)	27,617,712	24,639,043	566,183,414
Appropriation	15		(1,865,893)	1,865,893	-				-
Net income for the year			27,048,481	-	-	-	-	-	27,048,481
Other comprehensive income (loss) for the year		-	-	-	-	8,857,263	(13,379,694)	(4,522,431)	(4,522,431)
Balance at December 31, 2018		**P 1,126,358,000**	**(P 570,577,900)**	**P 7,351,563**	**P 5,461,189**	**P 5,878,594**	**P 14,238,018**	**P 20,116,612**	**P 588,709,464**
Balance at January 1, 2017	15	P 1,126,358,000	(P 538,960,024)	P -	P 5,461,189	P 983,029	P 26,711,153	P 27,694,182	P 620,553,347
Net loss for the year			(19,163,582)	-	-	-	-	-	(19,163,582)
Other comprehensive income (loss) for the year		-	-	-	-	(3,961,698)	906,559	(3,055,139)	(3,055,139)
Balance at December 31, 2017		P 1,126,358,000	(P 558,123,606)	P -	P 5,461,189	(P 2,978,669)	P 27,617,712	P 24,639,043	P 598,334,626

See Notes to Financial Statements.

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before tax		**P 31,011,622**	(P 15,258,999)
Adjustments for:			
Interest income	7, 8	**(187,885,055)**	(153,964,070)
Interest received		**185,518,341**	160,652,708
Interest expense	12, 18	**21,073,671**	16,948,592
Interest paid		**(19,499,561)**	(13,942,108)
Depreciation and amortization	17	**17,767,287**	17,943,577
Gain on sale of bank premises, furniture, fixtures and equipment	16	**(13,478,258)**	(541,377)
Impairment losses	8	**5,730,691**	23,317,235
Dividend income	11	**(1,262,000)**	(3,786,000)
Operating profit before working capital changes		**38,976,738**	31,369,558
Increase in loans and receivables		**(254,786,440)**	(274,800,017)
Increase in investment properties	10	**(11,070,605)**	-
Increase in other resources		**(4,582,819)**	(5,522,762)
Increase in deposit liabilities		**113,491,970**	443,480,304
Increase in accrued interest and other expenses		**4,712,723**	2,794,079
Increase in other liabilities		**4,275,677**	6,657,449
Cash generated from (used in) operations		**(108,982,756)**	203,978,611
Cash paid for final taxes	19	**(542,064)**	(1,427,833)
Net Cash From (Used in) Operating Activities		**(109,524,820)**	202,550,778
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of bank premises, furniture, fixtures and equipment	9	**(28,125,148)**	(4,472,029)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	9	**18,760,305**	855,174
Acquisitions of computer software	11	**(5,930,820)**	(2,432,403)
Cash dividends received	11	**1,262,000**	3,786,000
Net Cash Used in Investing Activities		**(14,033,663)**	(2,263,258)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(123,558,483)**	200,287,520
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7		
Cash		**10,862,118**	8,763,968
Due from Bangko Sentral ng Pilipinas		**83,938,321**	31,259,528
Due from other banks		**156,178,326**	94,101,068
Loans arising from reverse repurchase agreement		**83,433,319**	-
		334,412,084	134,124,564
CASH AND CASH EQUIVALENTS AT END OF YEAR	7		
Cash		**9,843,449**	10,862,118
Due from Bangko Sentral ng Pilipinas		**74,206,429**	83,938,321
Due from other banks		**94,803,723**	156,178,326
Loans arising from reverse repurchase agreement		**32,000,000**	83,433,319
		P 210,853,601	P 334,412,084

Supplemental Information on Non-cash Investing Activities –

As of December 31, 2018, the Bank has outstanding sales contract receivable amounting to P17.22 million arising from the disposal of land and building in 2018 (see Note 8 and 9).

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 its Amended Articles of Incorporation from the BSP and Securities and Exchange Commission (SEC), 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 41.56% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC or the ultimate parent company), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

The Bank's registered office, which is also its principal place of business, is 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.

On April 27, 2018, the Bank's BOD approved the transfer of the Bank's registered office and principal place of business to Andarizal Center, Rizal Street corner Anda Street, Barangay 3-A, Davao City. The Bank is still awaiting for the SEC's certification of the change in address, and is in the process of submitting the same application with the Bureau of Internal Revenue (BIR).

As of December 31, 2018, 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, 2018, the Bank has five micro banking offices in Oriental Mindoro, Batangas, Davao del Norte and South Cotabato.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2018 (including the comparative financial statements as of and for the year ended December 31, 2017) were authorized for issue by the Bank's BOD on February 19, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of 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 2018 that are Relevant to the Bank*

Except for the versions of PFRS 9, *Financial Instruments*, issued in 2009, 2010 and 2013 with date of initial application on January 1, 2014, which were early adopted by the Bank on its 2014 financial statements, the Bank adopted for the first time the following new PFRS, interpretation and amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendments)	:	Investment Property – Transfers of Investment Property
PFRS 9	:	Financial Instruments*
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
Philippine Interpretation – International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration

**Adopted by the Bank for the first time in 2018 with respect to fair value measurement of eligible debt securities through other comprehensive income and application of expected credit loss (ECL) model in assessing impairment of financial instruments.*

Discussed below are the relevant information about these new PFRS, amendments and interpretation.

(i) PAS 40 (Amendments), *Investment Property – Transfers of Investment Property*. 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 an 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. The adoption of these amendments did not have an impact on the Bank's financial statements since it did not make any reclassifications to, or from, investment properties in the current or prior years.

(ii) PFRS 9, *Financial Instruments*. This new standard on financial instruments replaced PAS 39*, Financial Instruments: Classification and Measurement*, and PFRS 9 issued in 2009, 2010 and 2013. In addition to the principal classification categories for financial assets and financial liabilities, which were early adopted by the Bank on January 1, 2014, this standard includes, among others, the following:

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

- an ECL model in determining impairment of all debt 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 such financial assets.

PFRS 9 requires an ECL model replacing the incurred credit loss model under PAS 39. It is no longer required for a credit event to have occurred before credit losses are recognized. The ECL model requires the Bank to account for ECL and changes in those ECL at the end of each reporting period to reflect changes in the credit risk of the financial assets since initial recognition. The Bank's new accounting policies relative to the full adoption of PFRS 9 are more fully disclosed in Note 2.3.

As allowed and in accordance with the transitional provisions of this new standard, the Bank applied the modified retrospective approach in adopting PFRS 9. Accordingly, comparative figures were not restated but the Bank has provided the related transition disclosures required under this new standard and in PFRS 7, *Financial Instruments: Disclosures.*

Upon adoption of PFRS 9, the Bank has subjected its loans and receivables portfolio as at January 1, 2018 to ECL calculation, which resulted in the recognition of additional allowance for ECL for specific loan accounts amounting to P32.15 million with adjustment charged against the opening balance of Deficit account. In addition, as required by the BSP, the Bank has appropriated an amount of P5.49 million to General Loan Loss Reserves account reported as a separate component in the statements of changes in equity. This appropriation represents the excess of the one percent required allowance for credit losses of the BSP over the computed allowance for ECL.

The following table shows the effects on the carrying amounts and presentation of certain affected accounts in the financial statements as of January 1, 2018 arising from the adoption of the ECL model under PFRS 9 (*amounts in thousands*):

	Effects on Deficit	Effects on General Loan Loss Reserves	Effects on Total Equity
Balance at January 1, 2018 (PAS 39*)	(P 558,124)	P -	P 598,335
Impact of PFRS 9:			
Increase in allowance for ECL	(32,151)	-	(32,151)
Appropriation for general loan loss reserves	(5,486)	5,486	-
	(37,637)	5,486	(32,151)
Balance at January 1, 2018 (PFRS 9)	**(P 595,760)**	**P 5,486**	**P 566,184**

* *Only with respect to impairment of financial instruments.*

(iii) PFRS 15, *Revenue from Contracts with Customers,* together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaced PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: 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.

In applying this new standard, the Bank is required to account for revenue arising from contracts with customers following the five-step model as follows:

(a) identify the contract with a customer;
(b) identify the performance obligations;
(c) determine the transaction price;
(d) allocate the transaction price to the performance obligations; and,
(e) recognize revenue when (or as) performance obligations are satisfied.

Based on an assessment of the Bank's revenue streams as at January 1, 2018, management determined that the current revenue recognition of some of the Bank's revenues related to lending and deposit-taking activities, which include certain service charges, penalties and commissions, as well as gains arising from sale of non-financial assets, are within the scope of PFRS 15 (see Note 2.10). For those revenues under the scope of PFRS 15, recognition and measurement did not vary significantly from PAS 18. Substantial portion of the Bank's revenues arises from financial instruments (e.g., interest income), which are outside the scope of PFRS 15.

The adoption of PFRS 15 has resulted in changes in the Bank's accounting policies (see Note 2.10). The Bank has applied this new standard retrospectively without restatement, but did not result in material adjustments on its financial statements at the date of initial application.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration.* 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. The adoption of this interpretation has no impact on the Bank's financial statements since the Bank has been accounting for its foreign currency-denominated transactions involving advance consideration consistent with this interpretation.

(b) Effective in 2018 that are not Relevant to the Bank

The following amendments and improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Bank's financial statements:

PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4, *Insurance Contracts*
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investment in Associates – Measuring an Associate or Joint Venture at Fair Value
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions

(c) Effective Subsequent to 2018 but not Adopted Early

There are new PFRS, amendments, interpretations and improvements to existing standards effective for annual periods subsequent to 2018, 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 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability or asset.

(ii) 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 solely payment of principal and interest (SPPI) test on the principal amount outstanding. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI).

(iii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 14, *Determining an Arrangement Contains a Lease*. 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 in the process of determining the impact of PFRS 16 and has initially assessed that the application of this new standard would likely result in significant adjustment to the reported resources and liabilities of the Bank to account for its long-term leases.

(iv) 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.

(v) 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.

(vi) Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective January 1, 2020). The amendments clarify the definition of 'materiality' in PAS 1 and how it should be applied. The amendments also improve the explanations of the definition and ensure consistency across all PFRSs and other pronouncements.

2.3 Financial Instruments

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

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

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

(a) Classification and Measurement of Financial Assets

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

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

(i) Financial Assets at Amortized Cost

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

- the financial asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect or HTC"); and,

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

Financial assets meeting these criteria are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method, less any allowance for ECL.

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

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

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

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2018 and 2017, the Bank has not made such designation.

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

Beginning January 1, 2018, financial asset is classified and measured at FVOCI if both of the following conditions are met:

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

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

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

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

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

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Bank has chosen to designate as at FVPL at initial recognition, or those that do not qualify under the FVOCI or "hold to collect and sell" business model are measured at FVPL. 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 currently 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.

(b) Reclassification of Financial Assets

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets (i) from amortized cost to 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.

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

Interest income on financial assets measured at amortized cost and any interest-bearing debt financial assets classified as at FVPL, or at FVOCI (beginning January 1, 2018), is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

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

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

(d) *Impairment of Financial Assets Under PFRS 9 Beginning January 1, 2018*

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

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

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

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

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

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

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

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

(e) *Impairment of Financial Assets under PAS 39 Prior to January 1, 2018*

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.

(f) Financial Liabilities at Amortized Cost

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

(g) Derecognition of Financial Assets

(i) Modification of Loans

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

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

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

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

(ii) Derecognition of Financial Assets Other than Modification

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

(h) Derecognition of Financial Liabilities

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

2.4 Offsetting Financial Instruments

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

2.5 Bank Premises, Furniture, Fixtures and Equipment

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

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

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

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

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

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

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

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

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

2.6 Investment Properties

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

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

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

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

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

2.7 Intangible Assets

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

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

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

2.8 Other Resources

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

2.9 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense.

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

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

2.10 Other Income and Expense Recognition

Prior to January 1, 2018, 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 expenses and costs incurred and to be incurred can be measured reliably. In 2018, revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The Bank also earns service fees and commissions in various banking services, and gains on sale of properties, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15.

For revenues arising from these various banking services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

(a) *Commissions and fees* – these income arising from loans, deposits, and other banking transactions are recognized as income over time based on agreed terms and conditions with customers which are generally when the services has been performed.

(b) *Gains on sale of properties* – these arise from the disposals of bank premises, furniture, fixtures and equipment, investment properties, or assets held-for-sale, if any. The Bank recognizes gain on sale at a point in time, subject to the following additional criteria:

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

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

2.11 Leases

The Bank accounts for its leases as follows:

(a) *Bank as Lessee*

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.

2.12 Foreign Currency Transactions and Translation

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

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

2.13 Employee Benefits

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

(a) *Post-employment Defined Benefit Plan*

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

The liability recognized in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated 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 interpolated yields of government bonds, available in Bloomberg which is calculated using BVAL Evaluated Pricing Service in 2018, and in 2017, based on the interest rates of a zero-coupon government bonds as published by the Philippine Dealing & Exchange Corp. These reference instruments 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) Short-term Benefits

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

(d) Termination Benefits

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

2.14 Impairment of Non-financial Assets

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

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

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

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

2.15 Income Taxes

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

2.16 Related Party Transactions and Relationships

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

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

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

2.17 Equity

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

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

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 asset at FVOCI.

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

2.18 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) *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, largely in relation to its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, and to manage its working capital.

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

In determining the classification of a financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to, taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment and lending strategies.

(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 SPPI on the principal amount outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

(c) Evaluation of Impairment of Equity Securities at FVOCI (Applicable Prior to January 1, 2018)

The determination when an investment in equity securities at FVOCI is other-than-temporarily impaired requires the Bank to make judgment. In making this judgment with respect to the Bank's outstanding financial asset at FVOCI as of December 31, 2017, the Bank has evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology, and operational and financing cash flow.

The Bank's investment in equity instrument is no longer subject to impairment assessment in 2018 under PFRS 9.

(d) 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 the Bank. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the operations of the Bank.

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

(e) Classification of Acquired Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale if the Bank expects that the properties will be recovered through sale rather than use, as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial asset in accordance with PFRS 9.

(f) *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. Based on the provisions of existing relevant lease agreements, management has assessed that all of its existing lease arrangements qualify as operating leases.

(g) *Recognition of Provisions and Contingencies*

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

3.2 Key Sources of Estimation Uncertainty

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

(a) *Estimation of Expected Credit Loss on Financial Assets*

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

Significant factors affecting the estimates on the ECL model include:

- default history of group of accounts which determines the PD to be assigned to a specific portfolio of loans and receivables;
- criteria for assessing if there has been a significant increase in credit risk and when a financial asset will be transferred between the three stages;
- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis; and,
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties.

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

(b) *Fair Value Measurement for Financial Asset*

The Bank carries financial asset at fair value which requires judgment and use of accounting estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques (see Note 6).

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

The carrying values of the Bank's financial asset at FVOCI and the amount of fair value changes recognized are disclosed in Notes 6.2 and 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, 2018 and 2017, 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, 2018 and 2017, 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) *Estimation of Impairment Losses of Non-financial Assets*

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

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

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

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

(f) Determination of Fair Value of Investment Properties

The Bank's investment properties are composed of parcels of land which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed in Notes 6 and 10 is determined on the basis of the appraisals conducted internally by management or where necessary (i.e., as required under the existing regulation of the BSP), by professional appraiser applying the relevant valuation methodologies as discussed therein.

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

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

(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 the Parent Company, in close cooperation with the BOD, and focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

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

4.1 Credit Risk Management Practices

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

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

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

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

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

An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 8.1.

4.1.1 Credit Risk Assessment and Measurement

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

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

4.1.2 Assessment of Significant Increase in Credit Risk

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

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

(i) Stage 1 – comprises of all credit exposures that are considered 'performing' and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL.

(ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Bank's quantitative criteria, though not yet deemed to be credit-impaired. Stage 2 includes credit exposures that are considered 'under-performing' in which credit risk assessment fall under the Especially Mentioned classification. Stage 2 financial instruments may also include those facilities where the credit risk has improved and have been reclassified from Stage 3 subject to the Bank's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

(iii) Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Bank as 'non-performing', which is assessed consistently with the Banks definition of default. Generally, this includes accounts classified as Substandard, Doubtful and Loss. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

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

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

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

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

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

Classification	Stages
Unclassified	1
Especially Mentioned	2
Defaulted	3

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

4.1.3 Definition of Default

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

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

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

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

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

4.1.4 Expected Credit Loss Measurement Inputs

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

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

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

(i) Probability of default (PD) represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. PD is calculated based on statistical modelling, and tailored to the Bank's loan product/portfolio which considers quantitative factors. In determining PD, the Bank performed segmentation of its credit exposures (i.e., regular loans and microenterprise loans) stratified based on homogenous characteristics, and developed a systematic PD methodology for each portfolio.

(ii) Loss given default (LGD) pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. For secured credit exposure, the determination of LGD considers the Bank's collateral data which are available at the origination of the instrument which takes into account the amount and timing of the cash inflows (actual recovery) and outflows (actual expenses) and on the time value of money.

(iii) Exposure at default (EAD) represents the gross carrying amount of the exposure in the event of default, which include the amortized cost amount of an instrument.

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

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

(b) Overlay of Forward-looking Information

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

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

The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Bank has identified key drivers for credit risk for its loan portfolio, which include among others, unemployment rate, lending rate, and inflation rate. Using an analysis of historical data, the Bank has assessed that the above economic factors have no significant impact on the calculation of ECL.

Management reviews and monitors the appropriateness of FLIs on a regular basis and additional factors may be incorporated from time to time as deemed appropriate.

4.1.5 Credit Risk Exposures and Allowance for Credit Losses

(a) Maximum Credit Exposures

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

	Notes	**2018**	2017
Cash	7	**P 9,843,449**	P 10,862,118
Due from BSP	7	**74,206,429**	83,938,321
Due from other banks	7	**94,803,723**	156,178,326
Loans arising from reverse repurchase agreements	7	**32,000,000**	83,433,319
Loans and receivables:	8		
Receivable from customers		**1,220,728,610**	984,906,732
Accrued interest receivables		**8,094,747**	5,728,033
Sales contract receivables		**18,795,782**	2,582,163
Others		**15,344,486**	-
Rental and other deposits	11	**2,047,778**	1,543,544
Accrued rent receivable	11	**1,045,263**	1,045,263
		P 1,476,910,267	P 1,330,217,819

Cash equivalents, which include loans and advances to banks (i.e., Due from BSP, Due from Other Banks, and Loans under Reverse Repurchase Agreements), see Note 7, are held with central bank and financial institutions counterparties that are reputable and with low credit risk. This include the deposits to the Parent Company and related party under common control (see Note 20.2).

The information about the credit exposures on the Bank's receivables from customers portfolio by stages of impairment as of December 31, 2018 (with comparative information as of December 31, 2017) shown at their gross carrying amounts with the corresponding allowance for ECL are shown below.

	2018				**2017**
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Credit Quality					
Unclassified	P1,097,873,336	P -	P -	P1,097,873,336	P 909,585,664
Especially mentioned	-	40,980,783	-	40,980,783	9,385,921
Defaulted	-	-	81,874,491	81,874,491	65,935,147
Gross carrying amount	1,097,873,336	40,980,783	81,874,491	1,220,728,610	984,906,732
Allowance for ECL	(9,756,563)	(6,398,486)	(63,527,010)	(79,682,059)	(76,212,474)
Net carrying amount	**P1,088,116,773**	**P 34,582,297**	**P 18,347,481**	**P 1,141,046,551**	**P 908,694,258**

The amount of allowance for ECL amounting to P76.2 million provided for comparative purposes in 2017 include the P32.15 million adjustment for receivables from customer portfolio arising from the adoption of PFRS 9 at January 1, 2018 [see Note (2.2)(a)].

(b) Allowance for Expected Credit Losses

The table below shows the reconciliation of the loss allowance for ECL for receivable from customers at the beginning and end of 2018.

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	P 8,496,280	P 1,525,559	P 66,190,635	P 76,212,474
Transfers:				
Stage 1 to Stage 2	(5,745,691)	5,745,691	-	-
Stage 2 to Stage 3	-	(3,139,854)	3,139,854	-
Assets derecognized or repaid	(21,975,903)	(5,723,468)	(19,381,217)	(47,080,588)
New assets originated:				
Remained in stage 1	28,981,877	-	-	28,981,877
Moved to Stage 2 and 3	-	7,990,558	13,577,738	21,568,296
Balance at end of year	**P 9,756,563**	**P 6,398,486**	**P 63,527,010**	**P 79,682,059**

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

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

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

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year	P 909,585,664	P 9,385,921	P 65,935,147	P 984,906,732
Transfers:				
Stage 1 to Stage 2	(26,842,270)	26,842,270	-	-
Stage 2 to Stage 3	-	(3,139,854)	3,139,854	-
Assets derecognized or repaid	(662,668,059)	(11,562,759)	(30,777,144)	(705,007,962)
New assets originated:				
Remained in stage 1	877,798,001	-	-	877,798,001
Moved to Stage 2 and 3	-	19,455,205	43,576,634	63,031,839
Balance at end of year	**P 1,097,873,336**	**P 40,980,783**	**P 81,874,491**	**P 1,220,728,610**

4.1.6 Credit Quality of Loans and Receivables Under PAS 39

The table below provides the details of the credit quality of the Bank's loans and receivables as of December 31, 2017, summarized and analyzed based on the Bank's impairment assessment methodology under PAS 39 *(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
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

Adequate amount of allowance for impairment losses were provided on the above loans and receivables as of December 31, 2017.

4.1.6 Collateral Held as Security and Other Credit Enhancements

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

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

The estimated fair value of collateral and other security enhancements held against the Bank's loan portfolio as of December 31, 2018 and 2017 are presented below.

	2018	2017
Against individually assessed:		
Real Property	**P 92,151,165**	P 101,495,269
Chattels	**16,444,344**	12,056,165
Others	**21,993,389**	805,405
Against classified accounts but not individually assessed for impairment:		
Real Property	**22,272,614**	29,482,705
Chattels	**-**	2,862,629
Others	**17,157,282**	3,858,618
Against neither past due nor impaired:		
Real property	**1,990,752,339**	1,678,198,751
Chattels	**144,706,776**	152,272,430
Others	**420,069,127**	80,069,281
Total	**P2,725,547,036**	P2,061,101,253

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

	Stage 1	Stage 2	Stage 3	Total
Against individually assessed for impairment –				
Real property	P -	P 17,736,160	P 74,415,005	P 92,151,165
Chattels	-	807,733	15,636,611	16,444,344
Others	-	4,297,598	17,695,791	21,993,389
Against classified accounts but not individually assessed for impairment –				
Real property	22,272,614	-	-	22,272,614
Chattels	-	-	-	-
Others	17,157,282	-	-	17,157,282
Against neither past due nor impaired –				
Real property	1,990,752,339	-	-	1,990,752,339
Chattels	144,706,776	-	-	144,706,776
Others	420,069,127	-	-	420,069,127
	P 2,594,958,138	P 22,841,491	P 107,747,407	P 2,725,547,036

The Bank has recognized certain properties arising from foreclosures in settlement of loan account amounting to P11.1 million in 2018 (see Note 10).

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

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

There were no changes in the Bank's collateral policies in 2018 and 2017.

4.2 Liquidity Risk

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

As of December 31, 2018 and 2017, the Bank's financial liabilities have contractual maturities which are presented below.

	On Demand	Less Than One Year	Total
2018			
Deposit liabilities	P 337,195,212	P 598,068,334	P 935,263,546
Accrued interest and other expenses	11,641,267	-	11,641,267
Other liabilities	14,645,504	-	14,645,504
	P 363,481,983	P 598,068,334	P 961,550,317

	On Demand	Less Than One Year	Total
2017			
Deposit liabilities	P 325,858,526	P 496,836,507	P 822,695,033
Accrued interest and other expenses	9,404,507	-	9,404,507
Other liabilities	11,708,123	-	11,708,123
	P 346,971,156	P 496,836,507	P 843,807,663

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

4.3 Market Risk

(a) Foreign Currency Risk

Foreign currency risk arises when future commercial transactions and recognized financial assets and liabilities are denominated in a currency that is not the Bank's functional currency. Exposures to changes in currency exchange rates arise from the Bank's cash deposits in foreign currency.

The Bank's foreign currency denominated cash deposits in banks, translated into Philippine pesos at closing rates, amounted to P0.34 million and P0.32 million as of December 31, 2018 and 2017, respectively (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 +/-11.14% in 2018 and +/-10.77% in 2017 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, the Philippine peso had strengthened against the U.S. dollar, with all other variables held constant, the Bank's net income before tax in 2018 would have been higher by P0.04 million, and its loss before tax in 2017 would have been lower by P0.03 million. On the other hand, if at December 31, 2018 and 2017, the Philippine peso had weakened by the same percentage, with all other variables held constant, net results in each year would have been more favorable by the same amounts.

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

(b) Interest Rate Risk

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

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

The following are the maturity profile of the Bank's interest-bearing financial instruments as of December 31, 2018 and 2017 (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
2018							
Due from BSP	P 74,206	P -	P -	P -	P -	P -	P 74,206
Due from other banks	94,804	-	-	-	-	-	94,804
Loans arising from reverse repurchase agreements	32,000	-	-	-	-	-	32,000
Loans and receivables:							
Loans and discounts - gross	658,548	128,792	174,319	106,904	152,166	-	1,220,729
Sales contract receivables	4,384	3,849	3,641	3,866	3,055	-	18,795
Deposit liabilities	(925,611)	-	-	-	-	-	(925,611)
	(P 61,669)	**P 132,641**	**P 177,960**	**P 110,770**	**P 155,221**	**P -**	**P 514,923**
2017							
Due from BSP	P 83,938	P -	P -	P -	P -	P -	P 83,938
Due from other banks	156,178	-	-	-	-	-	156,178
Loans arising from reverse repurchase agreements	83,433	-	-	-	-	-	83,433
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 15,567	P 144,010	P 135,843	P 75,219	P 128,281	P -	P 498,920

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 9tatements of financial position are shown below.

	Notes	2018 Carrying Amounts	2018 Fair Values	2017 Carrying Amounts	2017 Fair Values
Financial Assets					
At amortized cost:					
Cash	7	**P 9,843,449**	**P 9,843,449**	P 10,862,118	P 10,862,118
Due from BSP	7	**74,206,429**	**74,206,429**	83,938,321	83,938,321
Due from other banks	7	**94,803,723**	**94,803,723**	156,178,326	156,178,326
Loans arising from reverse repurchase agreements	7	**32,000,000**	**32,000000**	83,433,319	83,433,319
Loans and receivables – net	8	**1,185,788,941**	**1,190,294,296**	949,295,538	957,209,218
Other resources:					
Rental and other deposits	11	**2,047,778**	**2,047,778**	1,543,544	1,543,544
Accrued rent receivable	11	**1,045,263**	**1,045,263**	1,045,263	1,045,263
		1,399,735,583	**1,404,240,938**	1,286,296,429	1,294,210,109
At fair value:					
Financial assets at FVOCI	11	**20,315,518**	**20,315,518**	33,695,212	33,695,212
		P 1,420,051,101	**P 1,424,556,456**	P 1,319,991,641	P1,327,905,321

	Notes	2018 Carrying Amounts	2018 Fair Values	2017 Carrying Amounts	2017 Fair Values
Financial Liabilities					
At amortized cost:					
Deposit liabilities	12	**P 925,610,763**	**P 925,610,763**	P 812,118,793	P 812,118,793
Accrued interest					
and other expenses	13	**11,641,267**	**11,641,267**	9,404,507	9,404,507
Other liabilities	14	**14,645,504**	**14,645,504**	11,708,123	11,708,123
		P 951,897,534	**P 951,897,534**	P 833,231,423	P 833,231,423

Management considers that the carrying amounts of the Bank's financial instruments which are measured at amortized cost approximate their fair values either because these financial instruments have maturities of one year or less, or the effect of discounting for those with maturities of more than one year is immaterial. The fair value of financial assets at FVOCI is determined using valuation technique disclosed in Note 6.2.

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

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 asset at FVOCI, which consist of investment in equity securities of a privately-owned company, amounted to P20.32 million and P33.70 million as of December 31, 2018 and 2017, 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 through valuation techniques. As of December 31, 2017, fair value was 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 which management believed to be an appropriate approximation of the fair value as of that date. In 2018, the Bank has changed the fair value measurement technique using the dividend discounted model as management assessed that considering the regular dividend payments expected from the investee company in the future, this valuation technique provides more appropriate measurement of the fair value of the investment. In discounting the cash flows from dividends, the Bank used a discount rate of 6.21%.

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

	2018	2017
Balance at beginning of year	**P 33,695,212**	P 32,788,653
Fair value gains (loss)	**(13,379,694)**	906,559
Balance at end of year	**P 20,315,518**	P 33,695,212

6.3 Fair Value of Financial Instruments Measured at Amortized Cost

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

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

(a) Cash and Cash Equivalents

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

(b) *Loans and Receivables*

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

(c) *Deposit Liabilities*

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

(d) *Other Resources and Other Liabilities*

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

6.4 Fair Value Disclosures for Investment Properties Carried at Cost

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

The fair values disclosed for the Bank's investment properties as of December 31, 2018 and 2017 were based on the appraisals performed by the Bank's internal appraisers and independent and qualified appraisers having appropriate and recent experience in the fair value measurement of similar properties in the relevant locations.

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

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

As of December 31, 2018 and 2017, the total estimated fair values of the investment properties amounted to P24.68 million and P19.20 million, respectively (see Note 10).

7. CASH AND CASH EQUIVALENTS

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

	2018		2017	
Cash	P	9,843,449	P	10,862,118
Due from BSP		74,206,429		83,938,321
Due from other banks		94,803,723		156,178,326
Loans arising from reverse repurchase agreements		32,000,000		83,433,319
	P	210,853,601	P	334,412,084

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 includes Overnight Deposit Facility (ODF) with the BSP amounting P17.0 million bearing annual interest rates of 2.50% and having a one day term.

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

Due from other banks represents regular deposits with local banks with annual interest rates ranging from 0.15% to 1.00% in 2018 and 0.15% to 0.75% in 2017.

Loans arising from reverse repurchase agreements bear interest of 4.75% and 3.00% in 2018 and 2017, respectively.

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

	2018		2017	
Philippine pesos	P	94,460,924	P	155,854,811
U.S. dollars		342,799		323,515
	P	94,803,723	P	156,178,326

As of December 31, 2018, due from other banks include deposit accounts with the Parent Company and a related party under common ownership amounting to P57.36 million and P15.68 million, respectively, while as of December 31, 2017, deposit accounts with those related parties amounted to P88.54 million and 29.75 million, respectively (see Note 20.2).

Interest income earned from cash equivalents are as follows:

	2018		2017	
Due from BSP	P	2,349,281	P	6,810,120
Due from other banks		353,522		383,460
	P	2,702,803	P	7,193,580

8. LOANS AND RECEIVABLES

This account is composed of the following:

	Notes	2018	2017
Loans and discounts –			
Receivable from customers	8.1	**P 1,220,728,610**	P 984,906,732
Other receivables:			
Sales contract receivables	9	**18,795,782**	2,582,163
Accrued interest receivables		**8,094,747**	5,728,033
Accounts receivables	8.3	**2,894,174**	526,670
Others	20.4	**15,344,486**	-
		1,265,857,799	993,743,598
Allowance for impairment	8.2	**(80,068,858)**	(44,448,060)
		P 1,185,788,941	P 949,295,538

Loans and receivables earn an average effective interest at rates of 4% to 48% per annum and 7% to 36% per annum in 2018 and 2017, respectively.

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

	2018	2017
Within one year	**P 611,059,559**	P 467,516,293
More than one year	**574,729,382**	481,779,245
	P 1,185,788,941	P 949,295,538

8.1 Credit Concentration, and Security Information of Receivables from Customers

The concentration of credit of receivables from customers as to industry follows:

	2018		2017	
	Amount	**Share**	Amount	Share
Wholesale and retail trade, repair of motor vehicles motorcycles, personal household goods	**P 735,563,019**	**60%**	P 603,564,724	61%
Agriculture, forestry and fishing	**101,712,115**	**8%**	87,685,051	9%
Manufacturing	**100,315,097**	**8%**	94,974,727	10%
Hotels and restaurants	**48,296,849**	**4%**	47,152,420	5%
Private households with employed persons	**45,087,455**	**4%**	8,800,021	1%
Transportation, storage and communication	**41,074,429**	**3%**	35,843,436	4%
Construction	**33,709,901**	**3%**	19,827,789	2%
Electricity, gas and water supply	**14,219,129**	**1%**	8,596,352	1%
Real estate, renting and business activities	**11,727,653**	**1%**	14,474,506	1%
Mining and quarrying	**7,255,000**	**1%**	7,087,286	1%
Others	**81,767,963**	**7%**	56,900,420	6%
	P 1,220,728,610		P 984,906,732	

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceed 30% of total loan portfolio except for thrift banks. The Bank is in compliance with this loan concentration limit of the BSP as of the end of each reporting period.

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

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

	2018	2017
Secured:		
Real estate mortgage	**P 805,062,738**	P 633,169,082
Chattel mortgage	**34,689,506**	21,437,085
Others	**17,691,392**	19,305,546
Unsecured	**363,284,974**	310,995,019
	P 1,220,728,610	P 984,906,732

8.2 Allowance for Impairment

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

	Notes	**2018**	2017
Balance at beginning of year, as previously reported		**P 44,448,060**	P 21,130,825
Effect of adoption of PFRS 9	2.2(a)	**32,151,213**	-
As restated		**76,599,273**	21,130,825
Transfer to other account	10	**(2,261,106)**	-
Impairment losses during the year		**5,730,691**	23,317,235
Balance at end of year		**P 80,068,858**	P 44,448,060

Non-performing loans (NPLs) included in the total loan portfolio of the Bank as of December 31, 2018 and 2017 are presented below, net of allowance for ECL in compliance with the BSP Circular 772, *Amendments to Regulations on Non-performing Loans.*

	2018	2017
Gross NPLs	**P 70,743,643**	P 24,490,163
Allowance for impairment	**(69,925,496)**	(24,295,869)
Net carrying amount	**P 818,147**	P 194,294

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 2018 and 2017 are shown below.

	Land	Buildings	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Transportation Equipment	Total
December 31, 2018						
Cost	P 21,724,746	P 44,623,867	P 62,135,542	P 59,673,525	P 20,972,144	P 209,129,824
Accumulated depreciation and amortization	-	(25,402,547)	(51,267,593)	(23,882,154)	(13,280,511)	(113,832,805)
Net carrying amount	**P 21,724,746**	**P 19,221,320**	**P 10,867,949**	**P 35,791,371**	**P 7,691,633**	**P 95,297,019**
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
January 1, 2017						
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

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2018 and 2017 is shown below.

	Land	Buildings	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Transportation Equipment	Total
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 33,724,746	P 30,759,024	P 11,684,917	P 22,545,110	P 6,114,718	P 104,828,515
Additions	-	207,335	3,444,081	20,786,917	3,686,815	28,125,148
Disposals	(12,000,000)	(8,163,410)	(770,621)	(1,570,168)	-	(22,504,199)
Depreciation and amortization charges for the year	-	(3,581,629)	(3,490,428)	(5,970,488)	(2,109,900)	(15,152,445)
Balance at December 31, 2018, net of accumulated depreciation and amortization	**P 21,724,746**	**P 19,221,320**	**P 10,867,949**	**P 35,791,371**	**P 7,691,633**	**P 95,297,019**

	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

In 2018, the Bank disposed of certain land and building with a net book value of P12.00 million and P6.20 million, respectively, through a sales contract with the buyer at a total consideration of P33.00 million, resulting in gain of P14.80 million. The consideration include P17.22 million which remained outstanding and is included as part of Sales contract receivables under the Loans and Receivables account in the 2018 statement of financial position (see Note 8). In addition, the Bank sold in 2018 certain equipment, furniture and fixtures, and leasehold improvements with book value of P4.3 million for a total consideration of P2.99 million, at a loss of P1.32 million.

In 2017, the Bank disposed of certain transportation equipment and office equipment with net book value of P0.26 million and P0.05 million, respectively, with P0.54 million gain recognized from sale. 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.

Net gains recognized from these asset disposals are presented as part of Gain on sale of property and equipment under Other Operating Income account in the statements of comprehensive income (see Note 16).

The cost of fully depreciated assets that are still being used in operation amounts to P28.6 million and P48.12 million as of December 31, 2018 and 2017, respectively.

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

10. INVESTMENT PROPERTIES

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

As of December 31, 2018, the gross carrying amount of investment properties amounted to P25.59 million with allowance for impairment amounting to P2.26 million. The gross carrying amount include P11.07 million cost of the parcels of land foreclosed by the Bank in 2018, while the allowance for impairment pertains to the amount reclassified by the Bank in 2018 from its previously recognized allowance for impairment on loans and receivable (see Note 8.2)

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 P0.55 million in 2018 and P0.53 million in 2017 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, 2018 and 2017 amounting to P1.05 million is presented as part of Other Resources account in the statements of financial position (see Note 11).

Expenses incurred by the Bank related to investment properties include taxes and licenses amounting to P1.12 million and P0.11 million in 2018 and 2017, respectively.

The estimated fair values of the properties amounted to P24.68 million and P19.20 million as of December 31, 2018 and 2017, respectively (see Note 6.4).

11. OTHER RESOURCES

This account consists of:

	Notes	**2018**	2017
Financial asset at FVOCI	6.2, 11.1	**P 20,315,518**	P 33,695,212
Computer software – net	11.2	**8,112,324**	4,796,346
Prepaid expenses		**3,990,190**	4,654,675
Creditable withholding taxes		**2,491,788**	-
Rental and other deposits		**2,047,778**	1,543,544
Accrued rent receivable	10	**1,045,263**	1,045,263
Sundry debits		**-**	269,491
Miscellaneous		**2,212,543**	3,112,847
		P 40,215,404	P 49,117,378

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

11.1 Financial Asset at FVOCI

Financial asset at FVOCI represent the Bank's investment in equity securities of BancNet, Inc. The fair value of this investment decreased by P13.38 million in 2018 and increased by P0.91 million in 2017, which is recognized as an adjustment in other comprehensive income as an item that will not be reclassified to profit or loss.

In 2018 and 2017, the Bank recognized dividends on this investment amounting to P1.26 million and P3.79 million, respectively, 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 2018 and 2017 follow:

	December 31, 2018	December 31, 2017	January 1, 2017
Cost	**P 32,305,164**	P 26,374,344	P 23,941,942
Accumulated amortization	**(24,192,840)**	(21,577,998)	(18,885,466)
Net carrying amount	**P 8,112,324**	P 4,796,346	P 5,056,476

A reconciliation of the carrying amounts of computer software at the beginning and end of 2018 and 2017 is shown below.

	Note	2018	2017
Balance at January 1, net of accumulated amortization		**P 4,796,346**	P 5,056,476
Additions		**5,930,820**	2,432,403
Amortization charges for the year	17	**(2,614,842)**	(2,692,533)
Net carrying amount		**P 8,112,324**	P 4,796,346

12. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

	2018	2017
Time	**P 591,180,782**	P 488,339,604
Savings	**330,371,507**	323,779,189
Current	**4,058,474**	-
	P 925,610,763	P 812,118,793

Deposit liabilities are due within one year with annual interest rates of 0.5% to 4.25% in 2018 and 0.50% to 3.63% in 2017.

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 P74.21 million and P83.94 million as of December 31, 2018 and 2017, respectively (see Note 7).

13. ACCRUED INTEREST AND OTHER EXPENSES

This account consists of:

	2018	2017
Accrued interest	**P 4,888,720**	P 3,314,610
Accrued gross receipt tax	**4,184,360**	1,023,766
Accrued insurance – Philippine Deposit Insurance Corporation	**898,451**	802,843
Accrued other expenses	**5,854,096**	5,287,054
	P 15,825,627	P 10,428,273

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

14. OTHER LIABILITIES

The breakdown of this account is shown below.

	Note	2018	2017
Accounts payable		**P 13,868,849**	P 10,689,727
Retirement benefit obligation	18.2	**10,107,849**	15,770,906
Withholding taxes payable		**589,478**	1,013,474
Income tax payable		**-**	542,435
Miscellaneous		**776,655**	1,018,396
		P 25,342,831	P 29,034,938

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

Except for the carrying amount of retirement benefit obligation, all other liabilities are due within one year from the end of the reporting period.

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, 2018 and 2017, there are 11,263,580 shares issued and outstanding at P100 par value or P1.13 billion.

As of December 31, 2018 and 2017, the Bank has two stockholders owning 100 or more shares each of the Bank's capital stock.

15.2 Appropriation of General Loan Loss Reserves

Pursuant to the requirements of the BSP under Circular No. 1011, the Bank shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than the one percent general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus. The outstanding balance of appropriation for General Loan Loss Reserves as of December 31, 2018 includes the appropriation recognized at January 1, 2018 upon adoption of the ECL model under PFRS 9 amounting to P5.49 million [see Note 2.2(a)(ii)], and the additional appropriation made in 2018 amounting to P1.87 million.

15.3 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, 2018 and 2017 is shown below:

	2018	2017
Tier 1 Capital	**P 538,632,121**	P 563,804,766
Tier 2 Capital	**9,756,563**	9,090,161
Total regulatory qualifying capital	**P 548,388,684**	P 572,894,927
Total risk weighted assets	**P 1,483,883,171**	P 1,347,174,709
Capital ratios:		
Total regulatory capital expressed as percentage of total risk-weighted assets	**36.96%**	42.53%
Total Tier 1 expressed as percentage of total risk-weighted assets	**36.30%**	41.85%

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, 2018 and 2017, respectively.

16. OTHER OPERATING INCOME

This account consists of the following:

	Notes	2018	2017
Service fees and commission		**P 36,860,871**	P 36,861,041
Gain on sale of property and equipment - net	9	**13,478,258**	541,376
Dividend income	11.1	**1,262,000**	3,786,000
Rent income	10	**547,420**	531,665
Other income		**3,490,396**	2,947,455
		P 55,638,945	P 44,667,537

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

17. OTHER OPERATING EXPENSES

The details of this account are shown below.

	Notes	2018	2017
Employee benefits	18.1	**P 85,825,378**	P 87,472,055
Taxes and licenses		**19,005,511**	14,666,744
Depreciation and amortization	9, 11.2	**17,767,287**	17,943,577
Occupancy	20.3, 22.1	**13,454,213**	10,250,834
Messengerial, janitorial and security	20.3	**10,218,685**	9,624,249
Transportation and travel		**6,868,661**	6,178,152
Management and other professional fees		**5,393,374**	4,639,063
Postage and utilities		**4,955,272**	4,331,413
Insurance		**4,305,296**	4,586,013
Power, light and water	20.3	**4,044,742**	3,716,727
Stationery and supplies		**2,746,994**	2,213,156
Repairs and maintenance		**2,672,120**	2,470,085
Fuel and lubricant		**1,703,444**	1,438,375
Advertising and publicity		**1,033,691**	758,420
Supervision fees		**412,999**	268,181
Information technology		**95,857**	37,571
Miscellaneous		**5,204,492**	3,030,164
		P 185,708,016	P 173,624,779

18. EMPLOYEE BENEFITS

18.1 Salaries and Employee Benefits

Expenses recognized for employee benefits are presented below.

	Notes	2018	2017
Short-term employee benefits		**P 83,520,651**	P 84,768,786
Post-employment defined benefit	18.2	**2,304,727**	2,703,269
	17	**P 85,825,378**	P 87,472,055

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 20.5). The trustee bank managed the fund under the supervision of the Corporate Governance Committee of the Bank who acts in the best interest of the plan assets and is responsible for setting the investment policies.

The normal retirement age is 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 2018 and 2017.

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):

	2018	2017
Present value of the obligation	**P 13,757,974**	P 19,504,556
Fair value of plan assets	**(3,650,125)**	(3,733,650)
	P 10,107,849	P 15,770,906

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

	Note	**2018**	2017
Balance at beginning of year		**P 19,504,556**	P 12,304,365
Current service cost	18.1	**4,277,713**	2,703,269
Past service cost – plan amendment	18.1	**(1,972,986)**	-
Interest expense		**1,100,057**	661,975
Remeasurement – actuarial losses (gains) arising from changes in:			
- financial assumptions		**(6,172,056)**	3,318,280
- experience adjustments		**(2,979,310)**	516,667
Balance at end of year		**P 13,757,974**	P 19,504,556

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

	2018	2017
Balance at beginning of year	**P 3,733,650**	P 3,664,743
Interest income	**210,578**	195,658
Negative return on plan assets (excluding amounts included in net interest)	**(294,103)**	(126,751)
Balance at end of year	**P 3,650,125**	P 3,733,650

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.

	2018	2017
Philippine government bonds	**P 1,417,783**	P 2,224,535
Due from other banks	**2,231,558**	1,498,411
Others – net	**784**	10,704
	P 3,650,125	P 3,733,650

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

The plan assets incurred a negative return of P0.08 million in 2018 and earned a return of P0.07 million in 2017.

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:

	2018	2017
Recognized in profit or loss:		
Current service cost	**P 4,277,713**	P 2,703,269
Past service cost – plan amendment	**(1,972,986)**	-
Net interest expense	**889,479**	466,317
	P 3,194,206	P 3,169,586
Recognized in other comprehensive income:		
Actuarial losses (gains) arising from changes in:		
- financial assumptions	**(P 6,172,056)**	P 3,318,280
- experience adjustments	**(2,979,310)**	516,667
Return on plan assets (excluding amounts included in net interest)	**294,103**	126,751
	(P 8,857,263)	P 3,961,698

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

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

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

Amounts recognized in other comprehensive income will not be reclassified subsequently to profit or loss.

In determining the amounts of the retirement obligation, the following significant actuarial assumptions were used:

	2018	2017
Discount rates	**7.48%**	5.64%
Expected rate of salary increases	**4.00%**	5.00%

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 27.9. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)] with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Risks

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

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

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(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, 2018 and 2017:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2018			
Discount rate	**+/- 1%**	**(P 2,077,148)**	**P 1,693,141**
Salary growth rate	**+/- 1%**	**2,131,663**	**(1,759,406)**
December 31, 2017			
Discount rate	+/- 1%	(P 2,597,343)	P 2,160,702
Salary growth rate	+/- 1%	2,387,760	(2,033,981)

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 P10.1 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:

	2018	2017
More than one year to five years	P 4,492,655	P 10,116,169
More than five years to ten years	9,960,251	10,346,932
	P 14,452,906	P 20,463,101

The weighted average duration of the defined benefit obligation at the end of the reporting period is 14.1 years.

19. INCOME TAXES

19.1 Current and Deferred Tax

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

	2018	2017
Minimum corporate income tax (MCIT) at 2%	P 3,421,077	P 2,476,750
Final tax at 7.5% and 20%	542,064	1,427,833
	P 3,963,141	P 3,904,583

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

	2018	2017
Tax on pretax income (loss) at 30%	P 9,303,487	(P 4,577,700)
Adjustment for income subjected to lower tax rates	(268,777)	(730,241)
Tax effects of:		
Utilization of net operating loss carry-over (NOLCO)	(11,054,346)	(814,213)
Unrecognized deferred tax assets	6,093,800	10,427,539
Nontaxable income	(378,600)	(1,135,800)
Nondeductible expenses	267,577	734,998
	P 3,963,141	P 3,904,583

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 2018 and 2017 as the Bank is in a net taxable loss position in both years.

In 2018 and 2017, 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 from the year the MCIT was incurred is shown below.

Year Incurred	Amount	Expired	Remaining Balance	Expiry Year
2018	P 3,421,077	P -	P 3,421,077	2021
2017	2,476,750	-	2,476,750	2020
2016	2,210,304	-	2,210,304	2019
2015	989,377	989,377	-	
	P 9,097,508	**(P 989,377)**	**P 8,108,131**	

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	(36,847,820)	(116,872,039)	-	
	P 157,002,012	**(P 36,847,820)**	**(P 116,872,039)**	**P 3,282,153**	

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:

	2018		2017	
	Amount	**Tax Effect**	Amount	Tax Effect
Allowance for impairment	**P 80,068,858**	**P 24,020,657**	P 44,448,060	P 13,334,418
Retirement benefit obligation	**10,107,849**	**3,032,355**	15,770,906	4,731,272
MCIT	**8,108,131**	**8,108,131**	5,676,431	5,676,431
NOLCO	**3,282,153**	**984,646**	157,002,012	47,100,604
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	**(17,165)**	**(5,150)**	(1,343)	(403)
	P 102,957,229	**P 36,022,859**	P 224,303,469	P 71,264,542

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

The BIR issued RR No. 15-2010 which requires certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required disclosure under the SEC rules and regulations covering the form and content of financial statements under the 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 the Parent Company and other related parties as defined below. These transactions include regular banking transactions, outside services and lease of office space. The summary of the Bank's transactions and outstanding balances with the Parent Company and other related parties as of and for the years ended December 31, 2018 and 2017 is as follows:

		2018		2017	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Parent Company					
Cash deposits	7, 20.2	**P 31,186,607**	**P 57,356,808**	P 34,087,276	P 88,543,415
Interest income on deposits	20.2	**172,084**	**-**	165,929	-
Rent income	10, 11	**547,420**	**1,045,263**	531,665	1,045,263
Expenses					
Messengerial, janitorial and security	17, 20.3	**193,346**	**-**	208,373	-
Occupancy	17, 20.3	**3,233,558**	**-**	3,134,474	-
Power, light and water	17, 20.3	**59,155**	**-**	-	-
Retirement plan	18.2, 20.5	**83,525**	**3,650,125**	68,907	3,733,650
Related Parties Under Common Ownership					
Cash deposits	7, 20.2	**1,560,125**	**15,681,688**	14,121,563	29,747,262
Interest income on deposits	20.2	**136,786**	**-**	166,226	-
Advances granted	20.4	**15,344,486**	**15,344,486**	-	-
Key Management Personnel Compensation	20.6	**13,168,176**	**-**	9,615,083	-

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.

As of December 31, 2018 and 2017, the Bank is in compliance with these regulatory requirements.

The information below relates to DOSRI loans of the Bank:

	2018	2017
Total DOSRI loans	**P -**	P -
Unsecured DOSRI loans	**-**	-
Interest income on DOSRI loans	**-**	-
% of total DOSRI loans to total loan portfolio	**0.0%**	0.0%
% of unsecured DOSRI loans to total DOSRI loans	**0.0%**	0.0%
% of past-due DOSRI loans to total DOSRI loans	**0.0%**	0.0%
% of non-performing DOSRI loans to total DOSRI loans	**0.0%**	0.0%

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).

The Bank declared its deposit accounts with related parties as DOSRI credit accommodation as of December 31, 2018, which are secured by the related parties' investments in government securities.

20.3 Messengerial, Janitorial and Security and Occupancy

The Bank, as a lessee, entered into a sublease agreement with RCBC. Incidental to the sublease agreement, RCBC paid expenses on behalf of the Bank, including messengerial, janitorial and security and power, light and water which are presented under Other Operating Expenses account in the statements of comprehensive income (see Note 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, 2018 and 2017.

20.4 Advances

In 2018, the Bank paid certain expenses relating to the consolidation of titles of certain properties of RCBC-JPL Holding Company, Inc., a related party under common control by the Parent Company. The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand, and is presented as part of Other receivables under the Loans and Receivable account in the 2018 statement of financial position. Management believes that this receivable is fully recoverable.

20.5 Transactions with the Retirement Fund

The Bank's retirement fund covered under their post-employment defined benefit plan maintained for qualified employees is administered and managed by RCBC's Trust Department. The carrying amount and the composition of the plan assets (including savings deposit maintained with RCBC) as of December 31, 2018 and 2017, 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.

20.6 Key Management Personnel Compensation

Short-term benefits paid to key management employees amounted to P13.17 million and P9.62 million in 2018 and 2017, respectively.

21. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic indicators and ratios measure the financial performance of the Bank:

	2018	2017
Return on average equity		
Net profit / Average total equity	**4.56%**	-3.14%
Return on average resources		
Net profit / Average total resources	**1.80%**	-1.56%
Net interest margin		
Net interest income / Average interest earning resources	**12.43%**	13.55%
Profit margin		
Net profit / Revenues	**12.16%**	-10.55%
Debt-to-equity ratio		
Total liabilities / Total equity	**1.64**	1.42
Resources-to-equity ratio		
Total resources / Total equity	**2.64**	2.42

22. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Bank:

22.1 Operating Lease Commitments – Bank as a Lessee

The Bank is a party to certain long-term lease agreements, renewable upon mutual agreement with the lessors and are subject to escalation rates ranging from 4.5% to 10.0%. The Bank's rental expense (presented as Occupancy under Other Operating Expenses account in the statements of comprehensive income) based on the lease contracts amounted to P13.45 million in 2018 and P10.25 million in 2017 (see Note 17).

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

	2018	2017
Within one year	**P 7,186,729**	P 7,009,680
After one year but not more than five years	**27,297,008**	28,719,041
More than five years	**1,936,614**	4,247,446
	P 36,420,351	P 39,976,167

22.2 Operating Lease Commitments – Bank as a Lessor

The Company entered into operating lease agreement as lessor of its parcel of land leased out to RCBC. The lease has a term of 25 years commencing on January 1, 2012. The lease contract has a fixed escalation rate of 3% starting on the second year of the lease term.

Rent income from this contact is shown as part of Other Operating Income in the statements of comprehensive income (see Note 16).

22.3 Others

In the normal course of business, the Bank makes various commitments, including undrawn loan commitment to customer, and incurs certain contingent liabilities that are not given recognition in the financial statements. As of December 31, 2018, management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

23. EVENTS AFTER THE REPORTING PERIOD

On February 20, 2019, RA11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code), was signed into law. Among the provisions of the Revised Corporation Code, the following would impact the Company's financial statements:

- The Revised Corporation Code removed the 50-year maximum corporate term. Hence, stock corporation may have unlimited life unless otherwise provided in the articles of incorporation; and,

- The Revised Corporation Code removed the subscription requirement of 25% of authorized capital stock and paid-up capital requirement of 25% of subscribed capital stock.

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TALISAY BRANCH
Ground floor, Building C, South Agora, Tabulasan, San Isidro St., Talisay, Cebu
Tel Nos.: (032) 272 5857
(02) 894 9000 local 5740
Rey Lord E. Jumalon

CORPORATE BANKING OFFICE

DAVAO HEAD OFFICE
Second floor EDES II Building, Acacia Section, J. P. Laurel Avenue, Davao City
Tel Nos.: (082) 222 2438
(082) 222 2448
(082) 222 2458
(02) 894 9000 local 5702

LUZON AREA OFFICE
Bensar Bldg. cor F. Manalo St. Gen. Malvar Ave. Poblacion 3, Sto. Tomas=, Batangas
Tel Nos.: (043) 778 4201
(02) 894 9000 local 1886

MAKATI OFFICE
21st floor Tower 2 RCBC Plaza, 6819 Ayala Avenue, Makati City 1226

Tel No.: (02) 894 9000 local 1028

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

RIZAL MicroBank
A Thrift Bank of RCBC

3rd floor, AndaRizal Center Rizal corner Anda Streets, Brgy. 3-A, Davao City, Davao City
Tel Nos.: (082) 222 2438, (082) 222 2448 , (082) 222 2458, and (02) 894 9000 local 5702

www.rizalmicrobank.com